*In the opinion of Bond Counsel, under present federal and State of Minnesota laws, regulations and rulings, the interest to be paid on the Bonds of this offering is not includible in gross income of the recipient for United States or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. See "Tax Exemption" herein for a discussion of federal tax legislation.*

*The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.*

**New Issue** **Rating Application Made: Moody's Investors Service**

**(Minnesota School District Credit Enhancement Program)**

# PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 9, 2017

## INDEPENDENT SCHOOL DISTRICT NO. 458 (TRUMAN SCHOOL DISTRICT), MINNESOTA

(Martin, Watonwan, and Blue Earth Counties)

## $510,000* GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS, SERIES 2017A

**PROPOSAL OPENING**: November 20, 2017, 10:30 A.M., C.T. **CONSIDERATION**: November 20, 2017, 6:00 P.M., C.T.

**PURPOSE/AUTHORITY/SECURITY:** The $510,000* General Obligation School Building Refunding Bonds, Series 2017A (the "Bonds") are authorized pursuant to Minnesota Statutes, Chapter 475, and Section 475.67, by Independent School District No. 458 (Truman School District), Minnesota (the "District"), for the purpose of effecting a current refunding of certain outstanding general obligations of the District as more fully described herein. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota.

**DATE OF BONDS:** December 14, 2017

**MATURITY:** January 15 as follows:

| Year | Amount* | Year | Amount* | Year | Amount* |
|---|---|---|---|---|---|
| 2019 | $80,000 | 2021 | $85,000 | 2023 | $85,000 |
| 2020 | 85,000 | 2022 | 85,000 | 2024 | 90,000 |

**MATURITY ADJUSTMENTS:** * The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

**TERM BONDS:** See "Term Bond Option" herein.

**INTEREST:** July 15, 2018 and semiannually thereafter.

**OPTIONAL REDEMPTION:** The Bonds are being offered without option of prior redemption.

**MINIMUM PROPOSAL:** $503,880.

**GOOD FAITH DEPOSIT:** A cashier's check in the amount of $10,200 may be submitted contemporaneously with the proposal or, alternatively, a good faith deposit shall be made by the winning bidder by wire transfer of funds.

**PAYING AGENT:** Bond Trust Services Corporation, Roseville, Minnesota.

**BOOK-ENTRY-ONLY:** See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

## REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers & Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the District and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers & Associates, Inc., payable entirely by the District, is contingent upon the sale of the issue.

## COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over $1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

**Preliminary Official Statement:** This Preliminary Official Statement was prepared for the District for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

**Review Period:** This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers & Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

**Final Official Statement:** Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

**Continuing Disclosure:** Subject to certain exemptions, issues in an aggregate amount over $1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the Bonds are exempt or required to comply with the Rule.

## CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the District nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded and (4) a certificate setting forth facts and expectations of the District which indicates that the District does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

# TABLE OF CONTENTS

## BOARD OF EDUCATION

| | | Term Expires |
|---|---|---|
| Mike Pfeil | Chairperson | January 2019 |
| Darrell Drevlow | Vice Chairperson | January 2019 |
| Allison Klassen | Clerk | January 2021 |
| LeAnn Maloney | Treasurer | January 2021 |
| Paula Kester | Member | January 2021 |
| Donna Kotewa | Member | January 2019 |

## ADMINISTRATION

Virginia Dahlstrom, Superintendent of Schools
Eva Sonnabend, Business Manager

## PROFESSIONAL SERVICES

Knutson, Flynn & Deans, P.A., Bond Counsel, Mendota Heights, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(*Other offices located in Waukesha, Wisconsin, Chicago, Illinois and Denver, Colorado*)

# INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 458 (Truman School District), Minnesota (the "District") and the issuance of its $510,000* General Obligation School Building Refunding Bonds, Series 2017A (the "Bonds") or the "Obligations". Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution awarding the sale of the Bonds (the "Award Resolution") to be adopted by the Board of Education on November 20, 2017.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the District's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

# THE BONDS

## GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of December 14, 2017. The Bonds will mature on January 15 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on January 15 and July 15 of each year, commencing July 15, 2018, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 1st day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

## OPTIONAL REDEMPTION

The Bonds are being offered without option of prior redemption.

*Preliminary, subject to change.

## AUTHORITY; PURPOSE

The Bonds are authorized pursuant to Minnesota Statutes, Chapter 475, and Section 475.67, by the District, for the purpose of effecting a current refunding of the District's $965,000 General Obligation School Building Bonds, Series 2009A, dated July 15, 2009 ("Series 2009A Bonds") as follows:

| Issue Being Refunded | Date of Refunded Issue | Call Date | Call Price | Maturities Being Refunded | Interest Rates | Principal to be Refunded | CUSIP Base 898014 |
|---|---|---|---|---|---|---|---|
| Series 2009A Bonds | 7/15/09 | 1/15/18 | Par | 2020 (Term) | 4.00% | $150,000 | CC7 |
| | | | | 2022 (Term) | 4.10% | 160,000 | CD5 |
| | | | | 2024 (Term) | 4.30% | 175,000 | CE3 |
| Total Series 2009A Bonds Being Refunded | | | | | | $485,000 | |

Proceeds of the Bonds will be used to call and prepay the maturities described above and to pay all or most of the costs of issuance. The District will pay the principal and interest payment due on January 15, 2018 from the Debt Service Fund for the Bonds.

## ESTIMATED SOURCES AND USES

| | | | |
|---|---|---|---|
| **Sources** | | | |
| | Par Amount of Bonds | $510,000 | |
| | **Total Sources** | | **$510,000** |
| **Uses** | | | |
| | Deposit to Current Refunding Fund | $485,000 | |
| | Contingency | 1,255 | |
| | Estimated Discount | 6,120 | |
| | Finance Related Expenses | 17,625 | |
| | **Total Uses** | | **$510,000** |

## SECURITY

The Bonds are general obligations of the District to which its full faith, credit and taxing powers are pledged. In accordance with Minnesota Statutes, the District will levy each year an amount not less than 105% of the debt service requirements on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the District is required to levy additional taxes upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

## RATING

The District will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a rating from Moody's Investors Service, Inc. ("Moody's"). Moody's has a policy which assigns a minimum rating of "Aa2" to issuers participating in the MNCEP. The "Aa2" rating is based on the State of Minnesota's current "Aa1" rating from Moody's. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District currently does not have an underlying rating and will not be requesting an underlying rating on this issue.

## STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on October 16, 2017 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issue remain outstanding.

Under the State Payment Law, if the District believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Commissioner of Education as soon as possible, but not less than 15 working days prior to the due date (which notice is to specify certain information) that it intends to exercise the provisions of the Law to guarantee payment of the principal and interest when due. The District also covenants in the Resolution to deposit with the Paying Agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of the payment.

The Law also requires the Paying Agent for this issue to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal and interest on these obligations, or if, on the day two business days prior to the payment date, there are insufficient funds to make the payment or deposit with the Paying Agent.

The Law also requires, after receipt of a notice which requests a payment pursuant to the Law, after consultation with the Paying Agent and District, and after verifying the accuracy of the information provided, the Commissioner of Education shall notify the Commissioner of Management and Budget of the potential default. The State Payment Law provides that "upon receipt of this notice . . . the Commissioner of Management and Budget shall issue a warrant and authorize the Commissioner of Education to pay to the Paying Agent for the debt obligation the specified amount on or before the date due. The amounts needed for purposes of subdivision are annually appropriated to the Department of Education from the state general fund."

The Law requires that all amounts paid by the State on behalf of any School District are required to be repaid by the District to the State with interest, either via a reduction in State aid payable to the District, or through the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

In its Official Statement dated September 27, 2017, for General Obligation State Bonds, Series 2017A, 2017B, 2017C, 2017D, and 2017E, the State of Minnesota disclosed the following information about the State Credit Enhancement Program for School Districts.

> "As the date of this Official Statement, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2046, is approximately $12.5 billion. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of the date of this Official Statement is $1.9 billion, with the maximum amount of principal and interest payable in any one

month being $760 million. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.

The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

## CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the District shall covenant to take certain actions pursuant to a Resolution adopted by the Board of Education by entering into a Continuing Disclosure Undertaking (the "Disclosure Undertaking") for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the District to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the District at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

In the previous five years, the District has not had any prior undertakings subject to the Rule.

A failure by the District to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The District will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

## LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

## TAX EXEMPTION AND RELATED CONSIDERATIONS

In the opinion of Knutson, Flynn & Deans, P.A., as Bond Counsel, on the basis of laws in effect on the date of issuance of the Bonds, interest on the Bonds is not includible in gross income for federal income tax purposes or in taxable net income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. Certain provisions of the Internal Revenue Code of 1986, as amended (the Code), however, impose continuing requirements that must be met after the issuance of the Bonds in order for interest thereon to be and remain not includible in federal gross income and in Minnesota taxable net income. Noncompliance with such requirements by the Issuer may cause the interest on the Bonds to be includible in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includible in federal gross income or Minnesota taxable net income.

Interest on the Bonds is not an item of tax preference includible in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includible in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax and the environmental tax imposed by Section 59A of the Code. Interest on the Bonds may be includible in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includible in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or Bondholders should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income. Except as stated in its opinion, no opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

## QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

## MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

## MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the District, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the District under an agreement separate from Ehlers.

## INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2017 have been audited by Eide Bailly, Mankato, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

## RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

**Taxes:** The Bonds are general obligations of the District, the ultimate payment of which rests in the District's ability to levy and collect sufficient taxes to pay debt service. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the District in time to pay debt service when due.

**State Actions:** Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the District, the taxable value of property within the District, and the ability of the District to levy and collect property taxes.

**Future Changes in Law:** Various State and federal laws, regulations and constitutional provisions apply to the District and to the Bonds. The District can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the District or the taxing authority of the District.

**Ratings; Interest Rates:** In the future, the District's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

**Tax Exemption:** If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

**State Economy; State Aids:** State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

**Book-Entry-Only System:** The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the District to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

**Economy:** A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the District, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the District may have an adverse effect on the value of the Bonds in the secondary market.

**Secondary Market for the Bonds:** No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

**Bankruptcy:** The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

# VALUATIONS

## OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

| **Type of Property** | **2014/15** | **2015/16** | **2016/17** |
|---|---|---|---|
| Residential homestead[1] | First $500,000 - 1.00%<br>Over $500,000 - 1.25% | First $500,000 - 1.00%<br>Over $500,000 - 1.25% | First $500,000 - 1.00%<br>Over $500,000 - 1.25% |
| Agricultural homestead[1] | First $500,000 HGA - 1.00%<br>Over $500,000 HGA - 1.25%<br>First $1,900,000 - 0.50% [2]<br>Over $1,900,000 - 1.00% [2] | First $500,000 HGA - 1.00%<br>Over $500,000 HGA - 1.25%<br>First $2,140,000 - 0.50% [2]<br>Over $2,140,000 - 1.00% [2] | First $500,000 HGA - 1.00%<br>Over $500,000 HGA - 1.25%<br>First $2,050,000 - 0.50% [2]<br>Over $2,050,000 - 1.00% [2] |
| Agricultural non-homestead | Land - 1.00% [2] | Land - 1.00% [2] | Land - 1.00% [2] |
| Seasonal recreational residential | First $500,000 - 1.00% [3]<br>Over $500,000 - 1.25% [3] | First $500,000 - 1.00% [3]<br>Over $500,000 - 1.25% [3] | First $500,000 - 1.00% [3]<br>Over $500,000 - 1.25% [3] |
| Residential non-homestead: | 1 unit - 1st $500,000 - 1.00%<br>Over $500,000 - 1.25%<br>2-3 units - 1.25%<br>4 or more - 1.25%<br>Small City [4] - 1.25%<br>Affordable Rental:<br>First $100,000 - .75%<br>Over $100,000 - .25% | 1 unit - 1st $500,000 - 1.00%<br>Over $500,000 - 1.25%<br>2-3 units - 1.25%<br>4 or more - 1.25%<br>Small City [4] - 1.25%<br>Affordable Rental:<br>First $106,000 - .75%<br>Over $106,000 - .25% | 1 unit - 1st $500,000 - 1.00%<br>Over $500,000 - 1.25%<br>2-3 units - 1.25%<br>4 or more - 1.25%<br>Small City [4] - 1.25%<br>Affordable Rental:<br>First $115,000 - .75%<br>Over $115,000 - .25% |
| Industrial/Commercial/Utility[5] | First $150,000 - 1.50%<br>Over $150,000 - 2.00% | First $150,000 - 1.50%<br>Over $150,000 - 2.00% | First $150,000 - 1.50%<br>Over $150,000 - 2.00% |

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[1] A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

[2] Applies to land and buildings. Exempt from referendum market value tax.

[3] Exempt from referendum market value tax.

[4] Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

[5] The estimated market value of utility property is determined by the Minnesota Department of Revenue.

## CURRENT PROPERTY VALUATIONS

2016/17 Economic Market Value $823,546,053[1]

### 2016/17 Assessor's Estimated Market Value

| | Martin County | Watonwan County | Blue Earth County | Total |
|---|---|---|---|---|
| Real Estate | $ 450,181,100 | $ 241,451,600 | $ 81,775,000 | $ 773,407,700 |
| Personal Property | 2,313,800 | 2,431,700 | 660,300 | 5,405,800 |
| Total Valuation | $ 452,494,900 | $ 243,883,300 | $ 82,435,300 | $ 778,813,500 |

### 2016/17 Net Tax Capacity

| | Martin County | Watonwan County | Blue Earth County | Total |
|---|---|---|---|---|
| Real Estate | $ 3,710,726 | $ 1,959,727 | $ 633,635 | $ 6,304,088 |
| Personal Property | 45,526 | 46,384 | 13,206 | 105,116 |
| Net Tax Capacity | $ 3,756,252 | $ 2,006,111 | $ 646,841 | $ 6,409,204 |

1 According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 458 (Truman School District) is about 94.13% of the actual selling prices of property most recently sold in the District. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the District of $823,546,053.

## 2016/17 NET TAX CAPACITY BY CLASSIFICATION

| | 2016/17 Net Tax Capacity | Percent of Total Net Tax Capacity |
|---|---|---|
| Residential homestead | $ 342,308 | 5.34% |
| Agricultural | 5,606,393 | 87.47% |
| Commercial/industrial | 224,608 | 3.50% |
| Public utility | 12,450 | 0.19% |
| Non-homestead residential | 117,617 | 1.84% |
| Commercial & residential seasonal/rec. | 712 | 0.01% |
| Personal property | 105,116 | 1.64% |
| Total | $ 6,409,204 | 100.00% |

## TREND OF VALUATIONS

| Levy Year | Assessor's Estimated Market Value | Assessor's Taxable Market Value | Net Tax Capacity[1] | Taxable Net Tax Capacity[2] | Percent +/- in Estimated Market Value |
|---|---|---|---|---|---|
| 2012/13 | $ 632,193,000 | $ 612,227,800 | $ 5,243,020 | $ 5,243,020 | 6.96% |
| 2013/14 | 851,094,900 | 831,683,200 | 7,198,463 | 7,198,463 | 34.63% |
| 2014/15 | 886,490,200 | 867,490,000 | 7,360,360 | 7,360,360 | 4.16% |
| 2015/16 | 836,649,200 | 817,362,800 | 6,836,621 | 6,836,621 | -5.62% |
| 2016/17 | 778,813,500 | 759,684,800 | 6,409,204 | 6,409,204 | -6.91% |

1 Net Tax Capacity includes tax increment values, if any.

2 Taxable Net Tax Capacity does not include tax increment values, if any.

## LARGER TAXPAYERS

| Taxpayer | Type of Property | 2016/17 Net Tax Capacity | Percent of District's Total Net Tax Capacity |
|---|---|---|---|
| Tilney Farms LLP | Agricultural | $ 182,303 | 2.84% |
| Truman Senior Living Inc | Commercial | 78,788 | 1.23% |
| Sanders Farms | Agricultural | 65,648 | 1.02% |
| Rollo H Kosab Trust | Agricultural | 58,700 | 0.92% |
| Individuals | Agricultural | 58,049 | 0.91% |
| HSJ Farms Inc | Agricultural | 51,574 | 0.80% |
| Individual | Agricultural | 47,153 | 0.74% |
| Individual | Agricultural | 43,436 | 0.68% |
| Henry J Schultz Inc | Agricultural | 43,070 | 0.67% |
| Individual | Agricultural | 41,272 | 0.64% |
| Total | | $ 669,993 | 10.45% |

District's Total 2016/17 Net Tax Capacity $6,409,204

**Source:** Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Martin, Watonwan, and Blue Earth Counties.

# DEBT

## DIRECT DEBT[1]

**General Obligation Debt** (see schedule following)

| | |
|---|---|
| Total g.o. debt being paid from taxes (includes the Bonds)* | $ 510,000 |

*Preliminary, subject to change.

## STATE AID FOR DEBT SERVICE

The Minnesota Debt Service Equalization program provides state aid to finance a portion of the principal and interest payments on most school district bonds. Bonds not eligible for the program include all alternative facilities bonds, facilities maintenance bonds, capital facilities bonds and OPEB bonds, as well as building bonds with relatively short maturities.

Under the Debt Service Equalization Formula (the Formula) adopted by the 2001 Minnesota State Legislature, each school district is responsible for the amount of its qualifying annual debt service which is equal to 15.74% of its Adjusted Net Tax Capacity (ANTC). The District does not currently qualify for debt service equalization aid.

In addition to debt service equalization aid, some school districts will qualify for state Long Term Facilities Maintenance Aid to finance a portion of the payments on Alternative Facilities Bonds and Facilities Maintenance Bonds, pursuant to the Long Term Facilities Maintenance Revenue (LTFMR) program approved by the State in 2015. If any aid is received, it is deposited into the District's debt service fund and must be used for payments on the bonds; any payment of state aid into the debt service fund causes a reduction in the tax levy for Alternative Facilities Bonds and Facilities Maintenance Bonds. The amount of aid received in the debt service fund will vary each year, depending on a number of factors. The District does not currently qualify for Long Term Facilities Maintenance Aid.

[1] Outstanding debt is as of the dated date of the Bonds.

## INDEPENDENT SCHOOL DISTRICT NO. 458 (TRUMAN SCHOOL DISTRICT), MINNESOTA

**Schedule of Bonded Indebtedness**
**General Obligation Debt Being Paid From Taxes**
**(As of 12/7/17)**

| | Refunding 1) Series 2017A | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Dated** | 12/14/17 | | | | | | | | |
| **Amount** | $510,000* | | | | | | | | |
| **Maturity** | 1/15 | | | | | | | | |
| **Fiscal Year Ending** | **Principal** | **Estimated Interest** | **Total Principal** | **Total Interest** | **Total P & I** | **Principal Outstanding** | **% Paid** | **Fiscal Year Ending** |
| **2018** | | | 0 | 0 | 0 | 510,000 | 0.00% | **2018** |
| **2019** | 80,000 | 8,394 | 80,000 | 8,394 | 88,394 | 430,000 | 15.69% | **2019** |
| **2020** | 85,000 | 6,633 | 85,000 | 6,633 | 91,633 | 345,000 | 32.35% | **2020** |
| **2021** | 85,000 | 5,528 | 85,000 | 5,528 | 90,528 | 260,000 | 49.02% | **2021** |
| **2022** | 85,000 | 4,295 | 85,000 | 4,295 | 89,295 | 175,000 | 65.69% | **2022** |
| **2023** | 85,000 | 2,978 | 85,000 | 2,978 | 87,978 | 90,000 | 82.35% | **2023** |
| **2024** | 90,000 | 1,575 | 90,000 | 1,575 | 91,575 | 0 | 100.00% | **2024** |
| | 510,000 | 29,401 | 510,000 | 29,401 | 539,401 | | | |

*Preliminary, subject to change.

1) This issue refunded the 2019 through 2024 maturities of the District's $965,000 General Obligation School Building Bonds, Series 2009A, dated July 15, 2009. The refunded maturities will be called for prior redemption on January 15, 2018 and have not been included in the calculation of debt ratios.

## BONDED DEBT LIMIT

Minnesota Statutes, Section 475.53, subdivision 4, presently limits the "net debt" of a school district to 15% of its actual market value. The actual market value of property within a district, on which its debt limit is based, is (a) the value certified by the county auditors, or (b) this value divided by the ratio certified by the commissioner of revenue, whichever results in a higher value. The current debt limit of the District is computed as follows:

| | |
|---|---|
| 2016/17 Economic Market Value | $823,546,053 |
| Multiply by 15% | 0.15 |
| Statutory Debt Limit | $123,531,908 |
| Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)* | (510,000) |
| Unused Debt Limit* | $123,021,908 |

*Preliminary, subject to change.

## OVERLAPPING DEBT[1]

| Taxing District | 2016/17 Taxable Net Tax Capacity | % In District | Total G.O. Debt[2] | District's Proportionate Share |
|---|---|---|---|---|
| Martin County | $ 39,219,578 | 9.5775% | $ 15,710,000 [3] | $ 1,504,625 |
| Watonwan County | 18,518,401 | 10.8331% | 2,577,890 | 279,265 |
| Blue Earth County | 82,292,553 | 0.7860% | 16,698,000 | 131,246 |
| City of Truman | 396,532 | 100.0000% | 430,000 | 430,000 |
| District's Share of Total Overlapping Debt | | | | $ 2,345,137 |

## DEBT PAYMENT HISTORY

The District has no record of default in the payment of principal and interest on its debt.

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1 Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does ***not*** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

2 Outstanding debt is based on information in official statements obtained on EMMA and the Municipal Advisor's records.

3 Includes Martin County's General Obligation Drainage Ditch Bonds, Series 2017A, estimated principal amount $4,755,000, which is scheduled to close on November 28, 2017.

## DEBT RATIOS

| | G.O. Debt | Debt/Economic Market Value ($823,546,053) | Debt/ Current Population Estimate (2,350) |
|---|---|---|---|
| Direct G.O. Debt Being Paid From Taxes (includes the Bonds)* | $ 510,000 | 0.06% | $217.02 |
| District's Share of Total Overlapping Debt | $ 2,345,137 | 0.28% | $997.93 |
| Total* | $ 2,855,137 | 0.35% | $1,214.95 |

*Preliminary, subject to change.

## FUTURE FINANCING

The District has no current plans for additional financing in the next 12 months.

## LEVY LIMITS

Minnesota school district tax levies for most purposes are subject to statutory limitations. No limit, however, is placed on the debt service levy, and districts are required to levy 105% of actual principal and interest requirements to allow for delinquencies.

School districts receive a basic revenue amount per pupil unit from aid and levy proceeds in a variety of categorical state aids. They are also allowed to certify additional levies within limits for certain specified purposes. The State Department of Education and the applicable County Auditors review the levies of each school district to determine compliance with state levy limits.

# TAX RATES, LEVIES AND COLLECTIONS

## TAX LEVIES AND COLLECTIONS

| Tax Year | Net Tax Levy[1] | Total Collected Following Year | Collected to Date[2] | % Collected |
|---|---|---|---|---|
| 2012/13 | $614,900 | $ 604,530 | $613,827 | 99.83% |
| 2013/14 | 753,578 | 745,381 | 752,023 | 99.79% |
| 2014/15 | 647,033 | 640,949 | 646,223 | 99.87% |
| 2015/16 | 670,553 | 658,887 | 667,862 | 99.60% |
| 2016/17 | 901,977 | In process of collection | | |

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.[3] Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

## TAX CAPACITY RATES[4]

| | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 |
|---|---|---|---|---|---|
| I.S.D. No. 458 (Truman School District) | 4.902% | 6.466% | 5.357% | 5.427% | 5.973% |
| Martin County | 34.776% | 28.166% | 29.952% | 34.689% | 38.650% |
| Watonwan County | 49.764% | 38.857% | 41.555% | 43.209% | 48.639% |
| Blue Earth County | 44.083% | 38.834% | 37.249% | 38.148% | 39.105% |
| City of Truman | 100.150% | 103.349% | 105.880% | 101.965% | 106.503% |
| Town of Fraser[5] | 7.530% | 5.563% | 5.484% | 6.108% | 7.966% |
| *Referendum Market Value Rates:* | | | | | |
| I.S.D. No. 458 (Truman School District) | 0.41640% | 0.34231% | 0.30314% | 0.32393% | 0.54722% |

**Source:** Tax Levies and Collections and Tax Capacity Rates have been furnished by Martin, Watonwan, and Blue Earth Counties.

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1 This reflects the Final Levy Certification of the District after all adjustments have been made.

2 Collections are through May 31, 2017 for Martin and Blue Earth Counties, and May 17, 2017 for Watonwan County.

3 Second half tax payments on agricultural property are due on November 15th of each year.

4 After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

5 Representative town rate.

# THE ISSUER

## EMPLOYEES

The District is governed by an elected school board and employs a staff of 55, including 32 non-licensed employees and 23 licensed employees (21 of whom are teachers). The District provides education for 195 students in grades kindergarten through twelve.

## PENSIONS; UNIONS

**Teachers' Retirement Association (TRA)**

All teachers employed by the District are covered by defined benefit pension plans administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

**Public Employees' Retirement Association (PERA)**

All full-time and certain part-time employees of the District (other than those covered by TRA) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

**Recognized and Certified Bargaining Units**

| Bargaining Unit | Expiration Date of Current Contract |
|---|---|
| Teachers Union | June 30, 2017 |

**Status of Contracts**

The contract which expired June 30, 2017 is in negotiations.

## POST EMPLOYMENT BENEFITS

The District does not pay directly for retirees' post-employment benefits. The District has some obligations for post-employment benefits as mandated by State Statutes. Specifically, the District is required to allow retirees to be covered by the District's health care plan as long as the retiree pays his/her premiums. Retiree membership in a health care plan typically increases costs of the premiums. This increased cost is commonly known as implicit price subsidy.

## STUDENT BODY

The number of students enrolled for the past four years and for the current year have been as follows:

| Year | Kindergarten | Grades 1-6 | Grades 7-12 | Total |
|---|---|---|---|---|
| 2013/14 | 15 | 80 | 105 | 200 |
| 2014/15 | 15 | 77 | 85 | 177 |
| 2015/16 | 16 | 95 | 83 | 194 |
| 2016/17 | 24 | 91 | 79 | 194 |
| 2017/18 | 23 | 102 | 70 | 195 |

Enrollments for the next three years are projected to be as follows:

| Year | Kindergarten | Grades 1-6 | Grades 7-12 | Total |
|---|---|---|---|---|
| 2018/19 | 20 | 106 | 72 | 198 |
| 2019/20 | 20 | 114 | 73 | 207 |
| 2020/21 | 20 | 119 | 79 | 218 |

## SCHOOL BUILDINGS

| School Building | Year Constructed | Years of Additions/ Remodelings |
|---|---|---|
| Truman Schools | 1935 | 1952, 1958, 1963 |

## FUNDS ON HAND (as of September 30, 2017)

| Fund | Total Cash and Investments |
|---|---|
| General | $ 800,840 |
| Food Service | 49,408 |
| Community Service | 146,770 |
| Debt Service | 56,761 |
| Trust & Agency | 13,754 |
| Internal Service | 38,937 |
| **Total Funds on Hand** | $1,106,470 |

## LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

## MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

Currently there is no statutory authority for Minnesota school districts to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code.

Nevertheless, there can be no assurance (a) that State law will not change in the future while the Bonds are outstanding; or (b) even absent such a change in State law, that an executive order or other executive action could not effectively authorize the District to file for relief under Chapter 9; or (c) whether it would still be eligible for voluntary or involuntary relief under Chapters of the Bankruptcy Code other than Chapter 9 or under similar federal or state law or equitable proceeding regarding insolvency or providing for protection from creditors. Such action could impact the rights of holders of the Bonds. Such modifications could be adverse to holders of the Bonds and there could ultimately be no assurance that holders of the Bonds would be paid in full or in part on the Bonds.

## SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the District's General Fund. These summaries are not purported to be the complete audited financial statements of the District, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the District. Copies of the complete statements are available upon request. Appendix A includes the District's 2017 audited financial statements.

| | FISCAL YEAR ENDING JUNE 30 | | | | |
|---|---|---|---|---|---|
| **COMBINED STATEMENT** | **2014 Audited** | **2015 Audited** | **2016 Audited** | **2017 Audited** | **2017-18 Adopted Budget[1]** |
| Revenues | | | | | |
| Local property taxes | $ 555,350 | $ 599,859 | $ 474,983 | $ 546,679 | $ 786,648 |
| Other local and county revenues | 136,012 | 106,801 | 131,949 | 139,950 | 69,309 |
| Revenues from state sources | 2,056,956 | 1,812,634 | 1,979,450 | 2,152,592 | 2,112,373 |
| Revenues from federal sources | 93,304 | 115,935 | 86,501 | 117,636 | 100,000 |
| Sales and other conversion of assets | 0 | 0 | 0 | 0 | 0 |
| **Total Revenues** | $ 2,841,622 | $ 2,635,229 | $ 2,672,883 | $ 2,956,857 | $ 3,068,330 |
| Expenditures | | | | | |
| Administration | $ 212,055 | $ 244,943 | $ 252,016 | $ 257,891 | $ 258,442 |
| District support services | 123,046 | 90,977 | 104,106 | 190,482 | 106,031 |
| Elementary & secondary regular instruction | 1,363,202 | 1,417,402 | 1,476,105 | 1,502,931 | 1,472,955 |
| Vocational education instruction | 49,723 | 26,476 | 37,417 | 60,541 | 61,430 |
| Special education instruction | 260,421 | 238,370 | 312,871 | 320,162 | 315,971 |
| Instructional support services | 29,165 | 32,157 | 55,747 | 78,981 | 28,058 |
| Pupil support services | 309,436 | 298,002 | 287,646 | 308,165 | 303,897 |
| Sites and buildings | 348,238 | 489,850 | 464,292 | 431,783 | 433,223 |
| Fiscal and other fixed cost programs | 23,063 | 21,927 | 23,362 | 26,361 | 38,200 |
| Debt Service | 77,258 | 40,300 | 10,496 | 14,853 | 0 |
| **Total Expenditures** | $ 2,795,607 | $ 2,900,404 | $ 3,024,058 | $ 3,192,150 | $ 3,018,207 |
| **Excess of revenues over (under) expenditures** | $ 46,015 | $ (265,175) | $ (351,175) | $ (235,293) | $ 50,123 |
| **Other Financing Sources (Uses)** | | | | | |
| Sale of Equipment | $ 10 | $ 1,000 | $ 0 | $ 0 | |
| Operating transfers out | 0 | 0 | 0 | 0 | |
| **Total Other Financing Sources (Uses)** | $ 10 | $ 1,000 | $ 0 | $ 0 | |
| **Net Change in Fund Balances** | $ 46,025 | $ (264,175) | $ (351,175) | $ (235,293) | |
| General Fund Balance July 1 | 199,977 | 246,002 | (18,173) | (369,348) | |
| Prior Period Adjustment | 0 | 0 | 0 | 0 | |
| Residual Equity Transfer in (out) | 0 | 0 | 0 | 0 | |
| General Fund Balance June 30 | $ 246,002 | $ (18,173) | $ (369,348) | $ (604,641) | |
| **DETAILS OF JUNE 30 FUND BALANCE** | | | | | |
| Nonspendable | $ 21,508 | $ 27,955 | $ 23,176 | $ 213 | |
| Restricted | 52,675 | 41,625 | 45,302 | 127,231 | |
| Committed | 41,636 | 48,376 | 34,996 | 38,826 | |
| Unassigned | 130,183 | (136,129) | (472,822) | (770,911) | |
| **Total** | $ 246,002 | $ (18,173) | $ (369,348) | $ (604,641) | |

[1] The 2017-18 budget was adopted on June 19, 2017.

# GENERAL INFORMATION

## LOCATION

The District, with a 2010 U.S. Census population of 2,374 and a current population estimate of 2,350, and comprising an area of 145 square miles, is located approximately 2 hours from the Minneapolis-St. Paul metropolitan area.

## LARGER EMPLOYERS[1]

Larger employers in the District include the following:

| **Firm** | **Type of Business/Product** | **Estimated No. of Employees** |
|---|---|---|
| City of Truman | Municipal government and services | 85 |
| Truman Senior Living | Nursing home | 72 |
| I.S.D. No. 458 (Truman School District) | Elementary and secondary education | 55 |
| CFS/Central Farm Service | Feed manufacturers | 50 |
| Martin County Implement | Tractor dealers | 25 |
| Elizabeth Chevrolet | Auto dealers | 22 |
| WFS Feed Department | Feed dealers | 20 |
| Schwans Home Service | Frozen food wholesale | 20 |
| Profinium Financial | Financial advisory services | 17 |
| Truman Bus Service Inc | Buses-charters | 15 |
| Prairie Land Solid Waste | Recycling-solid waste | 14 |
| Aardvark's Bar and Grill | Liquors-retail | 13 |
| Casey's General Store | Convenience store | 12 |

**Source:** *ReferenceUSA, written and telephone survey (October 2017), and the Minnesota Department of Employment and Economic Development.*

[1] This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

## U.S. CENSUS DATA

**Population Trend:** Independent School District No. 458 (Truman School District), Minnesota

| | |
|---|---|
| 2000 U.S. Census population [1] | |
| 2010 U.S. Census population | 2,374 |
| 2015 Population Estimate | 2,350 |

**Income and Age Statistics**

| | Truman School District | Martin County | State of Minnesota | United States |
|---|---|---|---|---|
| 2015 per capita income | $28,095 | $28,244 | $32,157 | $28,930 |
| 2015 median household income | $54,083 | $51,391 | $61,492 | $53,889 |
| 2015 median family income | $57,022 | $62,397 | $77,055 | $66,011 |
| 2015 median gross rent | $626 | $613 | $848 | $928 |
| 2015 median value owner occupied units | $88,700 | $105,400 | $186,200 | $178,600 |
| 2015 median age | 47.6 yrs. | 45.4 yrs. | 37.7 yrs. | 37.6 yrs. |

| | State of Minnesota | United States |
|---|---|---|
| District % of 2015 per capita income | 87.37% | 97.11% |
| District % of 2015 median family income | 74.00% | 86.38% |

**Source:** *2000 and 2010 Census of Population and Housing, and 2015 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).*

## EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

| | Average Employment | Average Unemployment | |
|---|---|---|---|
| Year | Martin County | Martin County | State of Minnesota |
| 2013 | 9,780 | 5.3% | 4.9% |
| 2014 | 9,700 | 4.7% | 4.2% |
| 2015 | 9,944 | 4.1% | 3.7% |
| 2016 | 9,994 | 4.2% | 3.8% |
| 2017, September | 10,076 | 3.2% | 2.9% |

**Source:** *Minnesota Department of Employment and Economic Development.*

[1] This information is no longer available.

# APPENDIX A

## FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the District's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The District has not requested the Auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, nor has the District requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Official Statement is not intended to demonstrate the fiscal condition of the District since the date of the financial statements, in connection with the issuance of the Bonds, the District represents that there have been no material adverse change in the financial position or results of operations of the District, nor has the District incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

Financial Statements
June 30, 2017

# Independent School District No. 458

Truman, Minnesota

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# Independent Auditor's Report

Members of the School Board
Independent School District No. 458
Truman, 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 Truman, Minnesota (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress, schedule of Employer's share of net pension liability and schedule of Employer'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 inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The introductory section, combining fund schedules, the Uniform Financial Accounting and Reporting Standards Compliance Table, and the student activity treasurer's report are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining fund schedules, the Uniform Financial Accounting and Reporting Standards Compliance Table and the student activity treasurer's report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund schedules, the Uniform Financial Accounting and Reporting Standards Compliance Table and the student activity treasurer's report are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 the District's internal control over financial reporting and compliance.

Eide Bailly LLP

Mankato, Minnesota
September 18, 2017

This section of Independent School District No. 458 Truman Public School's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follows this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders, expanded disclosure, and supplement information, including the Management's Discussion and Analysis (this section).

## FINANCIAL HIGHLIGHTS

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

- Fund balances decreased by $151,636 over June 30, 2016.
- Overall General Fund revenues were $2,956,857 as compared to $3,192,150 of expenses.
- The unassigned fund balance in the General Fund decreased by $298,089.

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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





## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

### 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/inflows of resources, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net position is 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* – All 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 only one kind of fund:

- *Governmental funds* – All 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 fund statements that explains the relationship (or differences) between them.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

### Net Position

The District's *combined* net position was a deficit $1,588,630 at June 30, 2017.

**STATEMENT OF NET POSITION**
Table A-1

| | 2017 | 2016 | Percentage Change |
|---|---|---|---|
| **ASSETS** | | | |
| Current and other assets | $ 1,719,937 | $ 1,716,594 | 0.19% |
| Capital assets | 1,696,431 | 1,733,447 | -2.14% |
| Total assets | 3,416,368 | 3,450,041 | -0.98% |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | |
| Deferred outflows of resources | 3,616,609 | 377,616 | 857.75% |
| **LIABILITIES** | | | |
| Other liabilities | 1,359,919 | 1,441,145 | -5.64% |
| Long-term liabilities | 6,407,366 | 2,329,950 | 175.00% |
| Total liabilities | 7,767,285 | 3,771,095 | 105.97% |
| **DEFERRED INFLOWS OF RESOURCES** | | | |
| Deferred inflows of resources | 854,322 | 627,602 | 48,281 |
| **NET POSITION** | | | |
| Net Investment in capital assets | 1,141,431 | 1,113,447 | 2.51% |
| Restricted for specific purposes | 194,506 | 161,102 | 20.73% |
| Unrestricted | (2,924,567) | (1,845,589) | 58.46% |
| Total net position | $ (1,588,630) | $ (571,040) | 178.20% |

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## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

### Change in Net Position

The District's total revenues were $3,451,931 for the year ended June 30, 2017, compared to $3,110,979 for the year ended June 30, 2016. Property taxes and state formula aid accounted for 79.49% of total revenue for the year. (See Table A-1.) The remaining 20.51% came from other general revenues combined with investment earnings and program revenues.

**STATEMENT OF ACTIVITIES**
Table A-2

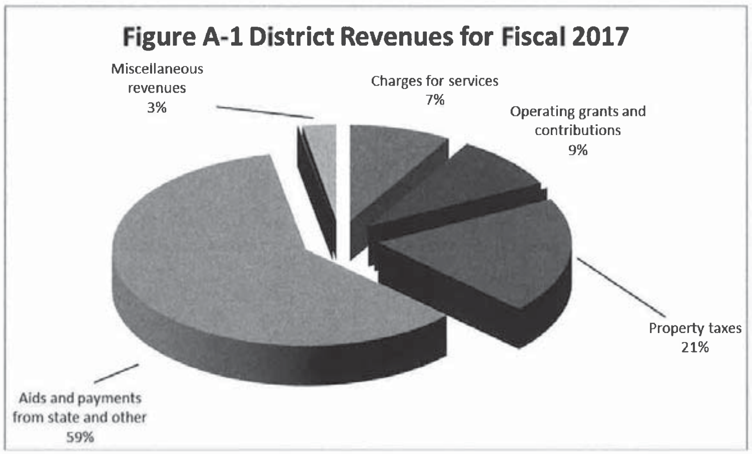
| | 2017 | 2016 | Percentage Change |
|---|---|---|---|
| REVENUES | | | |
| Program revenues | | | |
| Charges for service | $ 294,701 | $ 238,519 | 23.55% |
| Operating grants and contributions | 311,108 | 306,436 | 1.52% |
| General | | | |
| Property taxes | 673,105 | 606,318 | 11.02% |
| Aids and payments from state | 2,070,870 | 1,862,377 | 11.19% |
| Unrestricted investment earnings | 4,669 | 2,759 | 69.23% |
| Miscellaneous revenues | 97,478 | 94,570 | 3.07% |
| Total revenues | 3,451,931 | 3,110,979 | 10.96% |
| EXPENSES | | | |
| District and school administration | 259,748 | 253,906 | 2.30% |
| District support services | 190,482 | 104,106 | 82.97% |
| Regular instruction | 2,367,281 | 1,087,274 | 117.73% |
| Vocational instruction | 60,907 | 37,784 | 61.20% |
| Special education instruction | 320,162 | 312,871 | 2.33% |
| Community education and services | 171,552 | 184,908 | -7.22% |
| Instructional support services | 75,816 | 51,888 | 46.11% |
| Pupil support services | 460,657 | 423,438 | 8.79% |
| Sites, buildings, and equipment | 497,677 | 463,747 | 7.32% |
| Fiscal and other fixed-cost programs | 26,361 | 23,362 | 12.84% |
| Interest and fiscal charges | 38,878 | 36,811 | 5.62% |
| Total expenses | 4,469,521 | 2,980,095 | 49.98% |
| CHANGE IN NET POSITION | (1,017,590) | 130,884 | -877.47% |
| NET POSITION - BEGINNING | (571,040) | (701,924) | -18.65% |
| NET POSITION - ENDING | $ (1,588,630) | $ (571,040) | 178.20% |

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

The total cost of all programs and services was $4,469,521 in the current fiscal year compared to $2,980,095 last year. Total revenues surpassed expenses, decreasing net position $1,017,590 over last year.

The cost of all *governmental* activities this year was $4,469,521.

- Some of the cost was paid by the users of the District's programs ($294,701).
- The federal and state governments subsidized certain programs with grants and contributions ($311,108).
- Most of the District's costs ($2,743,975) however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with $673,105 in property taxes and $2,070,870 of state aid based on the statewide education aid formula.



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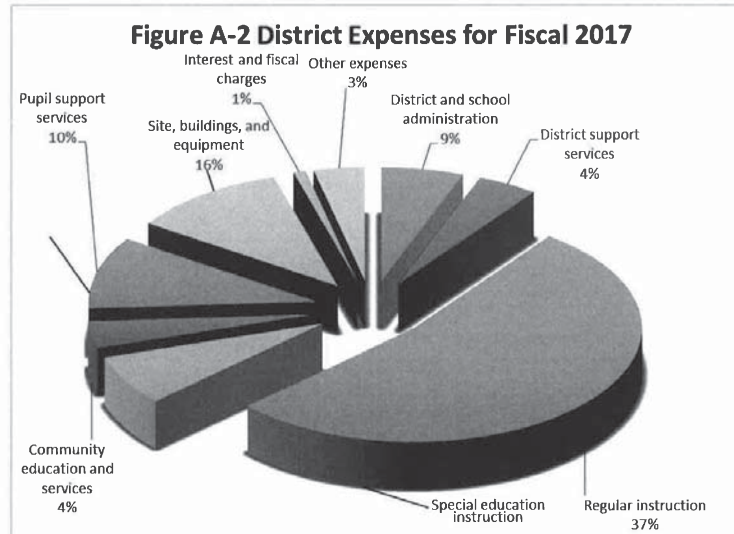

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Typically, the District does not include in an analysis of all governmental funds a breakout of expenditures as depicted in Figure A-2. To do so distorts the latitude available to the District to allocate resources to instruction. All governmental funds includes not only funds received for the general operation of the district, which are used for classroom instruction, but also includes resources from the entrepreneurial-type funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction. The graph on the preceding page, by pooling all expenditures, implies that the District does have equal access to all funds to impact classroom instruction. In Minnesota, that is simply not an option.

**Table A-3**

| | Total Cost of Services | | Percentage | Net Cost of Services | | Percentage |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | Change | 2017 | 2016 | Change |
| District and school administration | $ 259,748 | $253,906 | 2.30% | $ 259,748 | $253,906 | 2.30% |
| District support services | 190,482 | 104,106 | 82.97% | 190,482 | 104,106 | 82.97% |
| Regular instruction | 2,367,281 | 1,087,274 | 117.73% | 2,088,288 | 863,259 | 141.91% |
| Vocational instruction | 60,907 | 37,784 | 61.20% | 60,907 | 37,784 | 61.20% |
| Special education instruction | 320,162 | 312,871 | 2.33% | 284,967 | 247,562 | 15.11% |
| Community education and services | 171,552 | 184,908 | -7.22% | 78,627 | 130,478 | -39.74% |
| Instructional support services | 75,816 | 51,888 | 46.11% | 75,816 | 51,888 | 46.11% |
| Pupil support services | 460,657 | 423,438 | 8.79% | 261,961 | 222,237 | 17.87% |
| Site, buildings and equipment | 497,677 | 463,747 | 7.32% | 497,677 | 463,747 | 7.32% |
| Fiscal and other fixed-cost programs | 26,361 | 23,362 | 12.84% | 26,361 | 23,362 | 12.84% |
| Interest and fiscal charges | 38,878 | 36,811 | 5.62% | 38,878 | 36,811 | 5.62% |
| Total | $ 4,469,521 | $ 2,980,095 | 49.98% | $ 3,863,712 | $ 2,435,140 | 58.66% |

## FINANCIAL ANALYSIS OF THE DISTRICT 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 ($420,956), a decrease of $151,636 from last year's ending fund balance of ($269,320).

Revenues for the District's governmental funds were $3,451,659, while total expenses were $3,603,295.





## GENERAL FUND

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

Approximately 91% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 69% of personnel expenditures (salaries only). Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

### Enrollment

Enrollment is a critical factor in determining revenue with approximately 89% of General Fund revenue being determined by enrollment. The following chart shows the number of students over the last five years.

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

| Grade | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Kindergarten | 20 | 18 | 19 | 19 | 35 |
| 1st - 3rd | 49 | 45 | 45 | 45 | 49 |
| 4th - 6th | 50 | 35 | 34 | 48 | 44 |
| 7th - 12th | 139 | 109 | 89 | 91 | 84 |
| Total K - 12th ADM | 258 | 207 | 187.26 | 203 | 213 |
| ADM Change | (39) | (51) | (20) | 16 | 10 |
| Percent Change | -15.12% | -24.64% | -10.54% | 7.75% | 4.62% |

## GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues.

**Table A-5 General Fund Revenues**

| Fund | Year Ended June 30, 2017 | Year Ended June 30, 2016 | Change Increase (Decrease) | Change Percent |
|---|---|---|---|---|
| Local property tax levies | $ 546,679 | $ 474,983 | $ 71,696 | 15.09% |
| Other local and county sources | 139,950 | 131,948 | 8,002 | 6.06% |
| State sources | 2,152,592 | 1,979,450 | 173,142 | 8.75% |
| Federal sources | 117,636 | 86,501 | 31,135 | 35.99% |
| Total General Fund Revenue | $ 2,956,857 | $ 2,672,882 | $ 283,975 | 10.62% |

Total General Fund revenue increased by $283,975, or 10.62% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of a mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve a mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6 General Fund Expenditures**

| Fund | Year Ended June 30, 2017 | Year Ended June 30, 2016 | Change Increase (Decrease) | Change Percent |
|---|---|---|---|---|
| Salaries | $ 1,533,758 | $ 1,412,540 | $ 121,218 | 8.58% |
| Employee benefits | 447,427 | 415,661 | 31,766 | 7.64% |
| Purchased services | 810,984 | 837,671 | (26,687) | -3.19% |
| Supplies and materials | 132,127 | 181,936 | (49,809) | -27.38% |
| Capital expenditures | 168,878 | 149,046 | 19,832 | 13.31% |
| Debt service | 14,853 | 10,496 | 4,357 | 41.51% |
| Other expenditures | 84,123 | 16,708 | 67,415 | 403.49% |
| Total General Fund Expenditures | $ 3,192,150 | $ 3,024,058 | $ 168,092 | 5.56% |

Total General Fund expenditures increased $168,092, or 5.56% from the previous year.



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## GENERAL FUND (CONTINUED)

In 2016-2017, General Fund expenditures were more than revenues by $235,293. Therefore, total fund balance decreased to $(604,641) at June 30, 2017. Unassigned fund balance is the single best measure of overall financial health. After deducting statutory restrictions and Board designations, the unassigned fund balance decreased from ($472,822) at June 30, 2016, to ($770,911) at June 30, 2017.

### General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the District revises the annual operating budget in mid-year. These budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over, and budgeting for clearing.
- Legislation passed subsequent to budget adoption, changes necessitated by collective bargaining agreements, and increases in appropriations for significant unbudgeted costs.

Actual revenues were $5,845 more than expected, due to donations and special education revenues.

The actual expenditures were $287,261 more than budgeted. The largest area of fluctuation was Special Education Services and Benefits.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by $46,123, the actual results for the year were expenditures exceeding revenues by $235,293.

## OTHER MAJOR FUNDS

Expenditures exceeded revenues in the Food Service Fund by $5,825. This decreased the fund balance in the Food Service Fund to a balance of $47,660.

In the Community Service Fund, revenues exceeded expenditures by $96,356. This increased net fund balance in the Community Service Fund to $117,961.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2017, the District had invested slightly over $4.8 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment. (See Table A-7.) (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was $131,215.

**Table A-7**
**The District's Capital Assets**

| | 2017 | 2016 | Percentage Change |
|---|---|---|---|
| Land | $ 29 | $ 29 | 0.00% |
| Buildings | 3,510,476 | 3,496,399 | 0.40% |
| Land improvements | 285,009 | 285,009 | 0.00% |
| Equipment | 944,465 | 877,343 | 7.65% |
| Accumulated depreciation | (3,121,773) | (3,003,558) | 3.94% |
| Total capital assets | $ 1,618,206 | $ 1,655,222 | -2.24% |

### Long-Term Liabilities

At year-end, the District had the following balances in long-term liabilities (See Table A-8) at June 30, 2017: $555,000 of general obligation bonds payable; and $60,328 of OPEB obligations. The District had $5,792,038 in net pension liability at year-end.

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

| | 2017 | 2016 | Percentage Change |
|---|---|---|---|
| General Obligation Bonds Payable | $ 555,000 | $ 620,000 | -10.48% |
| OPEB Obligation | 60,328 | 48,281 | 24.95% |
| Total Debt | $ 615,328 | $ 668,281 | -7.92% |





## FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

Without continued reduction in expenditures and/or an increase in revenues, the General Fund has moved to a deficit. To balance future budgets, the Board will be required to make expenditure reductions, research grant opportunities and promote the school offerings in efforts to encourage students to enroll at the school.

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 458, 401 East First Street South, Truman, Minnesota 56088.

| | |
|---|---|
| **Assets** | |
| Cash and investments | $ 925,133 |
| Receivables: | |
| Current property taxes | 435,461 |
| Delinquent property taxes | 7,513 |
| Accounts | 103,576 |
| Due from other Minnesota school districts | 10,190 |
| Due from Minnesota Department of Education | 212,440 |
| Due from federal through Minnesota Department of Education | 22,225 |
| Prepaid items | 213 |
| Inventories | 3,186 |
| Capital assets not being depreciated: | |
| Land | 29 |
| Capital assets, net of accumulated depreciation: | |
| Land improvements | 187,273 |
| Buildings | 1,290,964 |
| Equipment | 201,274 |
| Vehicles | 16,891 |
| Total assets | 3,416,368 |
| **Deferred Outflows of Resources** | |
| Pension plans | 3,616,609 |
| **Liabilities** | |
| Salaries payable | 124,062 |
| Aid anticipation certificates payable | 1,027,791 |
| Accounts payable | 21,480 |
| Interest payable | 27,084 |
| Due to other Minnesota school districts | 31,989 |
| Due to other governmental units | 3,866 |
| Payroll deductions | 122,304 |
| Unearned revenue | 1,343 |
| Noncurrent liabilities: | |
| Net pension liability | 5,792,038 |
| Due within one year | 70,000 |
| Due in more than one year | 545,328 |
| Total liabilities | 7,767,285 |
| **Deferred Inflows of Resources** | |
| Pension plan | 70,447 |
| Unavailable revenue - property taxes | 783,875 |
| Total deferred inflows of resources | 854,322 |
| **Net Position** | |
| Net investment in capital assets | 1,141,431 |
| Restricted for: | |
| Debt service | 19,017 |
| Food service | 47,660 |
| Community service | 598 |
| Other purposes | 127,231 |
| Unrestricted | (2,924,567) |
| Total net position | $ (1,588,630) |

The notes to the financial statements are an integral part of the financial statements

| Functions/Programs | Expenses | Program Revenues<br>Charges for Services | Program Revenues<br>Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| Governmental Activities | | | | |
| Administration | $ 259,748 | $ - | $ - | $ (259,748) |
| District support services | 190,482 | - | - | (190,482) |
| Regular instruction | 2,367,281 | 171,270 | 107,723 | (2,088,288) |
| Vocational instruction | 60,907 | - | - | (60,907) |
| Special education instruction | 320,162 | - | 35,195 | (284,967) |
| Community education and services | 171,552 | 72,384 | 20,541 | (78,627) |
| Instructional support services | 75,816 | - | - | (75,816) |
| Pupil support services | 460,657 | 51,047 | 147,649 | (261,961) |
| Sites and buildings | 497,677 | - | - | (497,677) |
| Fiscal and other fixed cost programs | 26,361 | - | - | (26,361) |
| Interest and fiscal charges | 38,878 | - | - | (38,878) |
| Total governmental activities | $ 4,469,521 | $ 294,701 | $ 311,108 | (3,863,712) |
| General Revenues | | | | |
| Property taxes | | | | 673,105 |
| State aid not restricted to specific purposes | | | | 2,070,870 |
| Interest earnings | | | | 4,669 |
| Miscellaneous | | | | 97,478 |
| Total general revenues | | | | 2,846,122 |
| Changes in Net Position | | | | (1,017,590) |
| Net Position - Beginning | | | | (571,040) |
| Net Position - Ending | | | | $ (1,588,630) |

The notes to the financial statements are an integral part of the financial statements

| | General | Community Service | Total Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|
| Assets | | | | |
| Cash and investments | $ 682,752 | $ 131,778 | $ 110,603 | $ 925,133 |
| Receivables: | | | | |
| Current property taxes | 368,096 | 22,194 | 45,171 | 435,461 |
| Delinquent property taxes | 5,962 | 598 | 953 | 7,513 |
| Accounts | 83,543 | 18,855 | 1,178 | 103,576 |
| Due from other Minnesota school districts | 10,190 | - | - | 10,190 |
| Due from Minnesota Department of Education | 208,829 | 3,050 | 561 | 212,440 |
| Due from federal through Minnesota Department of Education | 22,225 | - | - | 22,225 |
| Inventories | - | - | 3,186 | 3,186 |
| Prepaid items | 213 | - | - | 213 |
| Total Assets | $ 1,381,810 | $ 176,475 | $ 161,652 | $ 1,719,937 |
| Liabilities | | | | |
| Salaries payable | $ 114,567 | $ 8,641 | $ 854 | $ 124,062 |
| Aid anticipation certificates payable | 1,027,791 | | - | 1,027,791 |
| Accounts payable | 17,545 | 3,770 | 165 | 21,480 |
| Interest payable | 16,670 | - | - | 16,670 |
| Due to other Minnesota school districts | 31,989 | - | - | 31,989 |
| Due to other governmental units | 3,866 | - | - | 3,866 |
| Payroll deductions | 122,304 | - | - | 122,304 |
| Unearned revenue | - | - | 1,343 | 1,343 |
| Total liabilities | 1,334,732 | 12,411 | 2,362 | 1,349,505 |
| Deferred inflows of resources | | | | |
| Unavailable revenue - delinquent taxes | 5,962 | 598 | 953 | 7,513 |
| Unavailable revenue - property taxes | 645,757 | 45,505 | 92,613 | 783,875 |
| Total deferred inflow of resources | 651,719 | 46,103 | 93,566 | 791,388 |
| Fund Balances | | | | |
| Nonspendable: | | | | |
| Prepaid items | 213 | - | - | 213 |
| Inventories | - | - | 3,186 | 3,186 |
| Restricted: | | | | |
| Health and safety | 8,503 | - | - | 8,503 |
| Gifted and talented | 2,960 | - | - | 2,960 |
| Safe school - crime levy | 36,056 | - | - | 36,056 |
| Long term facilities maintenance | 17,890 | - | - | 17,890 |
| Medical assistance | 15,005 | - | - | 15,005 |
| Learning and development | 2,616 | - | - | 2,616 |
| Community education | - | 1,935 | - | 1,935 |
| Early childhood family education | - | 37,202 | - | 37,202 |
| Adult basic education | - | 2,610 | - | 2,610 |
| School readiness | - | 83,543 | - | 83,543 |
| Capital project | 44,201 | | - | 44,201 |
| Other fund activities | - | - | 62,538 | 62,538 |
| Committed: | | | | |
| Student activities | 38,826 | - | - | 38,826 |
| Unassigned | (770,911) | (7,329) | - | (778,240) |
| Total fund balances | (604,641) | 117,961 | 65,724 | (420,956) |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | $ 1,381,810 | $ 176,475 | $ 161,652 | $ 1,719,937 |

The notes to the financial statements are an integral part of the financial statements

# Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

| | | | | |
|---|---|---|---|---|
| Total Fund Balances for Governmental Funds | | | $ | (420,956) |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. | | | | 1,696,431 |
| 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. | | | | 7,513 |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | | | (10,414) |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. | | | | 3,546,162 |
| Long-term liabilities that pertain to governmental funds, including bonds payable and net pension liability, 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 | $ | 555,000 | | |
| Net Pension Liability | | 5,792,038 | | |
| OPEB Obligation | | 60,328 | | |
| | | | | (6,407,366) |
| Total Net Position for Governmental Activities | | | $ | (1,588,630) |

The notes to the financial statements are an integral part of the financial statements

# Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2017

| | General | Community Service | Total Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|
| Revenues | | | | |
| Local property tax levies | $ 546,679 | $ 48,492 | $ 77,662 | $ 672,833 |
| Other local and county sources | 139,950 | 188,366 | 351 | 328,667 |
| State sources | 2,152,592 | 29,536 | 14,981 | 2,197,109 |
| Federal sources | 117,636 | - | 84,366 | 202,002 |
| Local sales and insurance recovery | - | - | 51,048 | 51,048 |
| Total revenues | 2,956,857 | 266,394 | 228,408 | 3,451,659 |
| Expenditures | | | | |
| Administration | 257,891 | - | - | 257,891 |
| District support services | 190,482 | - | - | 190,482 |
| Regular instruction | 1,502,931 | - | - | 1,502,931 |
| Vocational instruction | 60,541 | - | - | 60,541 |
| Special education instruction | 320,162 | - | - | 320,162 |
| Community education and services | - | 170,038 | - | 170,038 |
| Instructional support services | 78,981 | - | - | 78,981 |
| Pupil support services | 308,165 | - | 150,959 | 459,124 |
| Sites and buildings | 431,783 | - | - | 431,783 |
| Fiscal and other fixed cost programs | 26,361 | - | - | 26,361 |
| Debt service: | | | | |
| Principal | - | - | 65,000 | 65,000 |
| Interest and fiscal charges | 14,853 | - | 25,148 | 40,001 |
| Total expenditures | 3,192,150 | 170,038 | 241,107 | 3,603,295 |
| Excess (deficiency) of revenues over (under) expenditures | (235,293) | 96,356 | (12,699) | (151,636) |
| Fund Balances - Beginning | (369,348) | 21,605 | 100,028 | (247,715) |
| Fund Balances - Ending | $ (604,641) | $ 117,961 | $ 65,724 | $ (420,956) |

The notes to the financial statements are an integral part of the financial statements

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2017

| | |
|---|---|
| Total Net Change in Fund Balances for Governmental Funds | $ (151,636) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the affect of capital outlays and depreciation expense in the current period. | (37,016) |
| In governmental funds, OPEB liabilities are measured by the amount of resources used. However, in the statement of activities, an increase in an OPEB liability is based on the amount earned during the period. The result is a net of these differences. | (12,047) |
| The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. | 65,000 |
| Long-term debt interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. | 1,123 |
| In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense. | (883,286) |
| Property taxes levied and due in previous fiscal years that have not been received as of the end of the current fiscal year are recorded as unearned revenue - delinquent taxes (not considered available revenues) in the governmental funds. In the statement of activities, these taxes are considered revenue in the period for which they are levied. Unearned property tax revenues increased this year. | 272 |
| Change in Net Position of Governmental Activities | $ (1,017,590) |

The notes to the financial statements are an integral part of the financial statements

Statement of Fiduciary Net Position - Agency Fund
June 30, 2017

| | Agency Fund |
|---|---|
| Assets | |
| Cash and investments | $ 80,360 |
| Liabilities | |
| Due to student activities | $ 80,360 |

The notes to the financial statements are an integral part of the financial statements

## Note 1 - Summary of Significant Accounting Policies

Independent School District No. 458 (District) is a school district governed by a board elected by eligible voters of the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant District accounting policies are described below.

### A. Financial Reporting Entity

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District does not have any blended or discretely presented component units.

The District is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the District's area. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. The District is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

### B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, intergovernmental revenues, and other items not properly included among program revenues are reported instead as general revenues.

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



### C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as 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. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers most revenues to be available if they are collected within 60 days of the end of the current fiscal period, except as stated below. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for the following: (1) commodity inventory items are recorded when received, (2) interest and principal on long-term debt are recorded when paid, and (3) claims and judgments, group health claims, and compensated absences are recorded as expenditures when paid with expendable available financial resources. Prepaid items are recorded for approved disbursements made in advance of the year in which the item is budgeted.

Property tax revenues for all funds, which are payable by property owners in a calendar year, are recognized in the fiscal year beginning July 1 of that calendar year. State revenues are recognized in the year to which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or Federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year. Revenue from other school districts is generally recognized when related expenditures occur. All other revenue items are considered to be measurable and available as stated above.

The District reports unavailable revenue on its governmental fund financial statements. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the unavailable revenue is removed from the financial statements and revenue is recognized. Unearned revenues arise when resources are received by the District before it has legal claim to them, as when property tax levies, food service revenue, or grant monies are received prior to the incurrence of qualifying expenditures. This type of unearned revenue is recorded on the District's government-wide and governmental fund financial statements.

The District reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is used to account for educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund. A portion of the District's Student Activity Funds of $38,826 are under board control and are reported and audited in the general fund as committed funds.

The *special revenue fund* is used to account for specific revenues that are legally restricted to expenditures for particular purposes.

> The special revenue *community service fund* is used to record all financial activities of the community service program. The community service funds is comprised of five components, each with its own fund balance (community service, community education, early childhood and family education, school readiness, and adult basic education) as authorized in Minnesota State Statutes. The significant revenues in this fund are local taxes, federal aid and state aid.

Additionally, the government reports the following fund type:

The *fiduciary fund* is used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

> The *agency fund* is used to account for assets where the District has a formal agency agreement with other governmental units, employees, students, or others. The District reports the extracurricular student activities, not under board control, in an agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

### D. Assets, Liabilities, Deferred Inflows/Outflows of Resources and Net Position or Fund Balance

#### 1. Cash and Investments

Cash balances of the District's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the District. Investments include amounts in the Minnesota School District Liquid Asset Fund Plus (MSDLAF), an external investment pool, which in accordance with GASB 79 are valued at amortized cost, which approximates fair value.





#### 2. Receivables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, state and federal aids, and revenue from other Minnesota school districts. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible.

Interest and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the School Board certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All school districts must hold public hearings on their proposed property tax levies. Also, at this time the School Board certifies its proposed property tax levy to the county auditor for collection in the following year.

Beginning on November 29th and through December 20th of each year, the District is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the School Board certifies its final adopted property taxes payable the following year to the county auditor. If the District has not certified its final property tax by this time, its property tax will be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on May 15 and November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to Districts three times a year, in January, June, and November.

Property tax revenue is recorded under the intact levy concept whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning with the year of collection. Current taxes receivable represent taxes levied in 2016 which are not payable until 2017 less amounts received before June 30, 2017. Delinquent taxes receivable represent levies collectible during 2016 and prior years. Delinquent taxes are recorded as unavailable revenue. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2016, but not payable until 2017 and are not expendable by the District until the 2017-2018 school year, adjusted for the property tax shift amount.

#### 3. Inventories, Commodities and Prepaid Items

All inventories are expended when consumed rather than when purchased and are valued at the lower of cost or market, using the average cost method. United States Department of Agriculture commodities received are recorded as revenue at the fair market value of such commodities and included in the food service fund revenue and expenditures when received. Unused commodities at year end are included in inventories of food.

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

### 4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

| Assets | Years |
|---|---|
| Buildings | 50 |
| Plumbing and Electrical | 30 |
| Building Improvements Interior, Portable Classrooms, and Fire System | 25 |
| Heating and Ventilation System, Long-term Admin Software, Furniture and Fixtures, Outdoor Equipment, Roofing, and Site Improvements | 20 |
| Custodial Equipment, Grounds Equipment, Kitchen Equipment, and Machinery and Tools | 15 |
| All Other Equipment, Short-term Admin Software, and Long-term Instructional Software | 10 |
| Vehicles and Buses | 8 |
| Carpet Replacement | 7 |
| Computer Hardware, Copiers, Short-term Instructional Software, and Library Books | 5 |

### 5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

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.

### 6. Other Postemployment Benefits

Under the provisions of various employee and union contracts the District provides health coverage until age 65 if certain criteria are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a "pay-as-you-go" basis. This amount was actuarially determined in accordance with GASB 45, on July 1, 2015.



Independent School District No. 458
Truman, Minnesota
Notes to Financial Statements
June 30, 2017

### 7. 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 the 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. TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second district aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. 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.

### 8. Deferred Outflows/Inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

### 9. Fund Balance and Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either 1) not in spendable form or 2) legally or contractually required to be maintained intact.
- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. The school board has the authority to assign fund balances.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District did not approve a specific amount to maintain as a minimum unassigned general fund balance. If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

### E. Inter-Fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.





All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Inter-fund transfers have been removed from the government-wide financial statements.

### F. Property Tax Shift

Each year the State of Minnesota requires school districts to shift property taxes and general education aid in accordance with State Statutes. During prior year the District shifted $145,370 in property tax revenues and general education aid; the state reduced the shifted amount by $4,463 during the current year. The District has recognized as an increase in property tax revenues and general education aid an amount equal to this shifted amount. The net amount shifted to date has reduced taxes levied for subsequent years by $140,907 in the general fund. Of this total shifted amount, $147,347 was for referendum levies shifted at 31% of the 2000 payable 2001 levy limitation and certification, $12,873 and ($19,313) for career tech and reemployment, respectively, shifted at 100% of the 2016 payable 2017 levy limitation and certification.

The referendum, career tech, and reemployment levy shift amounts are an early revenue recognition and have increased the current year fund balance in the general fund. The other property tax amounts have no effect on the District's fund balances. The referendum shift amount will remain constant from year to year until changed by State Statutes.

## Note 2 - Stewardship, Compliance, and Accountability

### A. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The actual revenues, expenditures, and transfers for the year ended June 30, 2017, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budgeted or expenditures are greater than budgeted. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the School Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end.

**B. Excess of Expenditures over Appropriations**

For the year ended June 30, 2017, expenditures exceeded appropriations in the general fund by $287,261. These over expenditures will be funded by revenues in subsequent fiscal years.

**C. Deficit Fund Balance**

The general fund had deficit fund balance for the year ended June 30, 2017. The deficit is anticipated to be eliminated by revenues in subsequent fiscal years.

## Note 3 - Detailed Notes on All Funds

**A. Cash and Investments**

**1. Cash**

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk–Deposits. 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. As of June 30, 2017, none of the District's bank balances were exposed to custodial credit risk.





**2. Investments**

As of June 30, 2017, the District had an investment in MSDLAF of $731,336. MSDLAF is a money market account and is available to service the District's financial needs immediately.

Custodial Credit Risk–Investments. The investment in the MSDLAF is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The District does not have an investment policy for custodial credit risk.

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

Credit Risk. The District may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds in the MSDLAF are invested in accordance with Minnesota Statutes Section 475.66. Each Minnesota School District owns a pro-rata share of each investment which is held in the name of the Funds. The District has no investment policy that would further limit its investment choices. As of June 30, 2017, the District's MSDLAF accounts were rated AAAm by S&P.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District's investments are invested in the MSDLAF (100.0%).

The Minnesota School District Liquid Asset Fund Plus is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. According to GASB 79, the fair value of the position in the pool is the same as the value of the pool's shares.

### B. Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|---|---|
| Administration | $ 1,857 |
| Regular instruction | 32,279 |
| Vocational education instruction | 366 |
| Community education and services | 1,514 |
| Instructional support services | 2,143 |
| Pupil support services | 1,533 |
| Sites and buildings | 91,523 |
| Total Depreciation Expense | $ 131,215 |

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 | $ 29 | $ - | $ - | $ 29 |
| Capital Assets, being depreciated: | | | | |
| Land improvements | 285,009 | - | - | 285,009 |
| Buildings | 3,496,399 | 14,077 | - | 3,510,476 |
| Equipment | 877,343 | 80,122 | 13,000 | 944,465 |
| Vehicles | 78,225 | - | - | 78,225 |
| Total Capital Assets, being depreciated | 4,736,976 | 94,199 | 13,000 | 4,818,175 |
| Less Accumulated Depreciation for: | | | | |
| Land improvements | 83,771 | 13,965 | - | 97,736 |
| Buildings | 2,133,846 | 85,666 | - | 2,219,512 |
| Equipment | 728,317 | 27,874 | 13,000 | 743,191 |
| Vehicles | 57,624 | 3,710 | - | 61,334 |
| Total Accumulated Depreciation | 3,003,558 | 131,215 | 13,000 | 3,121,773 |
| Total Capital Assets being depreciated, net | 1,733,418 | (37,016) | - | 1,696,402 |
| Governmental Activities Capital Assets, net | $ 1,733,447 | $ (37,016) | $ - | $ 1,696,431 |





### C. Aid Anticipation Certificates Payable

During the year ended June 30, 2017, the District issued General Obligation Aid Anticipation Certificates of Indebtedness of $1,027,791 for cash flow purposes. The Certificates of Indebtedness with principal and interest is due September 15, 2017, and accrues interest at 2.0 percent per annum. Interest cost of $16,670 has been accrued at June 30, 2017. The cost of issuance was expended during the year. The full faith and credit of the District is irrevocably pledged for the redemption of this certificate. During the year ended June 30, 2017, the following changes occurred in short-term debt reported in the government wide and fund financial statements:

| | Balance July 1, 2016 | Issued | Redeemed | Balance June 30, 2017 |
|---|---|---|---|---|
| Aid anticipation certificates payable | $ 1,125,595 | $ 1,027,791 | $ 1,125,595 | $ 1,027,791 |

### D. Long-Term Debt

General Obligation Bonds. The District issued general obligation bonds to provide funds for the improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. The original amount of general obligation bonds issued in prior years was $965,000. General obligation bonds currently outstanding are as follows:

| Bond Issue and Purpose | Interest Rates | Amount |
|---|---|---|
| G.O. School Building Bonds of 2009A of $965,000, due in annual installments of $65,000 to $90,000 through January 15, 2024. | 2.75% to 4.30% | $555,000 |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| | Governmental Activities | |
|---|---|---|
| June 30, | Principal | Interest |
| 2018 | $ 70,000 | $ 22,710 |
| 2019 | 75,000 | 20,085 |
| 2020 | 75,000 | 17,085 |
| 2021 | 80,000 | 14,085 |
| 2022 | 80,000 | 10,805 |
| 2023-2024 | 175,000 | 11,395 |
| Total | $ 555,000 | $ 96,165 |

Changes in Long-Term Debt. During the year ended June 30, 2017, the following changes occurred in liabilities reported in the government-wide financial statements:

| | Balance July 1, 2016 | Additions | Deletions | Balance June 30, 2017 | Due Within One Year |
|---|---|---|---|---|---|
| General Obligation Bonds Payable | $ 620,000 | $ - | $ 65,000 | $ 555,000 | $ 70,000 |

Legal Debt Margin. Minnesota State Statutes do not allow net debt (as defined in Minn. Stat. Para. 475.51 subd. 4) to exceed 15 percent of the actual market value of all taxable property within the District. The District's market value per the School Tax Report 2016 Payable 2017 was $99,038,810.

**E. Other Postemployment Benefits**

*Plan Description* – All employees are allowed, upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. The implicit rate subsidy is only until Medicare eligibility. The retiree health plan does not issue a publicly available financial report.

*Funding Policy* - For the fiscal year 2017, the District will continue on a "pay-as-you-go" funding policy.





*Annual OPEB Cost and Net OPEB Obligation* – The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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 (or funding excess) over a period of thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

| | 2017 |
|---|---|
| Annual Required Contribution (ARC) | $ 22,115 |
| Adjustment to ARC | (2,708) |
| Interest on Net OPEB Obligation | 1,811 |
| Annual OPEB Cost | 21,218 |
| Contributions Made | (9,171) |
| Change in Net OPEB Obligation | 12,047 |
| Net OPEB Obligation, Beginning of Year | 48,281 |
| Net OPEB Obligation, End of Year | $ 60,328 |

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

| Fiscal Year Ended | Annual OPEB Cost | Actual Employer Contribution | Annual OPEB Cost Contributed | Net Ending OPEB Obligation |
|---|---|---|---|---|
| 6/30/2015 | $ 15,139 | $ 2,966 | 19.6% | $ 33,209 |
| 6/30/2016 | 20,776 | 5,704 | 27.5% | 48,281 |
| 6/30/2017 | 21,218 | 9,171 | 43.2% | 60,328 |

*Funded Status and Funding Progress* – As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $145,890, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $145,890. The covered payroll (annual payroll of active employees covered by the plan) was $1,538,642 and the ratio of the UAAL to the covered payroll was 9.5 percent.

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 the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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.

*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 the 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, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.75 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.2 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after seven years. Both rates included an inflation assumption. The UAAL is being amortized as a level dollar amount over a 30 year open period.

### F. Fund Balances

Below is a reconciliation between the fund balances following GASB standards and UFARS reporting standards.

| | GASB Balance | Reconciling Transfers | UFARS Balance |
|---|---|---|---|
| Nonspendable: | | | |
| Inventories | $ 3,186 | $ - | $ 3,186 |
| Prepaid items | 213 | - | 213 |
| Total nonspendable | 3,399 | - | 3,399 |
| Restricted: | | | |
| Health and safety | 8,503 | - | 8,503 |
| Gifted and talented | 2,960 | - | 2,960 |
| Learning and development | 2,616 | - | 2,616 |
| Safe schools | 36,056 | - | 36,056 |
| Long term facilities maintenance | 17,890 | - | 17,890 |
| Medical assistance | 15,005 | - | 15,005 |
| Capital project levy | 44,201 | - | 44,201 |
| Teacher development | - | (302) | (302) |
| Food service | 44,474 | - | 44,474 |
| Community education | 1,935 | - | 1,935 |
| ECFE | 37,202 | - | 37,202 |
| School readiness | 83,543 | - | 83,543 |
| Adult basic education | 2,610 | - | 2,610 |
| Community service | - | (7,329) | (7,329) |
| Debt service | 18,064 | - | 18,064 |
| Total restricted | 315,059 | (7,631) | 307,428 |
| Committed: | | | |
| Student activity | 38,826 | - | 38,826 |
| Unassigned | (778,240) | 7,631 | (770,609) |
| Total Fund Balance | $ (420,956) | $ - | $ (420,956) |





## Note 4 - Defined Benefit Pension Plans

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans follow:

### 1. Public Employees Retirement Association (PERA)

#### A. Plan Description

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

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 Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

#### B. Benefits Provided

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

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

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

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

### C. Contributions

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1 percent and 6.50 percent, respectively, of their annual covered salary in calendar year 2016. The District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for Coordinated Plan members in calendar year 2016. The District's contributions to the General Employees Fund for the year ended December 31, 2016 were $37,218. The District's contributions were equal to the required contributions as set by state statute.

### D. Pension Costs

At June 30, 2017, the District reported a liability of $568,365 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $7,432. 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 0.0070%, which was an increase of 0.0006% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $86,551 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional $2,216 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to GERF.



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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 1,682 | $ 46,171 |
| Changes in actuarial assumptions | 122,582 | - |
| Difference between projected and actual investment earnings | 63,454 | - |
| Change in proportion and differences between contributions made and District's proportionate share of contributions | 25,670 | - |
| District's contributions to GERF subsequent to the measurement date | 37,219 | - |
| Total | $ 250,607 | $ 46,171 |

$37,219 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|---|---|
| 2018 | $ 48,503 |
| 2019 | 35,525 |
| 2020 | 62,659 |
| 2021 | 20,530 |
| 2022 | - |

### E. Actuarial Assumptions

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

| Assumptions | GERF |
|---|---|
| Inflation | 2.50% per year |
| Active Member Payroll Growth | 3.25% per year |
| Investment Rate of Return | 7.50% per year |

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. The experience study for Police and Fire Plan was for the period July 1, 2004 through June 30, 2009. Experience studies have not been prepared for the Correctional Plan, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2016:

General Employee fund

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





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

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

### F. Discount Rate

The discount rate used to measure the total pension liability 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.

### 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:

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|---|---|---|---|
| GERF discount rate | 6.50% | 7.50% | 8.50% |
| District's proportionate share of the GERF net pension liability | $ 807,247 | $ 568,365 | $ 371,592 |

### H. Pension Plan Fiduciary Net Position

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

### 2. Teachers Retirement Association (TRA)

#### A. Plan Descriptions

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

Teachers employed in Minnesota's public elementary and secondary school, 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 Minnesota State 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

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

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





*Tier I Benefits*

| Tier I - | Step Rate Formula | Percentage |
|---|---|---|
| Basic | First ten years of service | 2.2% per year |
| | All years after | 2.7% per year |
| Coordinated | First ten years if service years are up to July 1, 2006 | 1.2% per year |
| | First ten years if service years are July 1, 2006 or after | 1.4% per year |
| | All other years of service if service years are up to July 1, 2006 | 1.7% per year |
| | All other years of service if service years are July 1, 2006 or after | 1.9% per year |

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
(b) 3 percent 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 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

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

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

### C. Contribution Rate

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

| | Employees | Employers |
|---|---|---|
| Basic | 11.0% | 11.5% |
| Coordinated | 7.5% | 7.5% |

### D. Actuarial Assumptions

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

| Key Methods and Assumptions Used in Valuation of Total Pension Liability | |
|---|---|
| **Actuarial Information** | |
| Valuation date | July 1, 2016 |
| Experience study | June 5, 2015 |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions: | |
| Investment rate of return | 4.66%, from the Single Equivalent Interest Rate calculation |
| Price inflation | 2.75% |
| Wage growth rate | 3.50% |
| Projected salary increase | 3.5 - 9.5% |
| Cost of living adjustment | 2.00% |
| Mortality assumptions | |
| Pre-retirement: | RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale. |
| Post-retirement: | RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. |
| Post-disability: | RP-2014 disabled retiree mortality table, without adjustment. |

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.



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The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience,” “Changes of Assumptions,” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68.

### E. Discount Rate

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

### F. Net Pension Liability

At June 30, 2017, the District reported a liability of $5,223,673 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on The District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District’s proportionate share was 0.0219% at the end of the measurement period and 0.0215% for the beginning of the year.

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

| | |
|---|---|
| District's proportionate share of net pension liability | $ 5,223,673 |
| State's proportionate share of the net pension liability associated with the district | $ 524,360 |

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

For the year ended June 30, 2017, the District recognized pension expense of $778,177. It also recognized $73,218 as an increase to pension expense for the support provided by direct aid.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 51,168 | $ 146 |
| Changes in actuarial assumptions | 2,978,738 | - |
| Difference between projected and actual investment earnings | 225,979 | - |
| Change in proportion and differences between contributions made and District's proportionate share of contributions | 20,620 | 24,130 |
| District's contributions to TRA subsequent to the measurement date | 89,497 | - |
| Total | $ 3,366,002 | $ 24,276 |

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Deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|---|---|
| 2018 | $ 642,549 |
| 2019 | 642,549 |
| 2020 | 718,089 |
| 2021 | 665,623 |
| 2022 | 583,419 |

**G. Pension Liability Sensitivity**

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

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|---|---|---|---|
| TRA discount rate | 3.66% | 4.66% | 5.66% |
| District's proportionate share of the TRA net pension liability | $ 6,729,396 | $ 5,223,673 | $ 3,997,310 |

The Truman Public Schools ISD No. 458's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

**H. Pension Plan Fiduciary Net Position**

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

## Note 5 - 403(b) 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. Some employees are eligible to receive a match of employee contributions up to the qualifying amounts set forth in their Wage and Benefit Guidelines. Contributions are invested in tax deferred annuities hosted by a vendor from whom the District has obtained. The District's contributions for the years ended June 30, 2017, 2016, and 2015, were $31,080, $23,520 and $23,280, respectively. The related employee contributions were $34,700, $29,640, and $27,300 for the years ended June 30, 2017, 2016, and 2015, respectively.

## Note 6 - Other Information

### A. Contingent Liabilities

The District participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the District believes that any disallowed costs as a result of such audits will be immaterial.

### B. Joint Ventures

The District, in conjunction with other School Districts created the Southern Plains Education Cooperative (SPEC), a joint powers agreement for the administration, financing and operating of an education cooperative. The SPEC board is defined in the Joint Powers Agreement. A member may withdraw upon written notice given to the Board. In the event of dissolution, all funds and property remaining after payment of all outstanding debts and obligations shall be distributed to the remaining member districts in the proportion which the total enrollment of all students enrolled in a member district in grades K-12. Prior to dissolution, the remaining member districts may unanimously agree in writing upon a different method of distribution. Separate financial statements of the joint venture may be obtained from SPEC. During fiscal year 2017, the District made payments of $100,017 and has an accounts payable balance of $4,712 to SPEC. The joint venture is in good financial health and is not anticipated to be a burden on the District.

### C. Subsequent Events

The District issued Aid Anticipation Certificates of Indebtedness, Series 2017A, in September 2017 in the amount of $1,386,277 at two percent interest per annum to assist with cash flows.

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) Simplified Entry Age | Unfunded Actuarial Accrued Liability (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|---|---|---|---|---|---|---|
| 7/1/2009 | $ - | $ 168,289 | $ 168,289 | 0.0% | $ 1,332,444 | 12.6% |
| 7/1/2012 | $ - | $ 114,757 | $ 114,757 | 0.0% | $ 1,485,869 | 7.7% |
| 7/1/2015 | $ - | $ 145,890 | $ 145,890 | 0.0% | $ 1,538,642 | 9.5% |

**Note to the Schedule of Funding Progress**

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. The District implemented the standard as of July 1, 2009, and there has only been three valuations performed.

Since the last actuarial valuation as of July 1, 2012, the following plan provisions and actuarial assumptions have changed:

- Retiree premiums were updated to current levels.
- Medical trend rates were reset to reflect updated health cost increase expectations.
- The inflation assumption was changed from 3.00% to 2.75% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The discount rate was changed from 4.00% to 3.75%.

## Schedule of Employer's Share of Net Pension Liability
## Last 10 Fiscal Years *

| Pension Plan | Measurement Date | Employer's Proportion (Percentage) of the Net Pension Liability (Asset) | Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a) | State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b) (b) | Total (d) (a+b) | Employer's Covered Payroll (e) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered - Employee Payroll (d/e) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|---|---|
| PERA | 06/30/16 | 0.0070% | $ 568,365 | N/A | $ 568,365 | $ 442,891 | 128.3% | 68.9% |
| | 06/30/15 | 0.0064% | $ 331,681 | N/A | $ 331,681 | $ 398,909 | 83.1% | 78.2% |
| | 06/30/14 | 0.0069% | $ 324,127 | N/A | $ 324,127 | $ 375,439 | 86.3% | 78.8% |
| TRA | 06/30/16 | 0.0219% | $ 5,223,673 | $ 524,360 | $ 5,748,033 | $ 1,153,625 | 498.3% | 44.9% |
| | 06/30/15 | 0.0215% | $ 1,329,988 | $ 162,884 | $ 1,492,872 | $ 1,113,628 | 134.1% | 76.8% |
| | 06/30/14 | 0.0227% | $ 1,046,000 | $ 73,594 | $ 1,119,594 | $ 1,077,642 | 103.9% | 81.5% |

## Schedule of Employer's Contributions
## Last 10 Fiscal Years *

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered Payroll (d) ** | Contributions as a Percentage of Covered - Employee Payroll (b/d) |
|---|---|---|---|---|---|---|
| PERA | 06/30/17 | $ 37,219 | $ 37,219 | $ - | $ 496,323 | 7.5% |
| | 06/30/16 | $ 32,826 | $ 32,826 | $ - | $ 442,891 | 7.4% |
| | 06/30/15 | $ 28,705 | $ 28,705 | $ - | $ 398,909 | 7.2% |
| TRA | 06/30/17 | $ 89,497 | $ 89,497 | $ - | $ 1,208,427 | 7.4% |
| | 06/30/16 | $ 89,497 | $ 89,497 | $ - | $ 1,153,625 | 7.8% |
| | 06/30/15 | $ 82,804 | $ 82,804 | $ - | $ 1,113,628 | 7.4% |

*GASB Statement No. 68 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**District covered payroll was calculated by dividing total employer contributions reported to TRA by the required contribution rate (7.5%).

| | Budgeted Amounts | | Actual | Variance With Final Budget-Favorable |
|---|---|---|---|---|
| | Original | Final | Amounts | (Unfavorable) |
| **Revenues** | | | | |
| Local property tax levies | $ 705,039 | $ 724,735 | $ 546,679 | $ (178,056) |
| Other local and county sources | 114,051 | 132,577 | 139,950 | 7,373 |
| State sources | 1,963,233 | 1,988,233 | 2,152,592 | 164,359 |
| Federal sources | 105,467 | 105,467 | 117,636 | 12,169 |
| Total revenues | 2,887,790 | 2,951,012 | 2,956,857 | 5,845 |
| **Expenditures** | | | | |
| Administration | 250,369 | 245,294 | 257,891 | (12,597) |
| District support services | 101,351 | 102,351 | 190,482 | (88,131) |
| Regular instruction | 1,370,159 | 1,329,745 | 1,502,931 | (173,186) |
| Vocational instruction | 63,198 | 63,198 | 60,541 | 2,657 |
| Special education instruction | 361,209 | 332,469 | 320,162 | 12,307 |
| Instructional support services | 30,300 | 25,300 | 78,981 | (53,681) |
| Pupil support services | 321,100 | 293,800 | 308,165 | (14,365) |
| Sites and buildings | 486,332 | 475,532 | 431,783 | 43,749 |
| Fiscal and other fixed cost programs | 22,200 | 22,200 | 26,361 | (4,161) |
| Debt service: | | | | |
| Interest and fiscal charges | 16,000 | 15,000 | 14,853 | 147 |
| Total expenditures | 3,022,218 | 2,904,889 | 3,192,150 | (287,261) |
| Excess (deficiency) of revenues over (under) expenditures | (134,428) | 46,123 | (235,293) | (281,416) |
| Fund Balances - Beginning | (369,348) | (369,348) | (369,348) | - |
| Fund Balances - Ending | $ (503,776) | $ (323,225) | $ (604,641) | $ (281,416) |

See Notes to the Required Supplementary Information

| | Budgeted Amounts Original | Budgeted Amounts Final | Actual Amounts | Variance With Final Budget-Favorable (Unfavorable) |
|---|---|---|---|---|
| Revenues | | | | |
| Local property tax levies | $ 40,128 | $ 40,128 | $ 48,492 | $ 8,364 |
| Other local and county sources | 134,254 | 134,254 | 188,366 | 54,112 |
| State sources | 22,266 | 22,266 | 29,536 | 7,270 |
| Total revenues | 196,648 | 196,648 | 266,394 | 69,746 |
| Expenditures | | | | |
| Regular instruction | 315 | 315 | - | 315 |
| Community education and services | 184,456 | 184,456 | 170,038 | 14,418 |
| Total expenditures | 184,771 | 184,771 | 170,038 | 14,733 |
| Excess (deficiency) of revenues over (under) expenditures | 11,877 | 11,877 | 96,356 | 84,479 |
| Fund Balances - Beginning | 21,605 | 21,605 | 21,605 | - |
| Fund Balances - Ending | $ 33,482 | $ 33,482 | $ 117,961 | $ 84,479 |

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**Independent Auditor's Report on Minnesota Legal Compliance**

Members of the School Board
Independent School District No. 458
Truman, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Independent School District No. 458 (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2017.

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

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

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.

Eide Bailly LLP

Mankato, Minnesota
September 18, 2017





| Activity Account | Beginning Balance | Receipts | Disbursements | Ending Balance |
|---|---|---|---|---|
| Annual Fund | $ 9,484 | $ 1,191 | $ 2,355 | $ 8,320 |
| Class of 2017 | 3,046 | 3,812 | 6,858 | - |
| Class of 2018 | 4,142 | 6,298 | 6,987 | 3,453 |
| Class of 2019 | 2,219 | 2,981 | 2,321 | 2,879 |
| Class of 2020 | 1,550 | 419 | 135 | 1,834 |
| Class of 2021 | 1,514 | 1,120 | 226 | 2,408 |
| Class of 2022 | 402 | 204 | - | 606 |
| Class of 2023 | 402 | 57 | - | 459 |
| Class of 2024 | 462 | 5 | - | 467 |
| Class of 2025 | 466 | 5 | - | 471 |
| Class of 2026 | 402 | 5 | - | 407 |
| Class of 2027 | 291 | 55 | - | 346 |
| Class of 2028 | 154 | 5 | - | 159 |
| Elementary Student Council | 14,112 | 6,638 | 5,314 | 15,436 |
| FFA | 26,579 | 17,391 | 6,755 | 37,215 |
| High School Student Council | 2,698 | 5,159 | 6,102 | 1,755 |
| FLA | 2,933 | 6 | 114 | 2,825 |
| Elementary Student Association | 581 | 739 | - | 1,320 |
| Total | $ 71,437 | $ 46,090 | $ 37,167 | $ 80,360 |

Independent School District No. 458
Truman, Minnesota
Uniform Financial Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2017

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| **01 GENERAL FUND** | | | |
| Total Revenue | $2,956,857 | $2,956,857 | $0 |
| Total Expenditures | $3,192,150 | $3,192,149 | $1 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $213 | $213 | $0 |
| *Restricted / Reserved:* | | | |
| 4.03 Staff Development | $0 | $0 | $0 |
| 4.06 Health and Safety | $8,503 | $8,503 | $0 |
| 4.07 Capital Projects Levy | $44,201 | $44,201 | $0 |
| 4.08 Cooperative Revenue | $0 | $0 | $0 |
| 4.13 Project Funded by COP | $0 | $0 | $0 |
| 4.14 Operating Debt | $0 | $0 | $0 |
| 4.16 Levy Reduction | $0 | $0 | $0 |
| 4.17 Taconite Building Maint | $0 | $0 | $0 |
| 4.24 Operating Capital | $0 | $0 | $0 |
| 4.26 $25 Taconite | $0 | $0 | $0 |
| 4.27 Disabled Accessibility | $0 | $0 | $0 |
| 4.28 Learning & Development | $2,616 | $2,616 | $0 |
| 4.34 Area Learning Center | $0 | $0 | $0 |
| 4.35 Contracted Alt. Programs | $0 | $0 | $0 |
| 4.36 State Approved Alt. Program | $0 | $0 | $0 |
| 4.38 Gifted & Talented | $2,960 | $2,960 | $0 |
| 4.40 Teacher Development and Evaluation | ($302) | ($302) | $0 |
| 4.41 Basic Skills Programs | $0 | $0 | $0 |
| 4.45 Career Tech Programs | $0 | $0 | $0 |
| 4.48 Achievement and Integration | $0 | $0 | $0 |
| 4.49 Safe School Crime - Crime Levy | $36,056 | $36,056 | $0 |
| 4.50 Pre-Kindergarten | $0 | $0 | $0 |
| 4.51 QZAB Payments | $0 | $0 | $0 |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| 4.53 Unfunded Sev & Retiremt Levy | $0 | $0 | $0 |
| 4.67 LTFM | $17,890 | $17,890 | $0 |
| 4.72 Medical Assistance | $15,005 | $15,005 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Committed:* | | | |
| 4.18 Committed for Separation | $0 | $0 | $0 |
| 4.61 Committed Fund Balance | $38,826 | $38,826 | $0 |
| *Assigned:* | | | |
| 4.62 Assigned Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.22 Unassigned Fund Balance | ($770,609) | ($770,607) | ($2) |
| **02 FOOD SERVICES** | | | |
| Total Revenue | $145,134 | $145,133 | $1 |
| Total Expenditures | $150,959 | $150,959 | $0 |
| *Non Spendable* | | | |
| 4.60 Non Spendable Fund Balance | $3,186 | $3,186 | $0 |
| *Restricted / Reserved:* | | | |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $44,474 | $44,474 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balancee | $0 | $0 | $0 |
| **04 COMMUNITY SERVICE** | | | |
| Total Revenue | $266,394 | $266,392 | $2 |
| Total Expenditures | $170,038 | $170,038 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.26 $25 Taconite | $0 | $0 | $0 |
| 4.31 Community Education | $1,935 | $1,935 | $0 |
| 4.32 E.C.F.E | $37,202 | $37,202 | $0 |
| 4.40 Teacher Development and Evaluation | $0 | $0 | $0 |
| 4.44 School Readiness | $83,543 | $83,543 | $0 |
| 4.47 Adult Basic Education | $2,610 | $2,610 | $0 |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | ($7,329) | ($7,329) | $0 |

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| **06 BUILDING CONSTRUCTION** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.07 Capital Projects Levy | $0 | $0 | $0 |
| 4.13 Project Funded by COP | $0 | $0 | $0 |
| 4.67 LTFM | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |
| **07 DEBT SERVICE** | | | |
| Total Revenue | $83,274 | $83,273 | $1 |
| Total Expenditures | $90,148 | $90,148 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.25 Bond Refundings | $0 | $0 | $0 |
| 4.51 QZAB Payments | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $18,064 | $18,064 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |
| **08 TRUST** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |
| **20 INTERNAL SERVICE** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |
| **25 OPEB REVOCABLE TRUST** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |
| **45 OPEB IRREVOCABLE TRUST** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |
| **47 OPEB DEBT SERVICE** | | | |
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.25 Bond Refundings | $0 | $0 | $0 |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |



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**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Members of the School Board
Independent School District No. 458
Truman, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Truman Public Schools ISD No. 458 (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 18, 2017.

**Internal Control over Financial Reporting**

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 summary of audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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

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.

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

**Entity's Response to Findings**
The District's response to the findings identified in our audit are described in the accompanying summary of audit findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Eide Bailly LLP

Mankato, Minnesota
September 18, 2017





A. **Findings – Financial Statement Audit**

**Material Weakness – previously reported items not resolved**

2017-A: Segregation of Duties

*Condition*: The District has a lack of segregation of duties in certain areas due to limited staff. The District has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.
*Criteria*: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.
*Cause*: The District does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.
*Effect*: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. School Board oversight will mitigate some of the effect.
*Recommendation*: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.
*Views of Responsible Officials:* Management agrees with this finding.

2017-B: Preparation of Financial Statements

*Condition*: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and required supplementary budgetary comparison information.
*Criteria*: A good system of internal control contemplates an adequate system for drafting of the financial statements.
*Cause*: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.
*Effect*: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.
*Recommendation*: This control deficiency is not unusual in a District of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.
*Views of Responsible Officials:* Management agrees with this finding.





2017-C: Significant Journal Entries

*Condition*: During the course of our engagement, we proposed material audit adjustments to the trial balance that would not have been identified as a result of the District's existing internal controls.
*Criteria*: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.
*Cause*: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year-end adjustments to the trial balance.
*Effect*: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.
*Recommendation*: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.
*Views of Responsible Officials:* Management agrees with this finding.

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**Independent Auditor's Report on Compliance over Financial Reporting of the Student Activity Accounts**

The School Board of
Truman Public Schools – Independent School District No. 458
Truman, Minnesota

We have audited the financial statements of the governmental activities, the major fund, and aggregate remaining fund information of Independent School District No. 458 (District), for the year ended June 30, 2017, and have issued our report thereon dated September 18, 2017. 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, and the provisions of the Manual for Activity Fund Accounting (MAFA).

**Compliance**

As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity 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 instance of noncompliance or other matters that is required to be reported under the Manual for Activity Fund Accounting.

This report is intended solely for the information and use of management, the School Board, and the Minnesota Department of Education and other state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Mankato, Minnesota
September 18, 2017

APPENDIX B

# FORM OF LEGAL OPINION

(See following page)

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www.kfdmn.com

**$510,000***
**GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS,**
**SERIES 2017A**
**INDEPENDENT SCHOOL DISTRICT NO. 458**
**(TRUMAN PUBLIC SCHOOLS)**
**MARTIN, WATONWAN AND BLUE EARTH COUNTIES, MINNESOTA**

We have acted as Bond Counsel in connection with the issuance by Independent School District No. 458 (Truman Public Schools), Martin, Watonwan and Blue Earth Counties, Minnesota (the "District"), of its General Obligation School Building Refunding Bonds, Series 2017A (the "Bonds"), in the aggregate principal amount of $510,000*, bearing a date of original issue of December 14, 2017. The Bonds are fully registered as to principal and interest and are originally issued using a global book-entry system.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

We have examined the law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other affidavits and certificates of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based upon our examination of these materials, assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and based upon present Minnesota and federal laws, regulations, rulings and decisions, it is our opinion that:

(1) The Bonds are in due form and the proceedings show lawful authority for their issuance according to their terms under the Constitution and laws of the State of Minnesota now in force.

(2) The Bonds are valid and binding general obligations of the District enforceable in accordance with their terms except to the extent to which enforceability thereof may be limited by the exercise of judicial discretion in accordance with general principles of equity, by the constitutional powers of the United States of America and by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted. All of the taxable property in the District is subject to the levy of ad valorem taxes to pay the principal and interest on the Bonds, which taxes are without limitation as to rate or amount.

(3) Interest on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes. Interest on the Bonds is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax measured by income. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals and other taxpayers under Section 55 of the Internal Revenue Code of 1986, as amended, (the "Code") or for purposes of the Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal and Minnesota alternative minimum taxes applicable to corporations.

(4) The opinion set forth in paragraph (3) above is subject to the condition that the District comply with all the requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and state income tax purposes. The District has covenanted in the resolution authorizing the issuance of the Bonds to comply with these continuing requirements. Noncompliance with these covenants by the District following the issuance of the Bonds may result in inclusion of interest on the Bonds in federal gross income and Minnesota taxable net income for federal and Minnesota income tax purposes retroactive to the date of issuance of the Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

(5) The Bonds have been designated as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code relating to the deduction of interest expenses allocable to the Bonds by financial institutions.

DATED at Mendota Heights, Minnesota, this 14th day of December, 2017.

KNUTSON, FLYNN & DEANS
Professional Association

## APPENDIX C

# BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

## APPENDIX D

# FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

**CONTINUING DISCLOSURE CERTIFICATE**
(Limited Disclosure)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 458 (Truman Public Schools), State of Minnesota (the "District"), in connection with the issuance of its General Obligation School Building Refunding Bonds, Series 2017A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the School Board on November 20, 2017 (the "Resolution"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (the "State Payment Law" described in the Official Statement for the Bonds) which provides for payment by the State of Minnesota in the event of a potential default of a District obligation. The District covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the District for the benefit of the Bondholders or beneficial owners, if different, and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12. This Disclosure Certificate constitutes the written Undertaking required by the Rule and reflects the District's obligations under the provisions of paragraph (d)(2) of the Rule.

**SECTION 2. Definitions.** In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Audited Financial Statements" shall mean the financial statements of the District audited annually by an independent certified public accounting firm and prepared in accordance with generally accepted accounting principles or as otherwise required by Minnesota law for the preceding Fiscal Year, including a balance sheet and statement of revenues, expenditures and changes in fund balances.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent which has been designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system: www.emma.msrb.org, established by the MSRB and which contains a component that includes a continuing disclosure service for the receipt and public availability of continuing disclosure documents and related information to be submitted by issuers, obligated persons, and their agents pursuant to continuing disclosure undertakings entered into consistent with the Rule.

"Fiscal Year" shall mean the fiscal year of the District.

"Listed Events" shall mean any of the events listed in Section 4(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the Securities and Exchange Commission.

**SECTION 3. Provision of Information.**

The District shall annually provide to the MSRB, in an electronic format through the use of EMMA, or shall cause the Dissemination Agent to provide, its Audited Financial Statements for the most recent Fiscal Year, which is the only financial information or operating data which is customarily prepared by the District and publicly available. The Annual Financial Statements shall be submitted not later than June 30, 2018, and twelve (12) months after the end of each fiscal year during which the bonds are outstanding. If audited financial statements are not available by the date specified above, the District shall submit unaudited financial statements by that date to the MSRB and will submit the audited financial statements as soon as they are available.

All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must also be available from the Municipal Securities Rulemaking Board (MSRB). The District shall clearly identify each such other document so incorporated by reference.

**SECTION 4. Reporting of Significant Events.**

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following events, with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-

TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the obligated person;

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever a Listed Event occurs, the District shall in a timely manner not in excess of ten business days after the occurrence of the Listed Event file a notice of such occurrence with the MSRB.

**SECTION 5. Termination of Reporting Obligation.** The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds.

**SECTION 6. Dissemination Agent.** The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

**SECTION 7. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

If this Disclosure Certificate is amended, the District will disclose such amendment, together with a narrative explanation of that amendment, to the MSRB with its annual financial information disclosure.

**SECTION 8. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate . If the District chooses to include any information in any report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future report or notice of occurrence of a Listed Event.

**SECTION 9. Default.** In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution or with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

**SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

**SECTION 11. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders from time to time of the Bonds or the beneficial owners, if different, and shall create no rights in any other person or entity.

**SECTION 12. Reserved Rights.** The District reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or to modify the Undertaking under this Disclosure Certificate if the District determines that such modification is required by the Rule, or by a court of competent jurisdiction.

**SECTION 13. District Contact Information.**

| | |
|---|---|
| Title: | Superintendent |
| Name of District: | Independent School District No. 458 |
| Address: | 401 East First Street South – P.O. Box 276<br>Truman, MN 56088 |
| Telephone No. | (507) 776-2111 Ext. 3917 |

This 14th day of December, 2017.

INDEPENDENT SCHOOL DISTRICT NO. 458
(TRUMAN PUBLIC SCHOOLS)
MARTIN, WATONWAN AND
BLUE EARTH COUNTIES
STATE OF MINNESOTA

By: ____________________________________
Chair

And: ____________________________________
Clerk

[Signature Page for Continuing Disclosure Certificate]

# APPENDIX E

# TERMS OF PROPOSAL

## $510,000* GENERAL OBLIGATION SCHOOL BUILDING REFUNDING BONDS, SERIES 2017A INDEPENDENT SCHOOL DISTRICT NO. 458 (TRUMAN SCHOOL DISTRICT), MINNESOTA

Proposals for the purchase of $510,000* General Obligation School Building Refunding Bonds, Series 2017A (the "Bonds") of Independent School District No. 458 (Truman School District), Minnesota (the "District") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the District, until 10:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:30 A.M. Central Time, on November 20, 2017, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Education for consideration for award by resolution at a meeting to be held at 6:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

### PURPOSE

The Bonds are authorized pursuant to Minnesota Statutes, Chapter 475, and Section 475.67, by the District, for the purpose of effecting a current refunding of certain outstanding general obligations of the District as more fully described herein. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

### DATES AND MATURITIES

The Bonds will be dated December 14, 2017, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on January 15 as follows:

| Year | Amount* | Year | Amount* | Year | Amount* |
|---|---|---|---|---|---|
| 2019 | $80,000 | 2021 | $85,000 | 2023 | $85,000 |
| 2020 | 85,000 | 2022 | 85,000 | 2024 | 90,000 |

### ADJUSTMENT OPTION

* The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

### TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

## INTEREST PAYMENT DATES AND RATES

Interest will be payable on January 15 and July 15 of each year, commencing July 15, 2018, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 1st day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

## BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

## PAYING AGENT

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

## OPTIONAL REDEMPTION

The Bonds are being offered without option of prior redemption.

## DELIVERY

On or about December 14, 2017, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

## LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

## SUBMISSION OF PROPOSALS

Proposals must not be for less than $503,880 plus accrued interest on the principal sum of $510,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

1) Electronically to bondsale@ehlers-inc.com; or

2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or

3) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the District nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of $10,200 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The District and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to $250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the District scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

## AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The District's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The District reserves the right to reject any and all proposals and to waive any informality in any proposal.

## BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the District requested and received a rating on the Bonds from a rating agency, the District will pay that rating fee. Any rating agency fees not requested by the District are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

## CUSIP NUMBERS

The District will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

## QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

## CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the District will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

## NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the District under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the District by the District's municipal advisor identified herein and any notice or report to be provided to the District may be provided to the District's municipal advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

(1) The District shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the District may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the District shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the Underwriter. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the District agrees to use the rule selected by the Underwriter on its proposal form to determine the issue price for the Bonds. On its proposal form, each Underwriter must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisifed and the Underwriter selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth ($5^{th}$) business day after the sale date; or
(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the District when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth ($5^{th}$) business day after the sale date.

The District acknowledges that in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(e) If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the 10% test, the Underwriter agrees to promptly report to the District, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until the 10% test has been satisfied as to each maturity of the Bonds or until all of the Bonds of a certain maturity have been sold.

(f) By submitting a proposal, each bidder confirms that (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwrier that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if an for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(g) Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

(i) "public" means any person other than an underwriter or a related party,

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "sale date" means the date that the Bonds are awarded by the District to the winning bidder.

## PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of $10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the Board of Education

Independent School District No. 458 (Truman School District), Minnesota

# PROPOSAL FORM

**The Board of Education** **November 20, 2017**
**Independent School District No. 458 (Truman School District), Minnesota**

**RE: $510,000* General Obligation School Building Refunding Bonds, Series 2017A**
**DATED: December 14, 2017**

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you $__________________ (not less than $503,880) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| ________ | % due | 2019 | ________ | % due | 2021 | ________ | % due | 2023 |
| ________ | % due | 2020 | ________ | % due | 2022 | ________ | % due | 2024 |

* The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of $10,200, to be held by you pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138.** Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about December 14, 2017.

This proposal is subject to the District's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.

We have received and reviewed the Official Statement and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the District with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are not met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: ______________________________ By: ______________________________

Account Members:

**Award will be on a true interest cost basis.** According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from December 14, 2017 of the above proposal is $_______________and the true interest cost (TIC) is __________%.

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The foregoing offer is hereby accepted by and on behalf of the Board of Education of Independent School District No. 458 (Truman School District), Minnesota, on November 20, 2017.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________