INDEPENDENT SCHOOL DISTRICT #347
WILLMAR PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JUNE 30, 2018

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

INDEPENDENT SCHOOL DISTRICT #347

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BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2018

Board of Education		Term Expires
Chairperson	Mike Reynolds	1/4/2021
Vice-Chairperson	Justin Bos	1/4/2021
Clerk	Scott Thaden	1/4/2021
Treasurer	Laura Warne	1/7/2019
Director	Tammy Barnes	1/4/2021
Director	Linda Mathiasen	1/7/2019
Director	Mary Amon	1/7/2019

Administration	
Superintendent	Dr. Jeff Holm
Director of Business and Finance	Pam Harrington
Director of Human Resources	Liz Fischer
Director of Teaching and Learning	Carrie Thomas

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District #347
Willmar, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347, Willmar, Minnesota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347, Willmar, Minnesota, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Food Service and Community Service Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 9 to the financial statements, for the year ended June 30, 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* Our opinion is not modified with respect to this matter.

Report on Partial Comparative Information

We have previously audited the District's 2017 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated November 13, 2017. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, except as noted in Note 17, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the District's Total OPEB Liability, the Schedule of Proportionate Share of the Net Pension Liability for Pension Plans Administered through a Trust, the Schedule of Employer Contributions for Pension Plans Administered through a Trust and the Schedule of Changes in the District's Total Pension Liability for Pension Plans not Administered through a Trust as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Board of Education and Administration page and the statements and schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is also not a required part of the basic financial statements.

Supplementary and Other Information (Cont'd)

The individual fund financial schedule, UFARS Compliance Table, and the Schedule of Expenditures of Federal Awards (supplementary information) 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 supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Board of Education and Administration page 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 the information presented.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 13, 2018, 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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

November 13, 2018

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REQUIRED SUPPLEMENTARY INFORMATION

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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

This section of Willmar Public Schools – Independent School District No. 347's (District) annual financial report presents management's discussion of the District's financial performance during the fiscal year (FY) ending June 30, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model 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. Specifically, Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

FINANCIAL REVIEW

Key financial items for the 2017-2018 fiscal year include the following:

- The General Fund unassigned fund balance exceeded the School Board's fund balance minimum of 6% of expenditures with a fund balance of $12,316,090, equivalent to 23.39% of expenditures. The fund balance was slightly lower than the revised budget estimate of $12,349,029 or 23.07% of budgeted expenditures.

- Net Position decreased 191.98% from the prior year mainly due to a decrease to net pension liabilities and deferred outflows of resources related to pension and an increase of deferred inflows of resources related to pensions.

- The combined Governmental Funds fund balance decreased by 31.97%, or $13,617,655 mainly due to the ongoing project and completion of construction and deferred maintenance projects.

- The overall net decrease to the District's long-term liabilities was $2,092,693, or 3.86% mainly due to the reduction in bonds payable as bond principal payments occur each year.

- Enrollment increased by 37 ADM's (Average Daily Membership) in FY 2018. The District expects enrollment to increase and decrease slightly each year as enrollment remains fairly level. The average increase over the past 5 years was 10 students.

- The District's comprehensive annual financial report for the year ended June 30, 2017 was awarded the Certificate of Excellence in Financial Reporting from the Association of School Business Officials International (ASBO).

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts. They are:

- Independent Auditor's Report,
- Required Supplementary Information, which includes the Management's Discussion and Analysis (this section), and
- Basic Financial Statements

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

- The ***government-wide financial statements***, including the Statement of Net Position and the Statement of Activities, provide both ***short-term*** and ***long-term*** information about the District's ***overall*** financial status.
- The remaining statements are ***fund financial statements*** that focus on ***individual parts*** of the District, reporting the District's operations in ***more detail*** than the government-wide statements. The District maintains three groups of fund financial statements. They are:
  - 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.
  - ***Proprietary funds statements*** offer ***short*** and ***long-term*** financial information about the activities the District operates like ***businesses***.
  - ***Fiduciary funds statements*** provide information about the financial relationships in which the District acts solely as a ***trustee or agent*** for the benefit of others to whom the resources belong.

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

Government-wide Statements

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

The two government-wide statements report the District's ***net position*** and how it has 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 are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs 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 government-wide financial statements the District's activities are shown in one category titled Governmental Activities:

- ***Governmental Activities*** – The District's basic services are reported here, including regular and special education, transportation, administration, food service, and community education. Property taxes and state aids finance most of these activities.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements

The fund financial statements provide more detailed information about the District's ***funds*** – focusing on its most significant or "major" funds – rather than 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, such as a scholarship fund to manage scholarship money.

The District has three kinds of funds:

- ***Governmental funds*** – The District's basic services are included in governmental funds, which generally focus on: 1) how ***cash and other financial assets*** that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed ***short-term*** view that helps 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 government-wide statements, additional information (reconciliation schedules) is provided following the governmental funds statements that explains the relationship (or differences) between these two types of financial statement presentations.
- ***Proprietary funds*** – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's sole proprietary fund is an internal service fund.
    - The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund for the dental self-insurance program.
- ***Fiduciary funds*** – The District is a trustee, or fiduciary, for assets that belong to others, such as the Private-Purpose Trust Fund and Agency Fund. The Private-Purpose Trust fund accounts for scholarship gifts and bequests. The Agency Fund accounts for funds used by a collaboration of districts for Achievement and Integration. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position. These activities are excluded from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The District's ***combined*** net position was $(18,045,424) on June 30, 2018. This was a decrease of 191.98% from the previous year (see Table A-1 below).

Table A-1
The District's Net Position

	Governmental Activities		Percentage
	2018	2017	Change
Current and Other Assets	$ 45,472,197	$ 58,231,059	-21.91%
Capital Assets	65,994,036	53,121,377	24.23%
Total Assets	111,466,233	111,352,436	0.10%
Total Deferred Outflows of Resources	$ 49,212,638	$ 65,890,033	-25.31%
Current and Short-Term Liabilities	$ 9,171,247	$ 7,707,894	18.99%
Long-Term Liabilities	145,941,859	164,907,750	-11.50%
Total Liabilities	155,113,106	172,615,644	-10.14%
Total Deferred Inflows of Resources	$ 23,611,189	$ 10,807,203	118.48%
Net Position			
Net Investment in Capital Assets	$ 28,651,600	$ 28,751,118	-0.35%
Restricted	2,973,591	2,169,766	37.05%
Unrestricted	(49,670,615)	(37,101,262)	-33.88%
Total Net Position	$ (18,045,424)	$ (6,180,378)	-191.98%

The largest portion of the District's net position, $28,651,600, reflects its investment in capital assets (e.g., land, buildings and improvements, furniture, and equipment net of accumulated depreciation); less any related outstanding debt (such as general obligation bonds) used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Unrestricted net position is primarily the District's unassigned fund balance offset by the liability for future severance and health benefits which is not fully funded. The reason for this significant change is mainly due to a significant decrease in the District's Deferred Outflows of Resources related to pensions which is larger than the net increase/decrease in the District's Net Pension Liability and Deferred Inflows of Resources related to pensions. Furthermore, the District implemented GASB 75. The effects of this Statement significantly increase the District's Total OPEB Liability. Refer to Note 9 of the financial statements for additional information.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

A summary of the revenues and expenses for the last two fiscal years is presented in Table A-2 below.

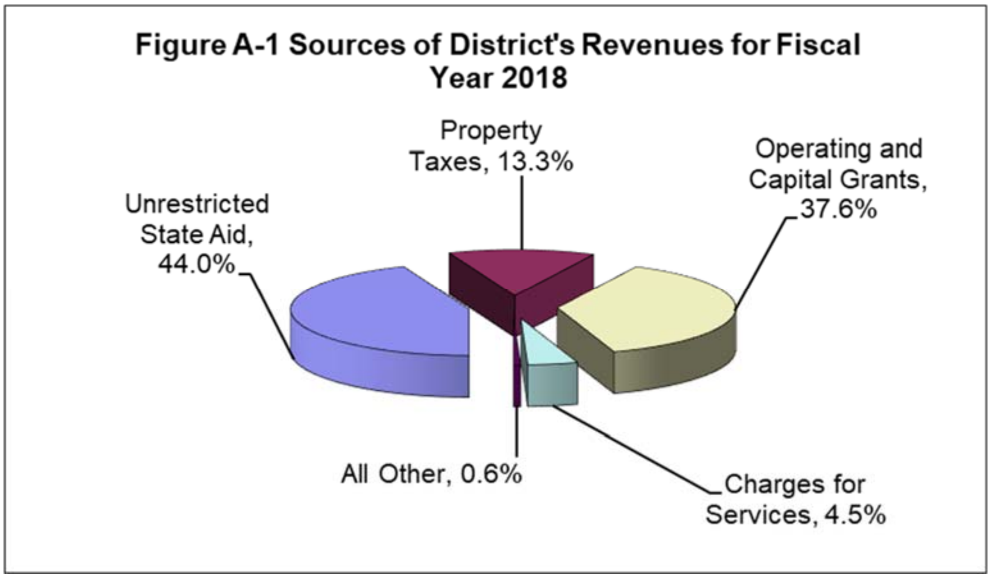
Table A-2
Change in Net Position

	Governmental Activities for the fiscal year ended June 30,		Percentage
	2018	2017	Change
Revenues			
Program Revenues			
Charges for Services	$ 2,976,853	$ 3,058,749	-2.68%
Operating Grants and Contributions	23,404,274	23,538,909	-0.57%
Capital Grants and Contributions	1,365,285	1,052,483	29.72%
General Revenues			
Property Taxes	8,757,830	7,826,307	11.90%
Unrestricted State Aid	29,005,027	29,498,624	-1.67%
Investment Earnings	399,397	447,503	-10.75%
Gain on Sale of Assets	48,507		100.00%
Other		25,775	-100.00%
Total Revenues	65,957,173	65,448,350	0.78%
Expenses			
Administration	2,932,535	2,560,073	14.55%
District Support Services	1,817,512	1,800,770	0.93%
Regular Instruction	32,188,765	33,508,290	-3.94%
Vocational Education Instruction	1,075,640	1,085,165	-0.88%
Special Education Instruction	11,285,339	11,978,430	-5.79%
Instructional Support Services	4,170,077	3,497,150	19.24%
Pupil Support Services	4,834,529	4,569,983	5.79%
Sites and Buildings	9,022,956	5,395,060	67.24%
Fiscal and Other Fixed Costs Programs	179,586	157,159	14.27%
Food Service	3,409,138	3,067,268	11.15%
Community Service	3,676,034	3,629,063	1.29%
Interest and Fiscal Charges on Long-Term Liabilities	1,512,414	1,543,310	-2.00%
Total Expenses	76,104,525	72,791,721	4.55%
Change in Net Position	(10,147,352)	(7,343,371)	-38.18%
Beginning Net Position, as Originally Stated	(6,180,378)	1,162,993	
Prior Period Adjustment	(1,717,694)		
Beginning Net Position, as Restated	(7,898,072)	1,162,993	-779.12%
Ending Net Position	$ (18,045,424)	$ (6,180,378)	-191.98%

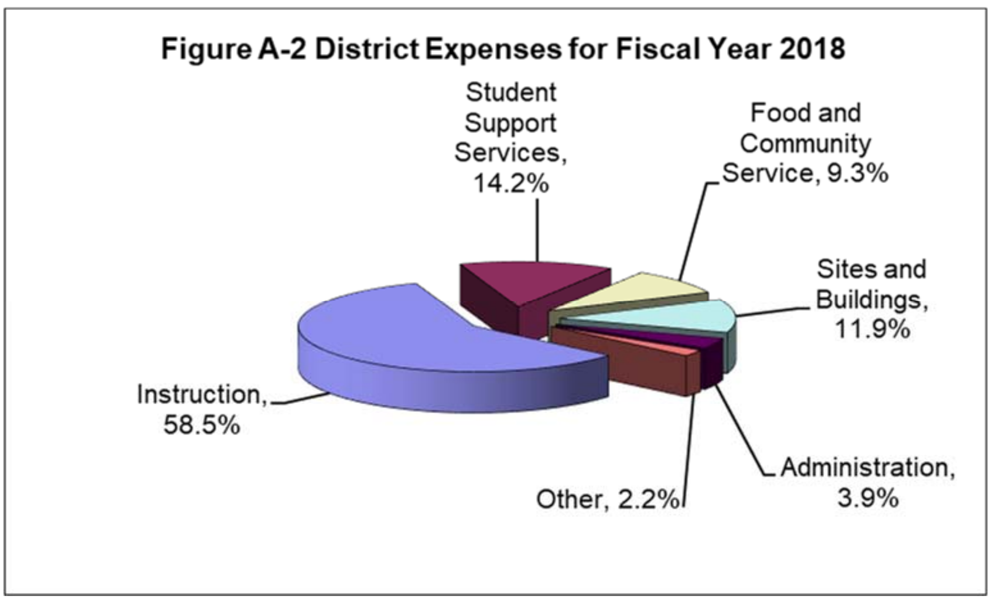
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position. The District's total revenues were $65,957,173 for the year ended June 30, 2018. This is a 0.78% increase from the prior year's revenues.

Unrestricted state aid along with local property taxes accounted for 57.3% of the total revenue for the year (see Figure A-1 below). Another 42.1% came from restricted state, federal and local program revenues with a negligible amount from earnings on investments and other.



The District's total expenditures for programs and services were $76,104,525 for the year ended June 30, 2018. This is a 4.55% increase from the prior year's expenses. The District's expenses are predominantly related to student education (72.7%). (See Figure A-2). The purely administrative activities of the District accounted for just 3.9% of total costs. Total expenses surpassed revenues, decreasing net position $10,147,352 from last year.



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The net cost of all ***governmental*** activities is their total costs less program revenues applicable to each category. The total cost of all governmental activities for this year was $76,104,525. Table A-3 presents the costs of twelve major District activities such as instruction, food service and others. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

- The users of the District's programs paid for 3.91%, or $2,976,853 of the costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled $24,769,559, or 32.55% of the total costs for 2017-2018.
- The remainder of the District's costs ($48,358,113), however, were paid for by: 1) state taxpayers based on the statewide education aid formula, 2) by District taxpayers, and 3) by investment earnings.

Table A-3
Change in Net Position

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2018	2017	Change	2018	2017	Change
Administration	$ 2,932,535	$ 2,560,073	14.55%	$ 2,932,535	$ 2,560,073	14.55%
District Support Services	1,817,512	1,800,770	0.93%	1,694,228	1,632,403	3.79%
Regular Instruction	32,188,765	33,508,290	-3.94%	20,237,275	22,017,286	-8.08%
Vocational Education Instruction	1,075,640	1,085,165	-0.88%	1,001,984	1,012,811	-1.07%
Special Education Instruction	11,285,339	11,978,430	-5.79%	4,296,751	4,559,806	-5.77%
Instructional Support Services	4,170,077	3,497,150	19.24%	2,958,262	2,365,926	25.04%
Pupil Support Services	4,834,529	4,569,983	5.79%	4,722,572	4,475,957	5.51%
Sites and Buildings	9,022,956	5,395,060	67.24%	7,624,135	4,286,044	77.88%
Fiscal and Other Fixed Costs Programs	179,586	157,159	14.27%	179,586	157,159	14.27%
Food Service	3,409,138	3,067,268	11.15%	136,270	(235,350)	-157.90%
Community Service	3,676,034	3,629,063	1.29%	1,062,101	766,155	38.63%
Interest and Fiscal Charges on Long-Term Liabilities	1,512,414	1,543,310	-2.00%	1,512,414	1,543,310	-2.00%
Total	$ 76,104,525	$ 72,791,721	4.55%	$ 48,358,113	$ 45,141,580	7.13%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2017-2018 fiscal year, the District's governmental funds reported a ***combined*** fund balance of $28,972,338, a 31.97% decrease from last year's ending fund balance of $42,589,993 due to payment out of the building construction fund for the progress and completion of construction projects.

Revenues for the District's governmental funds totaled $65,900,896 while total expenditures were $79,567,058. As a result, the District completed the year with an excess of expenditures over revenues and other financing sources of $13,617,655. Discussion about each governmental fund follows. A summary of the revenues and expenditures reported on the governmental fund financial statements for the past two years appears in Table A-4 below:

Table A-4
Revenues and Expenditures - Governmental Funds

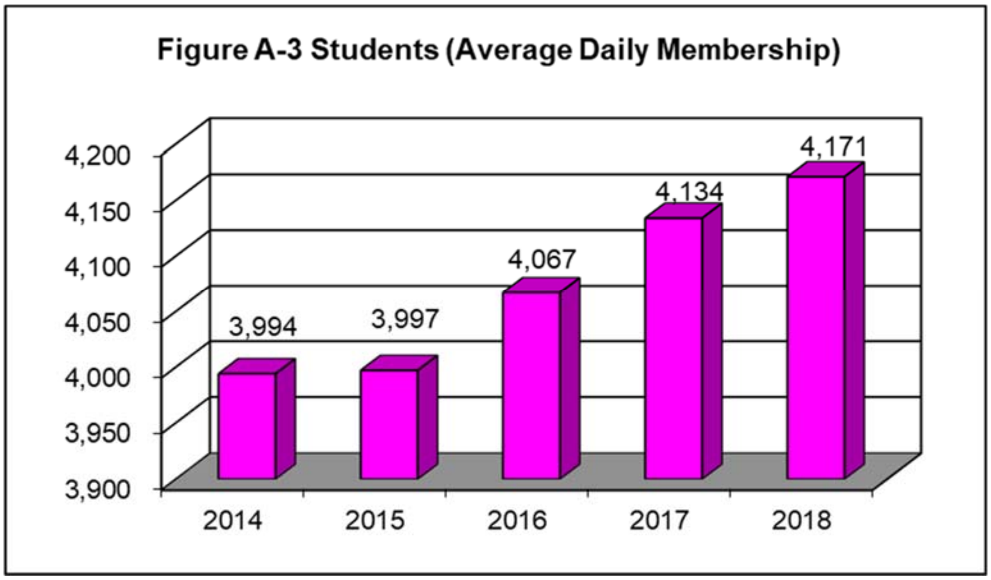
	2018			
	Revenues	Expenditures	Other Financing Sources(Uses)	Fund Balance Increase (Decrease)
General Fund	$ 55,705,250	$ 52,646,695	$ 47,317	$ 3,105,872
Food Service Fund	3,282,262	3,545,365	1,190	(261,913)
Community Service Fund	3,037,515	3,204,209		(166,694)
Building Construction	232,608	16,706,099		(16,473,491)
Debt Service Fund	3,643,261	3,464,690		178,571
Totals	$ 65,900,896	$ 79,567,058	$ 48,507	$ (13,617,655)

	2017			
	Revenues	Expenditures	Other Financing Sources(Uses)	Fund Balance Increase (Decrease)
General Fund	$ 54,747,129	$ 51,048,419	$	$ 3,698,710
Food Service Fund	3,305,427	3,106,942		198,485
Community Service Fund	3,368,140	3,072,895		295,245
Building Construction	402,111	22,867,710		(22,465,599)
Debt Service Fund	3,622,372	3,816,532		(194,160)
Totals	$ 65,445,179	$ 83,912,498	$ 0	$ (18,467,319)

GENERAL FUND

The General Fund is used by the District to record the primary operations of providing educational services to students from pre-kindergarten through grade 12. Pupil transportation activities and capital and major maintenance projects are also included in the General Fund.

Enrollment. Funding for Minnesota school districts is largely driven by enrollment. The District had fairly stable enrollment over the last few years with small increases in enrollment from year to year as seen in Figure A-3 below. The District expects enrollment to increase and decrease slightly each year as enrollment remains fairly level.



In general, the District has been experiencing steady enrollment. However, the District faces typical enrollment challenges from open enrollment options, dropouts and competition from local private schools, public charter school and home schooling options.

Looking into the near future, demographic trends continue to point to a continued level or a very slightly increased enrollment trend. The grade level sizes are evening out. However, the leveling out will include slight increases or decreases to enrollment each year.

GENERAL FUND (CONTINUED)

The following table presents a summary of General Fund revenues:

Table A-5
General Fund Revenues

Sources	Year Ended June 30, 2018	Year Ended June 30, 2017	Amount Difference	Percentage Change
Local Sources				
Property Taxes	$ 4,737,559	$ 3,781,834	$ 955,725	25.27%
Interest Earnings	135,975	38,096	97,879	256.93%
Other	1,874,680	2,050,516	(175,836)	-8.58%
State Sources	46,527,411	46,460,848	66,563	0.14%
Federal Sources	2,429,625	2,415,835	13,790	0.57%
Total General Fund Revenues	$ 55,705,250	$ 54,747,129	$ 958,121	1.75%

Total General Fund revenue increased $958,121, or 1.75%, from the previous year. The increase to property taxes is due to Health & Safety and Deferred Maintenance funding being rolled into Long-Term Facility Maintenance (LTFM) funding which is being phased in over three years. This is year two of the phase in period. In addition, there was a large Health & Safety adjustment related to a Middle School sprinkler project that was funded partially under the old Health & Safety and under the new LTFM funding. Interest earnings increased as interest rates are beginning to bounce back. Other local sources decreased mainly due to a large donation for Senior High media center updates in the prior year. Basic general education revenue is determined by the state per student funding formula. State aid increased as a result of increased enrollment and increases to funding formulas. Federal sources increased slightly.

The following table presents a summary of General Fund expenditures:

Table A-6
General Fund Expenditures

Expenditures	Year Ended June 30, 2018	Year Ended June 30, 2017	Amount Difference	Percentage Change
Salaries	$ 30,802,517	$ 29,437,963	$ 1,364,554	4.64%
Employee Benefits	9,754,981	9,292,194	462,787	4.98%
Purchased Services	7,700,329	6,952,485	747,844	10.76%
Supplies and Materials	2,598,037	2,192,027	406,010	18.52%
Capital Expenditures	1,406,352	1,667,398	(261,046)	-15.66%
Other Expenditures	384,479	1,506,352	(1,121,873)	-74.48%
Total General Fund Expenditures	$ 52,646,695	$ 51,048,419	$ 1,598,276	3.13%

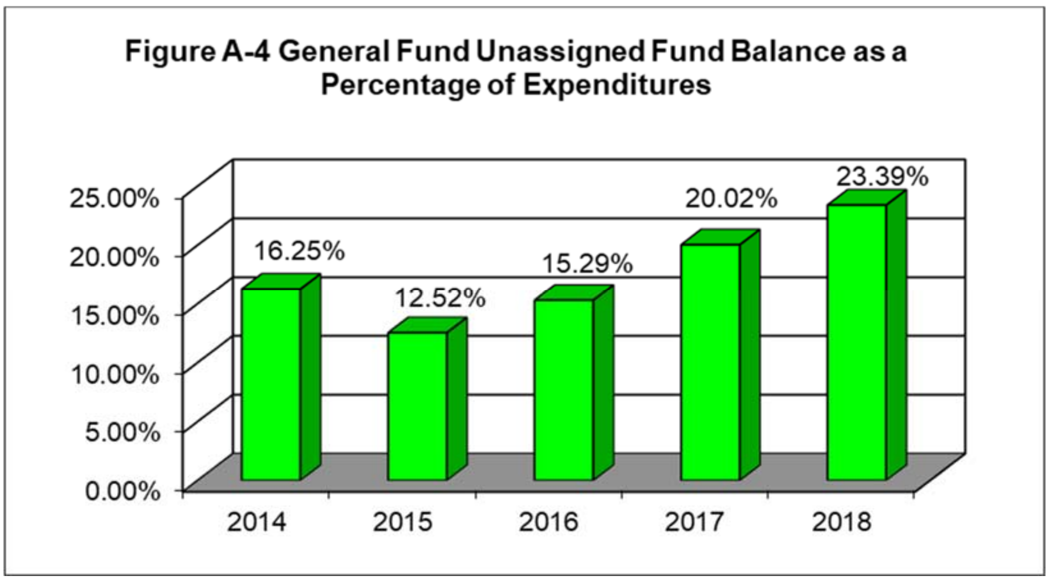
GENERAL FUND (CONTINUED)
Total General Fund expenditures increased $1,598,276 or 3.13% from the previous year.

Salaries increased primarily due to salary increases for 2017-18. Employee Benefits are driven mainly by increases to health insurance and employee benefit choices.

Combined non-payroll expenditures (Purchased Services, Supplies and Materials, Capital Expenditures, and Other Expenditures) decreased $229,065. The District was required to record additional pension expense related to support it received from the State of Minnesota for the TRA special funding situation per GASB 68. The amount recorded was much lower this year. The District does not actually pay this expense and there is an offsetting revenue recorded so the net impact to fund balance is zero.

In summary, 2017-2018 General Fund revenues were more than General Fund expenditures by $3,105,872. As a result, the total fund balance is $16,581,221 at June 30, 2018. After deducting statutory reserves, committed constraints, assigned and nonspendable items, the unassigned fund balance increased from $10,221,290 on June 30, 2017 to $12,316,090 on June 30, 2018.

Figure A-4, below, depicts the General Fund unassigned fund balance as a percentage of expenditures for fiscal years 2014 – 2018:



The graph above describing the District's unassigned fund balance trend, offers the single best measure of the District's overall financial health. The unassigned fund balance of $12,316,090 on June 30, 2018 represents 23.39% of annual expenditures.

The District closely monitors the General Fund unassigned fund balance through use of a detailed financial planning model, initiating necessary budget revisions during the year and with monthly budget analysis. The School Board has adopted a formal fund balance policy to maintain a minimum 6 percent (as a percentage of expenditures) fund balance in the General Fund unassigned fund.

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1). Over the course of the year, the District revised the annual operating budget once. The budget amendment usually falls into two categories:

- Implementing budgets for specially funded projects, which may include grants, adjusting staffing and various instructional building allocations based on enrollment, and budgeting for certain unspent funds that are required to be carried over from fiscal year 2017.

- Changes in appropriations for significant unbudgeted costs.

- While the District's final budget for the General Fund anticipated that revenues and other financing uses would be greater than expenditures by $1,798,719, the actual results for the year show that revenues and other financing uses were greater than expenditures by $3,105,872. Actual adjusted pupil units (APU), which drives general basic aid, was 54.83 APU or 1.21% higher than budgeted. Extended time revenue is generated based on extended time APU. Actual extended time APU was 17.44 APU higher than budgeted. Revenue for third party billing services was also higher this year. Expenditures were lower than expected as the timing of boiler installation work in three buildings mainly occurred after the close of the fiscal year. There is offsetting revenue and expenditure that is fund balance neutral but makes both revenues and expenditures look larger. GASB 68 requires the District to record revenue for a TRA special funding situation and pension expense for the same situation. The District neither received nor paid money related to this situation.

FOOD SERVICE FUND

The Food Service Fund revenue and other financing uses for 2017-2018 totaled $3,283,452 and expenditures were $3,545,365, resulting in a fund balance decrease of $261,913. The June 30, 2018 Food Service Fund fund balance is $1,109,257.

The Food Service Fund is anticipating the fund balance to decline as the kitchen remodel projects continue.

COMMUNITY SERVICE FUND

In 2017-2018, total revenues for the Community Service Fund were $3,037,515 and total expenditures were $3,204,209 resulting in a fund balance decrease of $166,694. The Community Service fund balance as of June 30, 2018 is $901,538. Community Service continues to monitor the fund balance and make adjustments that allow for the optimal level of programming for the District.

BUILDING CONSTRUCTION FUND

The District passed a bond referendum in May 2015 for the construction of a new elementary school, an addition on the Middle School, an addition to the Senior High, remodeling projects and deferred maintenance work. The District received the bond proceeds in August 2015. The Building Construction fund balance as of June 30, 2018 is $10,018,710.

DEBT SERVICE FUND

Revenues and expenditures for the District's Debt Service Fund are tied directly to the District's bond principal and interest payment schedule. The Debt Service Fund revenues exceeded expenditures by $178,571 in 2017-18. The Debt Service fund balance as of June 30, 2018 is $361,612. This fund balance is only available for meeting future debt service obligations.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had net capital assets of $65,994,036 representing a broad range of capital assets, including school buildings, computer and audio-visual equipment, and other equipment for various instructional programs (see Table A-7 below). Total depreciation expense for the year was $1,850,151. Detailed information about capital assets is in Note 5 to the financial statements.

Table A-7
The District's Capital Assets

	Year Ended June 30,		Percentage
Assets	2018	2017	Change
Capital Assets Not Being Depreciated	$ 1,747,496	$ 20,514,651	-91.48%
Land Improvements	4,482,597	4,312,962	3.93%
Buildings and Improvements	85,180,258	53,137,527	60.30%
Equipment	7,448,301	6,173,209	20.66%
Less: Accumulated Depreciation	(32,864,616)	(31,016,972)	5.96%
Total Net Capital Assets	$ 65,994,036	$ 53,121,377	24.23%

Construction Plans

The District passed a bond referendum in May 2015 for the construction of a new elementary school, an addition on the Middle School, an addition to the Senior High, remodeling projects and deferred maintenance work. The District received the bond proceeds in August 2015. In FY 2017, the Middle School science addition and enclosure of the courtyard was completed. In FY 2018, the Senior High addition and Lakeland Elementary were completed. Deferred maintenance projects including electrical switch gear replacement at Kennedy Elementary, reroofing the Senior High, Roosevelt Elementary and Kennedy Elementary began in FY 2017 and were completed in FY 2018. Kennedy windows and door replacement was started in FY 2018.

Long-term Liabilities

At year-end, the District had $49,419,036 in general obligation bonds outstanding including bond premium. The District also has $2,773,293 in compensated absences payable at June 30, 2018. Compensated absences payable consists of unused vacation at June 30, 2018 and other compensated absences paid at retirement for certain employees based on the employment contract. In the past, vacation expense has been paid by the General, Food Service, and the Community Service Funds. Overall, the District's outstanding long-term liabilities decreased by 3.86% in fiscal year 2018. Detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

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

Long-Term Liabilities	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	$ 50,210,000	$	$ 1,875,000	$ 48,335,000	$ 1,910,000
Bond Premium	1,145,687		61,651	1,084,036	61,651
Compensated Absences Payable	2,929,335	975,322	1,131,364	2,773,293	407,305
Total	$ 54,285,022	$ 975,322	$ 3,068,015	$ 52,192,329	$ 2,378,956

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of a voter-approved operating referendum, the District is dependent on the State of Minnesota for its revenue authority.

There is a $121 (2.0%) increase to the general fund basic formula. The student achievement levy is being phased out and will be completely eliminated in FY 2019. The operating capital levy equalizing factor will increase next year which will likely lower the burden on taxpayers. Early Childhood funding continues to see increases. Voluntary Pre-K (VPK) funding began in FY 2017. The District qualified for the VPK funding and even qualified for additional VPK funding for FY 2018 and even more in FY 2019. Long-Term Facilities Maintenance funding became available in FY 2017 when the state combined Health & Safety, Deferred Maintenance and Alternative Facilities funding along with an additional increase. The funding has very specific uses and will help the District maintain its buildings.

The Willmar area has businesses that have shut its doors and others open the doors. Book World, The Good News Bookstore, and other businesses closed their doors this year. Starbucks, Cricket Wireless, Universal Kutz and other businesses opened in Willmar during the year.

The Lakeland Elementary school opened in January of the 2017-18 school year. The senior high addition opened in the early part of the 2017-18 school year.

The District will strive to maintain its longstanding 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 District citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 347, 611 5th St SW, Willmar, MN 56201-3297, visit the Finance section of the District website at www.willmar.k12.mn.us (click on Departments and Finance), or contact Pam Harrington, Director of Business and Finance, at harringtonp@willmar.k12.mn.us or 320-231-8511.

BASIC FINANCIAL STATEMENTS

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INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET POSITION
JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2017

	Governmental Activities 2018	Governmental Activities 2017
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Cash and Investments	$ 33,881,922	$ 46,269,718
Receivables		
Property Taxes	3,868,959	4,127,046
Other Governments	7,190,096	7,320,104
Other	137,746	143,706
Due from Agency Fund		19,383
Prepaid Items	328,505	286,628
Inventories	64,969	64,474
Capital Assets		
Assets Not Being Depreciated	1,747,496	20,514,651
Other Capital Assets, Net of Depreciation	64,246,540	32,606,726
Total Assets	111,466,233	111,352,436
Deferred Outflows of Resources	49,212,638	65,890,033
Total Assets and Deferred Outflows of Resources	$ 160,678,871	$ 177,242,469
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Salaries and Wages Payable	$ 4,820,914	$ 4,459,433
Accounts and Contracts Payable	3,493,799	2,409,077
Due to Other Governmental Units	71,411	94,602
Accrued Interest Payable	645,329	660,954
Unearned Revenue	139,794	83,828
Long-Term Liabilities		
Net Pension Liability	89,983,533	108,465,937
Total OPEB Liability	3,765,997	2,156,791
Other Long-Term Liabilities Due Within One Year	2,378,956	2,447,424
Other Long-Term Liabilities Due in More Than One Year	49,813,373	51,837,598
Total Liabilities	155,113,106	172,615,644
Deferred Inflows of Resources	23,611,189	10,807,203
Net Position		
Net Investment in Capital Assets	28,651,600	28,751,118
Restricted for		
Operating Capital Purposes	352,701	452,839
State-Mandated Reserves	2,349,043	1,159,004
Food Service	271,847	557,923
Unrestricted	(49,670,615)	(37,101,262)
Total Net Position	(18,045,424)	(6,180,378)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 160,678,871	$ 177,242,469

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018					2017
		Program Revenues			Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Governmental Activities
GOVERNMENTAL ACTIVITIES						
Administration	$ 2,932,535	$	$	$	$ (2,932,535)	$ (2,560,073)
District Support Services	1,817,512		123,284		(1,694,228)	(1,632,403)
Regular Instruction	32,188,765	737,880	11,213,610		(20,237,275)	(22,017,286)
Vocational Education Instruction	1,075,640	1,926	71,730		(1,001,984)	(1,012,811)
Special Education Instruction	11,285,339	671,874	6,316,714		(4,296,751)	(4,559,806)
Instructional Support Services	4,170,077		1,211,815		(2,958,262)	(2,365,926)
Pupil Support Services	4,834,529		111,957		(4,722,572)	(4,475,957)
Sites and Buildings	9,022,956	31,443	2,093	1,365,285	(7,624,135)	(4,286,044)
Fiscal and Other Fixed Costs Programs	179,586				(179,586)	(157,159)
Food Service	3,409,138	717,976	2,554,892		(136,270)	235,350
Community Service	3,676,034	815,754	1,798,179		(1,062,101)	(766,155)
Interest and Fiscal Charges on Long-Term Liabilities	1,512,414				(1,512,414)	(1,543,310)
Total Governmental Activities	$ 76,104,525	$ 2,976,853	$ 23,404,274	$ 1,365,285	(48,358,113)	(45,141,580)
GENERAL REVENUES						
Property Taxes Levied for						
General Purposes					4,741,506	3,775,907
Community Service					404,921	446,532
Debt Service					3,611,403	3,603,868
State Aid not Restricted to Specific Purposes					29,005,027	29,498,624
Interest Earnings					399,397	447,503
Gain on Sale of Assets					48,507	
Miscellaneous						25,775
Total General Revenues					38,210,761	37,798,209
Change in Net Position					(10,147,352)	(7,343,371)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED					(6,180,378)	1,162,993
PRIOR PERIOD ADJUSTMENT					(1,717,694)	
NET POSITION, BEGINNING OF YEAR, AS RESTATED					(7,898,072)	1,162,993
NET POSITION, END OF YEAR					$ (18,045,424)	$ (6,180,378)

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2017

	General	Food Service	Community Service	Building Construction	Debt Service	Total Governmental Funds 2018	Total Governmental Funds 2017
ASSETS							
Cash and Investments	$ 17,162,956	$ 1,138,853	$ 1,209,324	$ 12,076,600	$ 2,197,740	$ 33,785,473	$ 46,163,655
Receivables							
Current Property Taxes	1,846,453		166,994		1,792,987	3,806,434	4,071,597
Delinquent Property Taxes	36,070		3,481		22,974	62,525	55,449
Due from Other Minnesota School Districts	551,316	27,631	340			579,287	471,602
Due from Minnesota Department of Education	4,970,837		130,153		2,382	5,103,372	5,371,617
Due from Federal through Minnesota Department of Education	1,046,275	122,803	7,870			1,176,948	1,051,409
Due from Other Governmental Units	168,881	4,897	156,711			330,489	425,476
Other Receivables	101,830	18,014	520	17,382		137,746	143,706
Due from Other Funds							709,084
Prepaid Items	314,993	1,434	10,184	1,894		328,505	286,628
Inventories	20,140	44,829				64,969	64,474
Total Assets	$ 26,219,751	$ 1,358,461	$ 1,685,577	$ 12,095,876	$ 4,016,083	$ 45,375,748	$ 58,814,697
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE							
Liabilities							
Salaries and Wages Payable	$ 4,557,656	$ 70,232	$ 193,026	$	$	$ 4,820,914	$ 4,459,433
Accounts and Contracts Payable	1,162,876	127,086	120,569	2,076,851		3,487,382	2,402,067
Due to Other Governmental Units	58,451		12,645	315		71,411	94,602
Due to Other Funds							689,701
Unearned Revenue	7,680	51,886	80,228			139,794	83,828
Total Liabilities	5,786,663	249,204	406,468	2,077,166	0	8,519,501	7,729,631
Deferred Inflows of Resources							
Property Taxes Levied for Subsequent Year's Expenditures	3,815,797		374,090		3,631,497	7,821,384	8,439,624
Unavailable Revenue - Delinquent Property Taxes	36,070		3,481		22,974	62,525	55,449
Total Deferred Inflows of Resources	3,851,867	0	377,571	0	3,654,471	7,883,909	8,495,073
Fund Balance							
Nonspendable	335,133	46,263	10,184	1,894		393,474	351,102
Restricted	2,701,744	1,062,994	891,354	10,016,816	361,612	15,034,520	30,650,790
Committed	1,200,000					1,200,000	1,200,000
Assigned	28,254					28,254	166,811
Unassigned	12,316,090					12,316,090	10,221,290
Total Fund Balance	16,581,221	1,109,257	901,538	10,018,710	361,612	28,972,338	42,589,993
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 26,219,751	$ 1,358,461	$ 1,685,577	$ 12,095,876	$ 4,016,083	$ 45,375,748	$ 58,814,697

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2017

	2018	2017
Total Fund Balances - Governmental Funds	$ 28,972,338	$ 42,589,993
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the governmental funds. Those assets consist of:		
Land and Construction in Progress	1,747,496	20,514,651
Land Improvements, Net of Accumulated Depreciation	1,759,725	1,731,128
Buildings and Improvements, Net of Accumulated Depreciation	58,052,781	27,348,783
Equipment and Vehicles, Net of Accumulated Depreciation	4,434,034	3,526,815
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 deferred inflows of resources in the funds.	62,525	55,449
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(645,329)	(660,954)
Internal service funds are used by management to charge the costs associated with Delta Dental Insurance. The assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position.	90,032	99,053
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	49,212,638	65,890,033
Deferred Inflows of Resources Related to Pensions	(15,766,748)	(2,367,579)
Deferred outflows and inflows of resources related to other post-employment benefits are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Inflows of Resources Related to OPEB	(23,057)	
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Position. Balances at year-end are:		
Bonds Payable	(48,335,000)	(50,210,000)
Unamortized Premium	(1,084,036)	(1,145,687)
Compensated Absences Payable	(2,773,293)	(2,929,335)
Total OPEB Liability	(3,765,997)	(2,156,791)
Net Pension Liability	(89,983,533)	(108,465,937)
Total Net Position - Governmental Activities	$ (18,045,424)	$ (6,180,378)

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	General	Food Service	Community Service	Building Construction	Debt Service	Total Governmental Funds 2018	Total Governmental Funds 2017
REVENUES							
Local Sources							
Property Taxes	$ 4,737,559	$	$ 404,932	$	$ 3,608,265	$ 8,750,756	$ 7,823,137
Interest Earnings	135,975	9,389	10,139	232,608	11,181	399,292	447,981
Other	1,874,680	764,920	1,197,150			3,836,750	4,164,236
State Sources	46,527,411	196,131	1,383,308		23,815	48,130,665	48,078,780
Federal Sources	2,429,625	2,311,822	41,986			4,783,433	4,931,045
Total Revenues	55,705,250	3,282,262	3,037,515	232,608	3,643,261	65,900,896	65,445,179
EXPENDITURES							
Current							
Administration	2,353,460					2,353,460	2,033,506
District Support Services	1,771,594					1,771,594	1,725,188
Regular Instruction	23,873,488					23,873,488	23,960,732
Vocational Education Instruction	808,854					808,854	754,628
Special Education Instruction	9,313,883					9,313,883	9,542,453
Instructional Support Services	3,393,332					3,393,332	2,850,341
Pupil Support Services	4,447,283		29,407			4,476,690	4,154,873
Sites and Buildings	5,098,862					5,098,862	4,221,698
Fiscal and Other Fixed Costs Programs	179,586					179,586	157,159
Food Service		3,106,347				3,106,347	2,983,823
Community Service			3,145,584			3,145,584	3,040,096
Capital Outlay	1,406,353	439,018	29,218	16,706,099		18,580,688	24,671,469
Debt Service							
Principal					1,875,000	1,875,000	1,405,000
Interest and Fiscal Charges					1,589,690	1,589,690	2,411,532
Total Expenditures	52,646,695	3,545,365	3,204,209	16,706,099	3,464,690	79,567,058	83,912,498
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,058,555	(263,103)	(166,694)	(16,473,491)	178,571	(13,666,162)	(18,467,319)
OTHER FINANCING SOURCES (USES)							
Sale of Equipment	47,317	1,190				48,507	
Net Change in Fund Balances	3,105,872	(261,913)	(166,694)	(16,473,491)	178,571	(13,617,655)	(18,467,319)
FUND BALANCE, BEGINNING OF YEAR	13,475,349	1,371,170	1,068,232	26,492,201	183,041	42,589,993	61,057,312
FUND BALANCE, END OF YEAR	$ 16,581,221	$ 1,109,257	$ 901,538	$ 10,018,710	$ 361,612	$ 28,972,338	$ 42,589,993

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018	2017
Total Net Change in Fund Balances - Governmental Funds	$ (13,617,655)	$ (18,467,319)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlay is reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital Outlay	14,722,810	23,766,622
Depreciation Expense	(1,850,151)	(1,390,265)
Cost of Capital Assets Disposed	(2,507)	(677,807)
Accumulated Deprecation Related to Disposed Capital Assets	2,507	629,781
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the Statement of Net Position, however, issuing debt increases long-term liabilities and does not affect the Statement of Activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. 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. The net effect of these differences is as follows:		
Principal Retirement of Long-Term Debt	1,875,000	1,670,720
Change in Accrued Interest Payable	15,625	806,571
Amortization of Bond Premium	61,651	61,651
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	7,076	3,171
In the Statement of Activities, certain operating expenses - pension, other post-employment benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Pensions	(11,594,160)	(13,793,892)
Other Postemployment Benefits	85,431	(150,857)
Compensated Absences	156,042	209,327
An internal service fund is used to charge the costs associated with Delta Dental insurance. The net change in net position of the fund is reported with governmental activities.	(9,021)	(11,074)
Change in Net Position - Governmental Activities	$ (10,147,352)	$ (7,343,371)

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018				2017
	Budgeted Amounts			Over (Under) Final	
	Original	Final	Actual	Budget	Actual
REVENUES					
Local Sources					
Property Taxes	$ 4,780,232	$ 4,805,607	$ 4,737,559	$ (68,048)	$ 3,781,834
Interest Earnings	74,110	132,064	135,975	3,911	38,096
Other	1,443,602	1,657,010	1,874,680	217,670	2,050,516
State Sources	45,206,683	46,177,104	46,527,411	350,307	46,460,848
Federal Sources	2,078,566	2,513,479	2,429,625	(83,854)	2,415,835
Total Revenues	53,583,193	55,285,264	55,705,250	419,986	54,747,129
EXPENDITURES					
Current					
Administration	2,161,655	2,317,008	2,353,460	36,452	2,033,506
District Support Services	1,787,934	1,765,105	1,771,594	6,489	1,725,188
Regular Instruction	23,871,096	23,818,572	23,873,488	54,916	23,960,732
Vocational Education Instruction	762,614	801,427	808,854	7,427	754,628
Special Education Instruction	9,528,486	9,476,006	9,313,883	(162,123)	9,542,453
Instructional Support Services	3,063,142	3,388,202	3,393,332	5,130	2,850,341
Pupil Support Services	4,388,340	4,390,345	4,447,283	56,938	4,135,316
Sites and Buildings	4,872,226	5,079,360	5,098,862	19,502	4,221,698
Fiscal and Other Fixed Costs Programs	165,000	180,000	179,586	(414)	157,159
Capital Outlay					
Administration	500				
District Support Services	51,660	25,726	24,226	(1,500)	55,976
Regular Instruction	61,492	135,306	135,971	665	354,918
Vocational Education Instruction		3,147	3,147		
Special Education Instruction	2,500	2,073	2,882	809	29,198
Instructional Support Services		63,376	63,376		790
Pupil Support Services	4,400	27,151	22,896	(4,255)	15,747
Sites and Buildings	2,159,785	2,059,335	1,153,855	(905,480)	1,210,769
Total Expenditures	52,880,830	53,532,139	52,646,695	(885,444)	51,048,419
Excess (Deficiency) of Revenues Over (Under) Expenditures	702,363	1,753,125	3,058,555	1,305,430	3,698,710
OTHER FINANCING SOURCES (USES)					
Sale of Equipment		45,594	47,317	1,723	
Net Change in Fund Balances	$ 702,363	$ 1,798,719	3,105,872	$ 1,307,153	3,698,710
FUND BALANCE, BEGINNING OF YEAR			13,475,349		9,776,639
FUND BALANCE, END OF YEAR			$ 16,581,221		$ 13,475,349

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018				2017
	Budgeted Amounts			Over (Under) Final	
	Original	Final	Actual	Budget	Actual
REVENUES					
Local Sources					
Interest Earnings	$ 3,785	$ 9,197	$ 9,389	$ 192	$ 2,810
Other-Primarily Meal Sales	798,654	766,259	764,920	(1,339)	799,367
State Sources	187,323	200,809	196,131	(4,678)	193,052
Federal Sources	2,207,079	2,389,619	2,311,822	(77,797)	2,310,198
Total Revenues	3,196,841	3,365,884	3,282,262	(83,622)	3,305,427
EXPENDITURES					
Current					
Food Service	3,265,107	3,221,107	3,106,347	(114,760)	2,983,823
Capital Outlay					
Food Service	304,000	457,571	439,018	(18,553)	123,119
Total Expenditures	3,569,107	3,678,678	3,545,365	(133,313)	3,106,942
Excess (Deficiency) of Revenues Over (Under) Expenditures	(372,266)	(312,794)	(263,103)	49,691	198,485
OTHER FINANCING SOURCES (USES)					
Sale of Equipment		500	1,190	690	
Net Change in Fund Balances	$ (372,266)	$ (312,294)	(261,913)	$ 50,381	198,485
FUND BALANCE, BEGINNING OF YEAR			1,371,170		1,172,685
FUND BALANCE, END OF YEAR			$ 1,109,257		$ 1,371,170

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018				2017
	Budgeted Amounts			Over (Under) Final	
	Original	Final	Actual	Budget	Actual
REVENUES					
Local Sources					
Property Taxes	$ 408,448	$ 405,012	$ 404,932	$ (80)	$ 446,865
Interest Earnings	3,756	9,598	10,139	541	2,828
Other-Primarily Tuition and Fees	1,136,141	1,081,652	1,197,150	115,498	1,314,353
State Sources	1,307,905	1,374,181	1,383,308	9,127	1,399,082
Federal Sources	47,038	41,986	41,986		205,012
Total Revenues	2,903,288	2,912,429	3,037,515	125,086	3,368,140
EXPENDITURES					
Current					
Pupil Support Services	25,476	29,407	29,407		19,557
Community Service	3,062,811	3,088,898	3,145,584	56,686	3,040,096
Capital Outlay					
Community Service	6,000	29,219	29,218	(1)	13,242
Total Expenditures	3,094,287	3,147,524	3,204,209	56,685	3,072,895
Net Change in Fund Balances	$ (190,999)	$ (235,095)	(166,694)	$ 68,401	295,245
FUND BALANCE, BEGINNING OF YEAR			1,068,232		772,987
FUND BALANCE, END OF YEAR			$ 901,538		$ 1,068,232

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2018
WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2017

	Governmental Activities- Internal Service Fund 2018	2017
ASSETS		
Current Assets		
Cash and Investments	$ 96,449	$ 106,063
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	$ 6,417	$ 7,010
Net Position		
Unrestricted	90,032	99,053
Total Liabilities and Net Position	$ 96,449	$ 106,063

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities- Internal Service Fund	
	2018	2017
OPERATING REVENUES		
Charges for Services	$ 209,152	$ 205,483
OPERATING EXPENSES		
Dental Insurance Claim Payments	195,718	194,133
General Administration Costs	23,102	22,424
Total Operating Expenses	218,820	216,557
Operating Income (Loss)	(9,668)	(11,074)
NONOPERATING REVENUES (EXPENSES)		
Interest Earnings	647	
Change in Net Position	(9,021)	(11,074)
NET POSITION, BEGINNING OF YEAR	99,053	110,127
NET POSITION, END OF YEAR	$ 90,032	$ 99,053

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2018
WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	Governmental Activities- Internal Service Fund	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	$ 209,152	$ 205,483
Payments for Administrative Costs	(23,166)	(22,487)
Payments for Dental Fees and Insurance Claims	(196,247)	(194,777)
Net Cash Provided (Used) by Operating Activities	(10,261)	(11,781)
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest Earnings	647	
Net Increase (Decrease) in Cash and Cash Equivalents	(9,614)	(11,781)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	106,063	117,844
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 96,449	$ 106,063
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	$ (9,668)	$ (11,074)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Increase (Decrease) in Liabilities		
Accounts Payable	(593)	(707)
Net Cash Provided (Used) By Operating Activities	$ (10,261)	$ (11,781)

See Accompanying Notes to the Financial Statements

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

	Private-Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Investments	$ 32,123	$ 13,182
Receivables		
Due from Other Minnesota School Districts		29,268
Interest Receivable	214	
Total Assets	$ 32,337	$ 42,450
LIABILITIES AND NET POSITION		
Liabilities		
Accounts Payable	$	$ 42,450
Net Position		
Held in Trust for Scholarships	32,337	
Total Liabilities and Net Position	$ 32,337	$ 42,450

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2018

	Private-Purpose Trust Fund
ADDITIONS	
Interest Earnings	$ 305
DEDUCTIONS	
Scholarship Obligations	750
Change in Net Position	(445)
NET POSITION, BEGINNING OF YEAR	32,782
NET POSITION, END OF YEAR	$ 32,337

See Accompanying Notes to the Financial Statements

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Independent School District #347 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America. The more significant of the government's accounting policies are described below.

A. REPORTING ENTITY

The Independent School District #347 Board of Education ("District") is the basic level of government which has the financial accountability and control over all activities related to the public school education for the Willmar Public School District. The District receives funding from local, state, and federal sources and must comply with the expenditure requirements of these funding source entities.

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the District is financially accountable, or for which the exclusion of the component unit would render the financial statements of the District misleading.

The criteria used to determine if the District is financially accountable for a component unit includes whether or not 1) the District appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Cont'd)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of all charges would distort the direct costs and program revenue reported for the various functions concerned.

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

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

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

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

The governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenues are recognized when they become measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except interest earnings) are recorded as revenues when received because they are generally not measurable until then. Interest earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

NOTE 1. ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The District does not use encumbrances for either budgeting or financial reporting purposes.

It is generally the District's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Description of Funds

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

Major Governmental Funds:

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

The Food Service Special Revenue Fund accounts for all activities associated with the preparation and service of milk, meals and snacks in connection with school and community service activities. Revenues for the Food Service Fund are generated from user fees, federal reimbursements, and state aids.

The Community Service Special Revenue Fund accounts for services provided to residents in the areas of enrichment, recreation, nonpublic pupils, adult basic education and early childhood programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes, federal reimbursements, and state aids.

The Building Construction Capital Projects Fund accounts for financial resources used for the acquisition or construction of major capital facilities funded by the sale of bonds.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest, and related costs.

Proprietary Fund:

The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accounts for the District's dental self-insurance program. The self-insurance costs are charged to the various funds based on established premium rates.

Fiduciary Funds:

The Private-Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for gifts and bequests that are to be used for scholarships.

The Agency Fund is used to account for cash and other assets held by the District as the agent for others. These funds are used to account for the West Central Achievement and Integration Collaborative.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. BUDGETS AND BUDGETARY ACCOUNTING

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Building Construction and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent and Director of Business and Finance submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

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

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are not recorded.

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE

Cash and Investments:
The District's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

The District may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05:

(1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. §118A.04, subd. 6;

(2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;

(3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;

(4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;

(5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less; and

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Cash and Investments: (Cont'd)

(6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Cash and investments were comprised of demand deposit accounts, non-negotiable certificates of deposit, money market accounts and external investment pools. Investments are recorded at fair value as determined by quoted market prices or amortized cost.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs.

The District invests in an external investment pool, the Minnesota School District Liquid Asset Fund, which is created under a joint powers agreement pursuant to Minn. Stat. §471.59. The Minnesota School District Liquid Asset Fund is not registered with the Securities Exchange Commission (SEC), but satisfy the requirements of Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 CFR §270.2a-7), as amended. The investment in the pool is measured at the net asset value per share provided by the pool.

Cash balances from all funds of the District are pooled and invested, to the extent available, in allowable cash management accounts. Earnings from such accounts are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

For purposes of the Statement of Cash Flows, the District considers cash in bank and all highly liquid instruments (including restricted assets) to be cash and cash equivalents in its proprietary fund.

The District has an investment policy in place that addresses interest rate risk, credit risk, concentration of credit risk and custodial credit risk as follows:

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to the District. Minnesota Statutes require all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations of a state or local government rated "A" or better and revenue obligations of a state or local government rated "AA" or better; unrated general obligation securities of the District; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District does not have a policy that further limits its collateral choices.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Cash and Investments: (Cont'd)

Custodial Credit Risk - Investments. For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy on custodial credit risk states securities shall be held in third party safekeeping by an institution designated as custodial agent. The institution or dealer shall issue a safekeeping receipt to the District listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers and other distinguishing marks, and other pertinent information related to the securities held.

Interest Rate Risk. This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities shall be scheduled to coincide with projected District cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. Maturities for short-term and long-term investments shall be timed according to anticipated need. Within these parameters, portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

Credit Risk. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits certain investments to the top two ratings issued by the rating organizations. The District's investment policy states it will comply with Minnesota Statutes Chapter 118A.

Concentration Risk. This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities.

Accounts Receivable:

Accounts receivable represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

Current Property Taxes Receivable:

Current property taxes receivable represent current real and personal property tax levies, certified the previous December and collectible in the current calendar year, which have not been received by the District.

Delinquent Property Taxes Receivable:

Delinquent property taxes receivable represent taxes collectible in the years 2011 to 2017 that remain uncollected at June 30, 2018. They are equally offset by a deferred inflows of resources amount in the governmental fund financial statements.

Prepaid Items:

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Inventories:
Inventories are recorded using the consumption method of accounting and consist of paper, purchased food and supplies. Food, paper and supply purchases are recorded at invoice cost, computed on a first-in, first-out method.

Capital Assets:
Tangible and intangible capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a threshold level of $5,000 for capitalizing tangible and intangible capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

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

The District does not possess any material amounts of intangible capital assets.

Deferred Outflows of Resources:
In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future reporting period. During that future period, it will be recognized as an outflow of resources (expense/expenditure). The District has one item that qualifies for reporting in this category on the government-wide Statement of Net Position which is related to pensions.

Unearned Revenue
Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue.

Long-Term Obligations:
In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Compensated Absences:

The liability for compensated absences reported in the financial statements consists of unpaid, accumulated vacation and certain sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability for compensated absences is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are accrued when incurred in the government-wide financial statements. The government-wide Statement of Net Position reports both current and noncurrent portions of compensated absences using full accrual accounting. The current portion consists of an amount based on a trend analysis of current usage of vacation and vested sick leave. The noncurrent portion consists of the remaining amount of vacation and total vested sick leave.

Vacation Pay:

Employees earn annual vacation pay at rates dependent upon each employee group labor contract. All outstanding unpaid vacation pay is payable upon termination of employment. At June 30, 2018, unpaid vacation pay totaling $217,264 is recorded in the financial statements.

Sick Pay:

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

Secretarial Staff:

An unused sick leave payment is available to full-time secretaries who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 800 hours, less any TSA match the District contributed. Employees hired after July 1, 2000 are not eligible for an unused sick leave payment.

Library Clerical Staff and General Paraprofessionals:

An unused sick leave payment is available to library clerical staff and full-time general paraprofessionals whose combined part-time and full-time service is not less than 15 years of service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 120 days. Employees hired July 1, 2018 or later are not eligible for an unused sick leave payment.

Special Needs Paraprofessionals, Sign Language Interpreters and Job Coaches:

An unused sick leave payment is available to full-time special needs paraprofessionals, full-time sign language interpreters and full-time job coaches who have completed at least 15 years of continuous service with the District and are at least 58 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 805 hours, less any TSA match the District contributed. Employees hired after July 1, 2002 will not be eligible for an unused sick leave payment.

Food Service Staff:

An unused sick leave payment is available to full-time food service staff who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 600 hours.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Compensated Absences: (Cont'd)

Administrators:

An unused sick leave payment is available to administrators who have completed at least 10 years of full-time service with the District and are at least 55 years of age but not more than 65 years of age. An eligible administrator will receive an amount equal to the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 175 days, less any TSA match the District contributed. Administrators hired after July 1, 2000 are not eligible for an unused sick leave payment.

Teachers:

An unused sick leave payment is available to teachers who have completed at least 15 years of combined part-time and Full-Time Equivalent (FTE) paid teaching service with the District and are at least 55 years of age. An eligible teacher will receive an amount equal to 50% of the number of unused accumulated sick leave days multiplied by the employee's daily rate of pay, not to exceed 90 days. Furthermore, an eligible teacher will receive an amount equal to the teacher's number of years of service multiplied by four days and the employee's daily rate of pay, not to exceed 100 days. The maximum combined total payment shall not exceed 150 days. Any TSA match the District contributed will be deducted from the payment. Teachers hired after July 1, 2000 are not eligible for this benefit.

Custodians:

Custodians shall earn ten days of severance pay credit for each full year of service, with accumulation to 150 days. In addition, an eligible custodian will receive severance pay for 50% of the number of unused accumulated sick leave days, not to exceed 90 days. Upon resignation of the employee at age 55 or older, the District shall pay severance equal to 75% of an employee's accumulated severance pay days up to a maximum of 150 days, at the employee's daily rate of pay.

Confidential Employees:

An unused sick leave payment is available to full-time confidential employees who have completed at least 15 years of continuous service with the District and are at least 55 years of age. An eligible individual will receive an amount equal to 75% of the number of unused accumulated sick leave hours multiplied by the employee's hourly rate of pay, not to exceed 900 hours. The eligible confidential employee shall also earn ten days of severance pay credit for each full year of service, with accumulation to 100 days. The maximum combined severance shall not exceed 150 days.

Other Postemployment Benefits:

Under the terms of previous employment contracts, when certain qualified employees retired between the ages of 55 to 65, the District provided life and health insurance benefits which would cease when such employees attain the age of 65. This benefit is no longer available to employees; however, the District continues to pay health insurance for qualified individuals that retired when this benefit was in effect. All premiums are funded on a pay-as-you-go basis.

Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA), the Teachers Retirement Association (TRA) and the District's supplemental pension plan and additions to/deductions from PERA’s, TRA's and the District's supplemental pension plan's fiduciary net position have been determined on the same basis as they are reported by PERA, TRA and the District's supplemental pension plan. 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Pensions: (Cont'd)
The District participates in various pension plans; total pension expense for the fiscal year ended was $3,691,417. The components of pension expense are noted in the plan summaries.

Deferred Inflows of Resources:
In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period. During that future period, it will be recognized as an inflow of resources (revenue). The District has items that qualify for reporting in this category on both the government-wide Statement of Net Position and the governmental fund financial statements related to property taxes, pensions and OPEB.

Property Taxes Levied for Subsequent Year's Expenditures:
Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2018, are included in this account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Fund Balance:
In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

Nonspendable - consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, such as, inventories and prepaid items.

Restricted - consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - consists of amounts that are constrained for specific purposes that are internally imposed by formal action of the Board of Education. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the Board of Education.

Assigned - consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board Policy, the Director of Business and Finance is authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in the remaining governmental funds.

The District requires restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, NET POSITION AND FUND BALANCE (Cont'd)

Fund Balance: (Cont'd)
The Board of Education formally adopted a fund balance policy for the General Fund. The District's policy is to strive to maintain a minimum unassigned fund balance of 6% of the General Fund expenditures.

Net Position:
Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide, proprietary fund, and fiduciary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide, proprietary fund, and fiduciary fund financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

F. REVENUES AND EXPENDITURES

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred inflow of resources (property taxes levied for subsequent year's expenditures). The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum which is frozen at $184,153 for the District. For the year ended June 30, 2018, State law is not requiring recognition of the current operating referendum and all other levies other than Career Technical and Reemployment Insurance. Career Technical and Reemployment Insurance tax levies are recognized early based on statutory requirements in the amounts of $89,243 and $14,265, respectively.

Tax levies from prior years that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources at the fund level because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2018, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. REVENUES AND EXPENDITURES (Cont'd)

Expenditures:
Expenditure recognition for governmental fund types is limited to amounts represented by current liabilities. Long-term liabilities are not recognized as governmental fund expenditures or liabilities.

G. USE OF ESTIMATES

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

H. PRIOR YEAR INFORMATION

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2017, from which the partial information was derived.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. VIOLATIONS OF FINANCE-RELATED OBLIGATIONS

There were no violations of finance-related obligations.

B. DEFICIT FUND BALANCES

There were no deficit fund balances.

C. EXPENDITURES EXCEEDING APPROPRIATIONS

Budgetary control for governmental funds is established by each funds' total appropriations. The following fund had expenditures that exceeded appropriations:

	Expenditures	Appropriations
Community Service Special Revenue Fund	$ 3,204,209	$ 3,147,524
Building Construction Capital Projects Fund	16,706,099	16,474,558

The Community Service Special Revenue Fund overage was the result of necessary expenditures critical to operations and were approved by the Board. The Building Construction Capital Projects Fund overage was considered by the District management to be the result of timing of work completed by contractors and recording contracts payable at the end of the year.

NOTE 3. CASH AND INVESTMENTS

A. DEPOSITS

The District's deposits were sufficiently covered by insurance through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

The District has the following deposits:

Governmental Activities	
Petty Cash	$ 403
Pooled Cash in Checking Accounts	8,345,386
Money Market Deposit Account	4,154,744
Non-negotiable Certificates of Deposit	9,487,594
Total Governmental Activities	21,988,127
Fiduciary Fund	
Pooled Cash in Checking Accounts	13,939
Non-negotiable Certificates of Deposit	31,366
Total Fiduciary Fund	45,305
Total Deposits	$ 22,033,432

B. INVESTMENTS

The District has the following investments:

	Fair Value or Amortized Cost	Interest Rate Risk: Weighted Average Maturity (Years)	Credit Risk: Credit Ratings
Governmental Activities			
Investments at amortized cost:			
MSDLAF+ Liquid Class	$ 4,852,233	N/A	AAA
MSDLAF+ MAX Class	3,041,562	N/A	AAA
MSDLAF TERM	4,000,000	N/A	AAA
Total Investments	$ 11,893,795		

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	$ 22,033,432
Investments (Note 3.B.)	11,893,795
Total Deposits and Investments	$ 33,927,227

NOTE 3. CASH AND INVESTMENTS (Cont'd)

B. INVESTMENTS (Cont'd)

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

Statement of Net Position	
Cash and Investments	$ 33,881,922
Statement of Fiduciary Net Position	
Cash and Investments	45,305
Total Cash and Investments	$ 33,927,227

Interest Rate Risk. This is the risk that the market value of securities will fall due to the changes in market interest rates.

Concentration Risk. This is the risk of loss attributed to the magnitude of an investment in a single issuer. More than 5 percent of the District's investments are in MSDLAF. MSDLAF is 100% of the District's investments.

NOTE 4. RECEIVABLES

Receivables are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
Governmental Activities		
Receivables		
Property Taxes		
Current Property Taxes	$ 3,806,434	$
Delinquent Property Taxes	62,525	
Total Property Taxes	3,868,959	0
Other Governments		
Due from Other Minnesota School Districts	579,287	
Due from Minnesota Department of Education	5,103,372	
Due from Federal through Minnesota Department of Education	1,176,948	
Due from Other Governmental Units	330,489	
Total Other Governments	7,190,096	0
Other		
Other Receivables	137,746	
Total Governmental Activities	$ 11,196,801	$ 0

NOTE 5. CAPITAL ASSETS

Capital asset activity was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	$ 1,497,585	$	$	$ 1,497,585
Construction in Progress	19,017,066	13,658,939	(32,426,094)	249,911
Total Capital Assets, Not Being Depreciated	20,514,651	13,658,939	(32,426,094)	1,747,496
Capital Assets, Being Depreciated				
Land Improvements	4,312,962	169,635		4,482,597
Buildings and Improvements	53,137,527	32,042,731		85,180,258
Equipment	6,173,209	1,277,599	(2,507)	7,448,301
Total Capital Assets, Being Depreciated	63,623,698	33,489,965	(2,507)	97,111,156
Less Accumulated Depreciation for				
Land Improvements	(2,581,834)	(141,038)		(2,722,872)
Buildings and Improvements	(25,788,744)	(1,338,733)		(27,127,477)
Equipment	(2,646,394)	(370,380)	2,507	(3,014,267)
Total Accumulated Depreciation	(31,016,972)	(1,850,151)	2,507	(32,864,616)
Total Capital Assets Being Depreciated, Net	32,606,726	31,639,814	0	64,246,540
Governmental Activities Net Capital Assets	$ 53,121,377	$ 45,298,753	$ (32,426,094)	$ 65,994,036

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
District Support Services	$ 9,392
Regular Instruction	780,910
Vocational Education Instruction	10,313
Special Education Instruction	6,145
Instructional Support Services	22,212
Pupil Support Services	832
Sites and Buildings	74,097
Community Service	946,250
Total Depreciation Expense - Governmental Activities	$ 1,850,151

NOTE 6. LONG-TERM LIABILITIES

A. COMPONENTS OF LONG-TERM LIABILITIES

	Original Amount Issued	Final Maturity Date	Interest Rate	Balance Outstanding
Governmental Activities				
General Obligation Bonds				
Series 2015A	$ 51,615,000	02/01/2036	2.00-4.00%	$ 48,335,000
Bond Premium - Net				1,084,036
Compensated Absences Payable				2,773,293
Total Governmental Activities				$ 52,192,329

B. DESCRIPTION OF LONG-TERM LIABILITIES

General Obligation Bonds:
On August 4, 2015, the District issued $51,615,000 of General Obligation Bonds, Series 2015A for the building of a new school and other school building maintenance and improvements. The bonds are due in varying annual installments each February 1 from February 1, 2017 through February 1, 2036 with interest at a rate of 2.00%-4.00% due semi-annually on February 1 and August 1. Future ad valorem tax levies are dedicated to the retirement of these bonds.

Compensated Absences Payable:
Compensated absences payable consists of unused vacation at June 30, 2018 and other compensated absences paid at retirement for certain employees based on the employment contract. In the past, compensated absences have been paid by the General, Food Service, and Community Service Funds.

C. CHANGES IN LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds Payable	$ 50,210,000	$	$ (1,875,000)	$ 48,335,000	$ 1,910,000
Bond Premium	1,145,687		(61,651)	1,084,036	61,651
Compensated Absences Payable	2,929,335	975,322	(1,131,364)	2,773,293	407,305
Total Governmental Activities	$ 54,285,022	$ 975,322	$ (3,068,015)	$ 52,192,329	$ 2,378,956

NOTE 6. LONG-TERM LIABILITIES (Cont'd)

D. MINIMUM DEBT PAYMENTS

Minimum principal and interest payments required to retire the general obligation bonds are as follows:

	General Obligation Bonds Payable	
Year Ending June 30,	Principal	Interest
2019	$ 1,910,000	$ 1,548,790
2020	2,100,000	1,510,590
2021	2,145,000	1,468,590
2022	2,185,000	1,425,690
2023	2,275,000	1,338,290
2024-2028	12,725,000	5,330,500
2029-2033	14,865,000	3,191,520
2034-2036	10,130,000	704,456
	$ 48,335,000	$ 16,518,426

NOTE 7. FUND BALANCE

The following is a summary of fund balance components:

	General	Food Service	Community Service	Subtotal
Nonspendable				
Prepaid Items	$ 314,993	$ 1,434	$ 10,184	$ 326,611
Inventories	20,140	44,829		64,969
Total Nonspendable	335,133	46,263	10,184	391,580
Restricted				
Staff Development	608,222			608,222
Operating Capital	352,701			352,701
Health & Safety	25,901			25,901
Long-Term Facility Maintenance	624,139			624,139
Community Education			510,698	510,698
ECFE			154,796	154,796
Area Learning Center	246,566			246,566
Gifted and Talented	10,318			10,318
School Readiness			164,651	164,651
Adult Basic Education			58,504	58,504
Basic Skills Extended Time	95,598			95,598
Safe Schools	16,968			16,968
Medical Assistance	721,331			721,331
Other Fund Activities		1,062,994	2,705	1,065,699
Total Restricted	2,701,744	1,062,994	891,354	4,656,092
Committed				
Severance	1,200,000			1,200,000
Assigned				
Elaine Adams Media Center Remodel	28,254			28,254
Unassigned	12,316,090			12,316,090
	$ 16,581,221	$ 1,109,257	$ 901,538	$ 18,592,016

NOTE 7. FUND BALANCE (Cont'd)

The following is a summary of fund balance components:

	Building Construction	Debt Service	Subtotal	Total
Nonspendable				
Prepaid Items	$ 1,894	$	$ 1,894	$ 328,505
Inventories				64,969
Total Nonspendable	1,894	0	1,894	393,474
Restricted				
Staff Development				608,222
Operating Capital				352,701
Health & Safety				25,901
Long-Term Facility Maintenance				624,139
Community Education				510,698
ECFE				154,796
Area Learning Center				246,566
Gifted and Talented				10,318
School Readiness				164,651
Adult Basic Education				58,504
Basic Skills Extended Time				95,598
Safe Schools				16,968
Medical Assistance				721,331
Other Fund Activities	10,016,816	361,612	10,378,428	11,444,127
Total Restricted	10,016,816	361,612	10,378,428	15,034,520
Committed				
Severance				1,200,000
Assigned				
Elaine Adams Media Center Remodel				28,254
Unassigned				12,316,090
	$ 10,018,710	$ 361,612	$ 10,380,322	$ 28,972,338

Fund Equity:
Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the potential restricted fund balances for the governmental funds:

A. RESTRICTED FOR STAFF DEVELOPMENT

In accordance with state statute, the District is required to restrict 2.0% of basic General Education revenue for staff development. The cumulative excess of such revenues over staff development expenditures is reported as a restriction of fund balance in the General Fund.

NOTE 7. FUND BALANCE (Cont'd)

Fund Equity: (Cont'd)

B. RESTRICTED FOR OPERATING CAPITAL

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

C. RESTRICTED FOR HEALTH & SAFETY

The fund balance restriction represents accumulated resources available to be used for health and safety projects in accordance with an approved health and safety plan.

D. RESTRICTED FOR LONG-TERM FACILITY MAINTENANCE

The fund balance restriction represents accumulated resources available to be used for LTFM projects in accordance with the 10 Year Plan.

E. RESTRICTED FOR COMMUNITY EDUCATION

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

F. RESTRICTED FOR ECFE (EARLY CHILDHOOD AND FAMILY EDUCATION)

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

G. RESERVED FOR AREA LEARNING CENTERS

The fund balance reservation represents up to 90% of the accumulated resources available to provide alternative programming in accordance with funding made available for that purpose.

H. RESTRICTED FOR GIFTED AND TALENTED

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

I. RESTRICTED FOR SCHOOL READINESS

The fund balance restriction represents accumulated resources available to provide services for the school readiness program.

J. RESTRICTED FOR ADULT BASIC EDUCATION

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

NOTE 7. FUND BALANCE (Cont'd)

Fund Equity: (Cont'd)

K. RESTRICTED FOR BASIC SKILLS EXTENDED TIME

The fund balance restriction represents accumulated resources available for extended time activities to provide for the educational needs of pupils who enroll under-prepared to learn and whose progress toward meeting state or local content or performance standards is below the level that is appropriate for learners of their age in accordance with funding made available for that purpose.

L. RESTRICTED FOR SAFE SCHOOLS

The fund balance restriction represents unspent resources available from the safe schools levy.

M. RESTRICTED FOR MEDICAL ASSISTANCE

The fund balance restriction represents unspent resources available for medical assistance expenditures.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

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

General Employees Retirement Plan (GERP):
All full-time and certain part-time employees of the District, are covered by GERP. GERP 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.

Teachers Retirement Fund (TRA):
TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

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

B. BENEFITS PROVIDED

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

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

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

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

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

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

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

Tier I Benefits:

Tier 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

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

TRA Benefits: (Cont'd)
Tier I Benefits: (Cont'd)

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% per year early retirement reduction factors for all years under normal retirement age.

c. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

-or-

Tier II Benefits:

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

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

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

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. CONTRIBUTIONS

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

GERP Contributions:
Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary for the year ended June 30, 2018. The District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members for the year ended June 30, 2018. The District's contributions to the GERF for the year ended June 30, 2018, were $716,534. The District’s contributions were equal to the required contributions for each year as set by state statute.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

C. CONTRIBUTIONS (Cont'd)

TRA Contributions:
Minnesota Statutes Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2016, June 30, 2017 and June 30, 2018 were:

	Employee	Employer
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2018 were $1,687,633. The District's contributions were equal to the required contributions for each year as set by state statute.

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-employer Pension Allocations.

Employer Contributions Reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	$	367,791,000
Add Employer Contributions Not Related to Future Contribution Efforts		810,000
Deduct TRA's Contributions Not Included in Allocation		(456,000)
Total Employer Contributions		368,145,000
Total Non-Employer Contributions		35,588,000
Total Contributions Reported in Schedule of Employer and Non-Employer Allocations	$	403,733,000

Amounts reported in the allocation schedules may not precisely agree with financial statement amounts or actuarial valuations due to the number of decimal places used in the allocations. TRA has rounded percentage amounts to the nearest ten thousandths.

D. PENSION COSTS

GERP:

At June 30, 2018, the District reported a liability of $8,765,141 for its proportionate share of the GERP’s net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $110,224. The net pension liability was measured as of June 30, 2017, 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, 2017, the District’s proportion was 0.1373% at the end of the measurement period and 0.1425% at the beginning of the period.

For the year ended June 30, 2018, the District recognized pension expense of $253,974 for its proportionate share of GERP’s pension expense. In addition, the District recognized an additional $3,183 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

GERP: (Cont'd)
At June 30, 2018, the District reported its proportionate share of GERP's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 288,873	$ 563,883
Changes in actuarial assumptions	1,455,203	878,706
Differences between projected and actual investment earnings		379,063
Changes in proportion		315,450
Contributions paid to PERA subsequent to measurement date	716,534	
Totals	$ 2,460,610	$ 2,137,102

$716,534 reported as deferred outflows of resources related to pensions resulting from District contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2018	$ (179,994)
2019	400,962
2020	(241,932)
2021	(372,062)

TRA:
At June 30, 2018, the District reported a liability of $80,845,347 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2017, 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 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 proportion was 0.4050% at the end of the measurement period and 0.4005% at the beginning of the period.

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

District's proportionate share of net pension liability	$ 80,845,347
State's proportionate share of the net pension liability associated with the District	7,815,939

For the year ended June 30, 2018, the District recognized pension expense of $2,290,563. It also recognized $149,904 as an increase to pension expense for the support provided by direct aid.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

TRA: (Cont'd)
At June 30, 2018, the District reported its proportionate share of TRA's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 608,791	$ 567,709
Changes in actuarial assumptions	43,965,565	11,325,157
Differences between projected and actual investment earnings		633,505
Changes in proportion	490,039	1,021,631
Contributions paid to TRA subsequent to measurement date	1,687,633	
Totals	$ 46,752,028	$ 13,548,002

$1,687,633 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2018	$ 8,347,997
2019	9,737,489
2020	8,676,173
2021	7,062,899
2022	(2,308,165)

E. ACTUARIAL ASSUMPTIONS

GERP:
The total pension liability in the June 30, 2017 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Actuarial Assumptions	
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 all plans for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years for the General Employees Plan through 2044 and then 2.5 percent thereafter for GERP.

Actuarial assumptions used in the June 30, 2017 valuations were based on the results of actuarial experience studies. The most recent four-year experience study in the GERP was completed in 2015.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

GERP: (Cont'd)
The following changes in actuarial assumptions occurred in 2017:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39.00%	5.10%
International Stocks	19.00%	5.30%
Bonds	20.00%	0.75%
Alternative Assets	20.00%	5.90%
Cash	2.00%	0.00%
	100.00%	

TRA:

Valuation Date:	July 1, 2017
Experience Study:	June 5, 2015 November 6, 2017 (Economic Assumptions)
Actuarial Cost Method:	Entry Age Normal

Actuarial Assumptions	
Investment Rate of Return:	5.12% from the Single Equivalent Interest Rate calculation
Price Inflation:	2.50%
Wage Growth Rate:	2.85% for 10 years and 3.25%, thereafter
Projected Salary Increase:	2.85% to 8.85% for 10 years and 3.25% to 9.25%, thereafter
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.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

TRA: (Cont'd)
The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future 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 expected 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 Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39.00%	5.10%
International Stocks	19.00%	5.30%
Bonds	20.00%	0.75%
Alternative Assets	20.00%	5.90%
Cash	2.00%	0.00%
	100.00%	

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 Economic Experience", "Changes in Actuarial Assumptions" and "Changes in Proportion" use the amortization period of 6 years in the schedule presented. The amortization period for "Difference Between Projected and Actual Investment Earnings" is over a period of 5 years as required by GASB 68.

The following changes in actuarial assumptions occurred in 2017:

Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.

The investment return assumption was changed from 8.00% to 7.50%.

The price inflation assumption was lowered from 2.75% to 2.50%.

The payroll growth assumption was lowered from 3.50% to 3.00%.

The general wage growth assumption was lowered from 3.50% to 2.85% for 10 years followed by 3.25%, thereafter.

The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

F. DISCOUNT RATE

GERP:

The discount rate used to measure the total pension liability in 2017 was 7.50%. 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 GERF was projected to be available to make all projected future benefit payments of current plan participants. 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.

TRA:

The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 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 2053 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 (7.50%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

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 paragraphs, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	GERF		TRA	
1% Lower	6.50%	$ 13,595,386	4.12%	$ 106,700,279
Current Discount Rate	7.50%	8,765,141	5.12%	80,845,347
1% Higher	8.50%	4,810,709	6.12%	59,046,493

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.

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

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.* This implementation allows the District to report its total OPEB liability, deferred inflows of resources and deferred outflows of resources, and OPEB expense and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees less the OPEB plan's fiduciary net position on the financial statements.

A. PLAN DESCRIPTION

The District operates a single-employer retiree benefit plan (the Plan) that provides health, dental, and life insurance to eligible employees and their spouses through the District's commercial insurance plans. There are 655 active participants and 31 retired participants. Benefit and eligibility provisions are established through negotiations between the District and employee groups including a union. The union contract is renegotiated each two-year or three-year bargaining period. The Plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets all of the criteria in GASB Statement No. 75, paragraph 4.

B. TOTAL OPEB LIABILITY

The District's total OPEB liability of $3,765,997 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

C. CHANGES IN TOTAL OPEB LIABILITY

Changes in the total OPEB liability were as follows:

	Total OPEB Liability
Balance at June 30, 2016	$ 3,874,485
Changes for the Year:	
Service Cost	255,218
Interest	137,381
Changes of Assumptions or Other Inputs	(25,300)
Benefit Payments	(475,787)
Net Changes	(108,488)
Balance at June 30, 2017	$ 3,765,997

Changes of benefit terms reflect an increase in the retirees' share of health insurance premiums from 6.80% in 2017 to 6.90% in 2018.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.53% in 2017 to 3.62% in 2018.

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN (Cont'd)

C. CHANGES IN TOTAL OPEB LIABILITY (Cont'd)

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate:

	1.0% Decrease in Discount Rate (2.62%)	Discount Rate (3.62%)	1.0% Increase in Discount Rate (4.62%)
Total OPEB Liability	$ 4,068,274	$ 3,765,997	$ 3,505,813

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.80% decreasing to 3.40%) or 1-percentage-point higher (7.80% decreasing to 5.40%) than the current healthcare cost trend rates:

	1.0% Decrease (5.80% decreasing to 3.40%)	Healthcare Cost Trend Rates (6.80% decreasing to 4.40%)	1.0% Increase (7.80% decreasing to 5.40%)
Total OPEB Liability	$ 3,415,152	$ 3,765,997	$ 4,212,996

D. OPEB EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of ($67,327). At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions or other inputs	$ 0	$ 23,057

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

Year ended December 31,	OPEB Expense Amount
2019	$ (2,243)
2020	(2,243)
2021	(2,243)
2022	(2,243)
2023	(2,243)
Thereafter	(11,842)

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN (Cont'd)

E. ACTUARIAL METHODS AND ASSUMPTIONS

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary Increases	Based on the most recently disclosed assumptions for the pension plan in which the employee participates.
Healthcare Cost Trend Rates	6.80% for 2018, decreasing on average 0.41% per year to an ultimate rate of 4.40% for 2075 and later years.
Retiree's Share of Benefit-Related Costs	Assumed to increase with healthcare trend rates.

A discount rate of 3.62% was applied in the measurement of the total OPEB liability. The discount rate is based on the index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality rates were based on the RP-2014 Non-Annuitant Generational Mortality and Disabled Retiree Mortality Tables for Males and Females, as appropriate, with adjustments for mortality improvements based on Scale MP-2015.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016–June 30, 2017.

The actuarial cost method changed from using the Projected Unit Credit cost method to the Entry Age Normal level percent of pay cost method due to new GASB 74/75 accounting rules.

Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.

Medical per capita claims costs were updated to reflect recent experience.

Withdrawal, retirement and mortality rates were updated from the rates used in the 7/1/2015 PERA General Employees Retirement Plan and 7/1/2015 Teachers Retirement Association valuations to the rates used in the 7/1/2017 valuations.

A salary scale assumption was added to reflect the cost method change. Rates are from the 7/1/2017 PERA General Employees Retirement Plan and 7/1/2017 Teachers Retirement Association valuations.

The percent of future retirees not eligible for a medical direct subsidy assumed to elect coverage at retirement changed from 50% to 40% to reflect recent plan experience.

The percent of current and future retirees assumed to continue medical coverage after age 65 changed from 10% to 5% to reflect recent plan experience.

The percent of retirees not eligible for a subsidy and electing spouse coverage changed from 10% to 20% to reflect recent plan experience.

NOTE 9. OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN (Cont'd)

E. ACTUARIAL METHODS AND ASSUMPTIONS (Cont'd)

The percent of future non Medicare eligible retirees electing each medical plan changed to reflect recent plan experience. The following table provides the changes for the assumed percent electing each plan:

Medical Plan	7/1/2015 Valuation	6/30/2017 Valuation
VEBA $1,200	30%	25%
VEBA $2,600	40%	40%
VEBA $3,250	25%	25%
VEBA $6,350	5%	10%

NOTE 10. SUPPLEMENTAL PENSION PLAN

The District engaged an actuary to determine the District's liability for its supplemental pension plan in accordance with Governmental Accounting Standards Board (GASB) Statement No. 73 as of June 30, 2018.

A. PLAN DESCRIPTION

The District participates in a single employer lump-sum defined benefit pension plan administered by the District. At June 30, 2017, the plan covered 136 active members. The District does not have a separately-issued financial report.

B. BENEFITS PROVIDED

Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year or three-year bargaining period. The Plan does not issue a publicly available report.

C. NET PENSION LIABILITY AND OTHER RELATED AMOUNTS

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at 6/30/2017	$ 1,366,838	$	$ 1,366,838
Changes for the Year:			
Service Cost	70,995		70,995
Interest	48,386		48,386
Difference Between Expected and Actual Experience	(76,364)		(76,364)
Changes of Assumptions	(14,766)		(14,766)
Changes of Benefit Terms	(887,788)		(887,788)
Benefit Payments	(134,256)		(134,256)
Net Changes	(993,793)	0	(993,793)
Balances at 6/30/2018	$ 373,045	$ 0	$ 373,045

For the year ended June 30, 2018, the District recognized pension expense of $993,793 for its supplemental pension plan.

NOTE 10. SUPPLEMENTAL PENSION PLAN (Cont'd)

C. NET PENSION LIABILITY AND OTHER RELATED AMOUNTS (Cont'd)

At June 30, 2018, the District reported its proportionate share of its supplemental pension plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Liability	$	$ 65,816
Change of assumptions		15,828
Totals	$ 0	$ 81,644

$81,644 reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2019	$ (13,176)
2020	(13,176)
2021	(13,176)
2022	(13,176)
2023	(13,176)
Thereafter	(15,764)

D. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2018 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation Rate:	2.75 percent
Expected Long-Term Investment Return:	N/A
Amortization Method:	Straight-line amortization over a closed period
Remaining Amortization Period:	5 years
Discount Rate:	3.62 percent

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males and Females as appropriate, with adjustments for mortality improvements based on Scale MP-2015.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study on June 30, 2017.

The discount rate was changed from 3.53% to 3.62% based on updated 20-year municipal bond rates.

Withdrawal, retirement, mortality and salary increase rates were updated from the rates used in the 7/1/2015 PERA General Employees Retirement Plan and 7/1/2015 Teachers Retirement Association valuations to the rates used in the 7/1/2017 valuations.

NOTE 10. SUPPLEMENTAL PENSION PLAN (Cont'd)

E. SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the net pension liability calculated using the discount rate of 3.62 percent, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (2.62%)	Discount Rate (3.62%)	1% Increase in Discount Rate (4.62%)
District's Net Pension Liability	$ 385,528	$ 373,045	$ 360,025

NOTE 11. SELF-INSURED DENTAL PLAN

The District has elected to self-insure their employee dental insurance program. The District has entered into an agreement with an insurance company to provide stop-loss insurance to limit the losses on individual and aggregate claims and to provide claims processing and other administrative duties. The individual stop-loss amount is $1,200 per participant. The District established an internal service fund to account for contributions from other funds for dental insurance and to establish a reserve for catastrophic losses. Contributions during the year were based on maximum claims before reinsurance is effective. The amounts charged to expenses include administrative fees, stop-loss insurance premiums, claims paid and accruals for claims incurred but not paid at year end. The District recorded expenses of $218,820 for the year ended June 30, 2018 which includes administrative costs of $23,102.

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

	June 30, 2018	June 30, 2017
Unpaid Claims, Beginning of Year	$ 7,010	$ 7,717
Incurred Claims	195,718	194,133
Claims Payments (cash basis)	(196,311)	(194,840)
Unpaid Claims, End of Year	$ 6,417	$ 7,010

NOTE 12. COMMITMENTS AND CONTINGENCIES

A. FEDERAL AND STATE PROGRAMS

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

NOTE 12. COMMITMENTS AND CONTINGENCIES (Cont'd)

B. CONSTRUCTION COMMITMENT

The District has active construction projects, including the following:

	Original Contract	Remaining Commitment
Elementary School Construction	$ 27,819,441	$ 3,593,803
School District Heating Improvements	1,163,700	1,163,700
Kennedy Elementary Ventilation	815,000	793,126
Kennedy Elementary Windows & Doors	625,000	608,069
Roosevelt Elementary Fire Protection	380,000	366,895
School District Alterations	610,000	500,852

NOTE 13. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers' compensation. To mitigate these risks, the District has obtained commercial property and casualty insurance and workers' compensation coverage. The District pays an annual premium with no additional assessments.

The District has joined together with other school districts in Minnesota in the Southwest - West Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as a common risk management and insurance program for member districts. The District pays monthly premiums to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

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

NOTE 14. JOINT POWERS AGREEMENT

The District and the City of Willmar have entered into a Joint Powers agreement to collaborate and coordinate in the provision of social, educational, vocational and recreational services to members of the community. It is the intention of the parties to offer these services collaboratively and to coordinate their service programs in order to eliminate duplication of services and in order to maximize the effectiveness of the services provided. The Joint Powers Entity is governed by the Joint Powers Board, which includes five members appointed by the City Council, five members appointed by the School Board, and two students, one recommended by the Senior High School Student Council and one recommended by the Middle School Student Council, to be approved and appointed by the City Council and School Board. One School Board member, one City Council member, the City Administrator and the Superintendent of Schools shall serve as ex-officio members to the Board.

The District employs an individual to administer community education, which is in the Community Service Fund. The City is responsible for providing adult and youth recreation programs, adult and youth athletic programs and administer the daily operations of the Dorothy A. Olson Aquatic Center. This agreement will end during fiscal year 2019.

NOTE 15. TAX ABATEMENTS

The District is authorized by Minnesota Statute 469.1813 to enter into property tax abatements for the purpose of attracting or retaining businesses. Tax abatements, which cannot exceed 100 percent of the entity's property tax bill in any year, may be granted to any business located within or promising to relocate to the District for construction of new facilities or the creation of new full time equivalent positions. The District recaptures the amount of abated taxes by increasing the levy for the amount abated. The District determines the percentage, amount and duration of the tax abatement, which is not to exceed twenty years. The amount of the abatement is paid by the property owner and then refunded by the District to the property owner.

For the year ended June 30, 2018, the District abated property taxes totaling $50,191 under this program for MinnWest Technology Campus.

NOTE 16. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The following is a summary of the major components of deferred outflows and inflows as presented in the Statement of Net Position:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	$ 49,212,638	$ 15,766,748
Related to OPEB		23,057
Property Taxes Levied for Subsequent Year		7,821,384
Totals	$ 49,212,638	$ 23,611,189

NOTE 17. PRIOR PERIOD ADJUSTMENT

The beginning net position of the governmental activities has been decreased to reflect a change in accounting principle. As mentioned in Note 9, the District implemented GASB 75 which records the District's total other post-employment benefits liability, deferred inflows of resources and deferred outflows of resources, and other post-employment benefits expense on the District's government-wide financial statements. Prior year partial comparative information does not reflect this change in accounting principle because the benefit plan in which the District participates has not made this information available. The net position, beginning of year, as originally stated, prior period adjustment, and net position, beginning of year, as restated as of June 30, 2018 are summarized in the following table:

	Net Position, Beginning of Year, as Originally Stated	Prior Period Adjustment	Net Position, Beginning of Year, as Restated
Governmental Activities	$ (6,180,378)	$ (1,717,694)	$ (7,898,072)

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
JUNE 30, 2018

	Measurement Date 6/30/2017
Service Cost	$ 255,218
Interest	137,381
Change in Assumptions	(25,300)
Benefit Payments	(475,787)
Net Change in Total OPEB Liability	(108,488)
Total OPEB Liability - Beginning of Year	3,874,485
Total OPEB Liability - End of Year	$ 3,765,997
Covered Employee Payroll	$ 33,884,934
Total OPEB Liability as a % of Covered Employee Payroll	11.11%

The District implemented GASB Statement No. 75 for fiscal year ended June 30, 2018. Information for prior years is not available. Additional years will be reported as they become available.

See Accompanying Notes to Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR PENSION PLANS ADMINISTERED THROUGH A TRUST
JUNE 30, 2018

Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) and the State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a/b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Pensions							
PERA							
6/30/2017	0.1373%	$ 8,765,141	$ 110,224	$ 8,875,365	$ 8,905,707	99.66%	75.90%
6/30/2016	0.1425%	11,570,293	151,048	11,721,341	8,821,466	132.87%	68.91%
6/30/2015	0.1450%	7,514,653		7,514,653	8,415,120	89.30%	78.19%
6/30/2014	0.1469%	6,900,626		6,900,626	7,740,462	89.15%	78.75%
TRA							
6/30/2017	0.4050%	80,845,347	7,815,939	88,661,286	21,922,200	404.44%	51.57%
6/30/2016	0.4005%	95,528,806	9,588,605	105,117,411	20,898,836	502.98%	44.88%
6/30/2015	0.4306%	26,636,869	3,267,150	29,904,019	22,097,506	135.33%	76.77%
6/30/2014	0.4403%	20,288,707	1,427,361	21,716,068	20,120,785	107.93%	81.50%

The District implemented GASB Statement No. 68 for fiscal year ended June 30, 2015. Information for prior years is not available. Additional years will be reported as they become available.

See Accompanying Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR PENSION PLANS ADMINISTERED THROUGH A TRUST
JUNE 30, 2018

Year Ended June 30,	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 Payroll (b/d)
Pensions					
PERA					
6/30/2018	$ 716,534	$ 716,534	$	$ 9,553,785	7.50%
6/30/2017	667,928	667,928		8,905,707	7.50%
6/30/2016	661,610	661,610		8,821,466	7.50%
6/30/2015	631,134	631,134		8,415,120	7.50%
TRA					
6/30/2018	1,687,633	1,687,633		22,501,776	7.50%
6/30/2017	1,644,165	1,644,165		21,922,200	7.50%
6/30/2016	1,567,327	1,567,327		20,898,836	7.50%
6/30/2015	1,657,313	1,657,313		22,097,506	7.50%

The District implemented GASB Statement No. 68 for fiscal year ended June 30, 2015. Information for prior years is not available. Additional years will be reported as they become available.

See Accompanying Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL PENSION LIABILITY
FOR PENSION PLANS NOT ADMINISTERED THROUGH A TRUST
JUNE 30, 2018

	2018	2017	2016
Service Cost	$ 70,995	$ 16,337	$ 15,278
Interest	48,386	6,678	8,474
Differences Between Expected and Actual Experience	(76,364)		
Changes of Assumptions	(14,766)	(4,278)	
Changes of Benefit Terms	(887,788)	1,215,024	
Benefit Payments	(134,256)	(169,778)	(5,932)
Net Change in Total Pension Liability	(993,793)	1,063,983	17,820
Total Pension Liability - Beginning of Year	1,366,838	302,855	285,035
Total Pension Liability - End of Year	$ 373,045	$ 1,366,838	$ 302,855
District's Total Pension Liability - Ending	$ 373,045	$ 1,366,838	$ 302,855
Payroll for Measurement Period	$ 8,425,778	$ 10,025,698	$ 8,632,095
Total Pension Liability as a % of Employee Payroll	4.4%	13.6%	3.5%

The District implemented GASB Statement No. 73 for fiscal year ended June 30, 2016. Information for prior years is not available. Additional years will be reported as they become available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

NOTE 1. STATUTORY ASSUMPTION AND VALUATION METHODS RELATED TO THE TOTAL OPEB LIABILITY

A. ACCUMULATED PLAN ASSETS

No assets are accumulated in a trust that meets all of the criteria in GASB Statement No. 75, paragraph 4.

B. VALUATION DATE

Actuarially determined contribution rates are calculated as of every other June 30, one year prior to the end of the fiscal year in which contributions are reported.

C. METHOD AND ASSUMPTIONS USED IN CALCULATION OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The information presented in the required supplementary schedules was determined as follows:

Valuation Date:	6/30/2017
Actuarial Cost Method:	Entry Age
Amortization Method:	Straight-Line - Closed
Remaining Amortization Period:	5 Years
Inflation:	2.75%
Healthcare cost trend rates	
Pre-Medicare Eligible	6.80%
Medicare Eligible	6.80%
Ultimate trend rates	
Pre-Medicare Eligible	4.40%
Medicare Eligible	4.40%
Year of Ultimate Rate	2074

NOTE 2. CHANGES IN PLAN PROVISIONS FOR PENSION PLANS ADMINISTERED THROUGH A TRUST

A. GERF

2017 Changes:

No changes.

2016 Changes:

No changes.

2015 Changes:

On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

B. TRA

2017 Changes:

No changes.

2016 Changes:

No changes.

2015 Changes:

The Duluth Teachers Retirement Fund Association was merged into TRA on June 30, 2015. This also resulted in an additional state-provided contribution stream of $14.377 million until the System becomes fully funded.

2014 Changes:

The increase in the post-retirement benefit adjustment (COLA) is to be made once the System is 90% funded (on a market value basis) in two consecutive years, rather than just one year.

NOTE 3. CHANGES IN ACTUARIAL ASSUMPTIONS FOR PENSION PLANS ADMINISTERED THROUGH A TRUST

A. GERF

2017 Changes:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.

NOTE 3. CHANGES IN ACTUARIAL ASSUMPTIONS FOR PENSION PLANS ADMINISTERED THROUGH A TRUST (Cont'd)

A. GERF (Cont'd)

2017 Changes: (Cont'd)

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes:

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 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.

2015 Changes:

The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

B. TRA

2017 Changes:

Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.

The investment return assumption was changed from 8.00% to 7.50%.

The price inflation assumption was lowered from 2.75% to 2.50%.

The payroll growth assumption was lowered from 3.50% to 3.00%.

The general wage growth assumption was lowered from 3.50% to 2.85% for 10 years followed by 3.25%, thereafter.

The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

NOTE 3. CHANGES IN ACTUARIAL ASSUMPTIONS FOR PENSION PLANS ADMINISTERED THROUGH A TRUST (Cont'd)

B. TRA (Cont'd)

2016 Changes:

The price inflation assumption was lowered from 3.00% to 2.75%.

The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.50%.

Minor changes at some durations for the merit scale of the salary increase assumption.

The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale.

The post-retirement mortality assumption was changed to the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.

The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustment.

Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group's behavior in light of different requirements for retirement eligibility.

Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.

A minor adjustment and simplification of the assumption regarding the election of optional forms of payment at retirement were made.

2015 Changes:

The Cost of Living Adjustment was not assumed to increase to 2.5%, but remain at 2.0% for all future years.

The investment return assumption was changed from 8.25% to 8.00%.

2014 Changes:

The Cost of Living Adjustment was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2034.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
BUILDING CONSTRUCTION CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018				2017
	Budgeted Amounts			Over (Under) Final	
	Original	Final	Actual	Budget	Actual
REVENUES					
Interest Earnings	$ 175,000	$ 222,903	$ 232,608	$ 9,705	$ 402,111
EXPENDITURES					
Capital Outlay					
Sites and Buildings	22,684,409	16,474,558	16,706,099	231,541	22,867,710
Net Change in Fund Balances	$ (22,509,409)	$ (16,251,655)	(16,473,491)	$ (221,836)	(22,465,599)
FUND BALANCE, BEGINNING OF YEAR			26,492,201		48,957,800
FUND BALANCE, END OF YEAR			$ 10,018,710		$ 26,492,201

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2018
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017

	2018				2017
	Budgeted Amounts			Over (Under) Final Budget	
	Original	Final	Actual		Actual
REVENUES					
Local Sources					
Property Taxes	$ 3,608,183	$ 3,610,165	$ 3,608,265	$ (1,900)	$ 3,594,438
Interest Earnings	3,899	10,746	11,181	435	2,136
State Sources	25,798	23,816	23,815	(1)	25,798
Total Revenues	3,637,880	3,644,727	3,643,261	(1,466)	3,622,372
EXPENDITURES					
Debt Service					
Bond Principal	1,875,000	1,875,000	1,875,000		1,405,000
Bond Interest	1,586,290	1,586,290	1,586,290		2,408,132
Paying Agent Fees and Other	3,400	3,400	3,400		3,400
Total Expenditures	3,464,690	3,464,690	3,464,690	0	3,816,532
Net Change in Fund Balances	$ 173,190	$ 180,037	178,571	$ (1,466)	(194,160)
FUND BALANCE, BEGINNING OF YEAR			183,041		377,201
FUND BALANCE, END OF YEAR			$ 361,612		$ 183,041

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
JUNE 30, 2018

	2017	Additions	Deductions	2018
ASSETS				
Cash and Investments	$	$ 49,189	$ (36,007)	$ 13,182
Receivables				
Due from Other Minnesota School Districts	33,088	67,586	(71,406)	29,268
Total Assets	$ 33,088	$ 116,775	$ (107,413)	$ 42,450
LIABILITIES AND NET POSITION				
Liabilities				
Salaries and Wages Payable	$ 7,642	$ 5,523	$ (13,165)	$
Accounts Payable	3,229	62,063	(22,842)	42,450
Due to Other Funds	19,383		(19,383)	
Due to Other Minnesota School Districts	2,834		(2,834)	
Total Liabilities	$ 33,088	$ 67,586	$ (58,224)	$ 42,450

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REQUIRED REPORTS

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INDEPENDENT SCHOOL DISTRICT #347

UFARS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2018

	Audited	UFARS	Difference
01 GENERAL FUND			
Total Revenue	$ 55,705,250	$ 55,705,250	$
Total Expenditures	52,646,695	52,646,695	
Nonspendable:			
460 Nonspendable	335,133	335,132	1
Restricted/Reserved:			
403 Staff Development	608,222	608,222	
405 Deferred Maintenance			
406 Health and Safety	25,901	25,901	
407 Capital Projects Levy			
408 Cooperative Revenue			
409 Alternative FAC Program			
413 Project Funded by Cop			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
423 Certain Teacher Programs			
424 Operating Capital	352,701	352,701	
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development			
434 Area Learning Center	246,566	246,566	
435 Contracted Alt. Programs			
436 State Approved Alt. Programs			
438 Gifted & Talented	10,318	10,318	
440 Teacher Development & Eval			
441 Basic Skills Programs			
445 Career & Technical Programs			
448 Achievement and Integration			
449 Safe Schools - Crime Levy	16,968	16,968	
450 Transition for Pre-Kindergarten			
451 QZAB and QSCB Payments			
452 OPEB Liab Not Held in a Trust			
453 Unfunded Sev & Retirement Levy			
459 Basic Skills Ext Time	95,598	95,598	
467 LTFM	624,139	624,139	
472 Medical Assistance	721,331	721,331	
Restricted:			
464 Restricted			
Committed:			
418 Separation/Retirement Benefits	1,200,000	1,200,000	
461 Committed			
Assigned:			
462 Assigned	28,254	28,254	
Unassigned:			
422 Unassigned	12,316,090	12,316,091	(1)
02 FOOD SERVICE			
Total Revenue	3,282,262	3,282,262	
Total Expenditures	3,545,365	3,545,364	1
Nonspendable:			
460 Nonspendable	46,263	46,263	
Restricted/Reserved:			
452 OPEB Liab Not Held in a Trust			
Restricted:			
464 Restricted	1,062,994	1,062,993	1
Unassigned:			
463 Unassigned			
04 COMMUNITY SERVICE			
Total Revenue	3,037,515	3,037,515	
Total Expenditures	3,204,209	3,204,209	
Nonspendable:			
460 Nonspendable	10,184	10,184	
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	510,698	510,698	
432 E.C.F.E	154,796	154,796	
444 School Readiness	164,651	164,651	
447 Adult Basic Education	58,504	58,504	
452 OPEB Liab Not Held in a Trust			
Restricted:			
464 Restricted	2,705	2,705	
Unassigned:			
463 Unassigned			

	Audited	UFARS	Difference
06 BUILDING CONSTRUCTION			
Total Revenue	$ 232,608	$ 232,608	$
Total Expenditures	16,706,099	16,706,099	
Nonspendable:			
460 Nonspendable	1,894	1,894	
Restricted/Reserved:			
407 Capital Projects Levy			
409 Alternative Facilities Program			
413 Project Funded by COP/LP			
467 LTFM			
Restricted:			
464 Restricted	10,016,816	10,016,816	
Unassigned:			
463 Unassigned			
07 DEBT SERVICE			
Total Revenue	3,643,261	3,643,262	(1)
Total Expenditures	3,464,690	3,464,690	
Nonspendable:			
460 Nonspendable			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB and QSCB Payments			
Restricted:			
464 Restricted	361,612	361,612	
Unassigned:			
463 Unassigned			
08 TRUST			
Total Revenue	305	305	
Total Expenditures	750	750	
Unassigned:			
422 Unassigned	32,337	32,337	
20 INTERNAL SERVICE			
Total Revenue	209,799	209,799	
Total Expenditures	218,820	218,820	
Unassigned:			
422 Unassigned	90,032	90,032	
25 OPEB REVOCABLE TRUST			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned			
45 OPEB IRREVOCABLE TRUST			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned			
47 OPEB DEBT SERVICE			
Total Revenue			
Total Expenditures			
Nonspendable:			
460 Nonspendable			
Restricted:			
425 Bond Refundings			
464 Restricted			
Unassigned:			
463 Unassigned			

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

Federal Grantor\ Pass-Through Grantor\ Program Title	Federal CFDA Number		Pass-Through Entity Identifying Number	Expenditures
U.S. Department of Agriculture				
Conservation Reserve Program	10.069			$ 3,912
Minnesota Department of Education				
Child Nutrition Cluster:				
National School Lunch Program:				
Regular Lunch				224,281
Free and Reduced Lunch				1,053,976
After School Snack				42,506
Commodities Rebates				915
Food Distribution (Commodities-noncash)				196,785
Total National School Lunch Program	10.555	*	0000193883	1,518,463
Special Milk Program for Children	10.556	*	0000193883	1,322
School Breakfast Program	10.553	*	0000193883	602,855
Summer Food Service Program for Children	10.559	*	0000193883	45,516
Total Child Nutrition Cluster				2,168,156
Fresh Fruit and Vegetable Program	10.582		0000193883	111,669
Child and Adult Care Food Program	10.558		0000193883	31,997
Total U.S. Department of Agriculture				2,315,734
U.S. Department of Education				
Minnesota Department of Education				
Title I Grants to Local Educational Agencies	84.010		0000193883	1,265,448
Adult Education - Basic Grants to States	84.002		0000193883	41,986
Title I, Part C - Migrant Education State Grant Program	84.011		0000193883	64,338
Title II, Part A - Supporting Effective Instruction State Grants	84.367		0000193883	169,666
Title III, Part A - English Language Acquisition Grants	84.365		0000193883	150,625
SW/WC Service Cooperative				
Special Education Cluster:				
Special Education Grants to States	84.027			531,693
Special Education Preschool Grants	84.173			27,836
Total Special Education Cluster				559,529
Pact for Families Collaborative				
Twenty-First Century Community Learning Centers	84.287			194,851
Ridgewater College				
Career and Technical Education - Basic Grants to States	84.048A			21,256
Total U.S. Department of Education				2,467,699
Total Federal Awards				$ 4,783,433

* Denotes Major Program

See Accompanying Notes to Schedule of Expenditures of Federal Awards

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018

NOTE 1. REPORTING ENTITY

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Independent School District #347, Willmar, Minnesota. The District's reporting entity is defined in Note 1 to the financial statements.

NOTE 2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Independent School District #347 under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the District.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, Subpart E - Cost Principles, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 4. FOOD DISTRIBUTION

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

NOTE 5. SUBRECIPIENTS

During the year ended June 30, 2018, the District did not pass any federal money to subrecipients.

NOTE 6. DE MINIMIS COST RATE

The District elected not to charge the de minimis indirect cost rate of 10% to federal programs.

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COMPLIANCE SECTION

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To The Board of Education
Independent School District #347
Willmar, 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 as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2018.

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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

November 13, 2018

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To The Board of Education
Independent School District #347
Willmar, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #347, Willmar, Minnesota, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2018-001 that we consider to be significant deficiencies.

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Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying Schedule of 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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

November 13, 2018

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

To the Board of Education
Independent School District #347
Willmar, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District #347's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

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Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

November 13, 2018

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

I. SUMMARY OF AUDITOR'S RESULTS

A. FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
- Material weakness(es) identified?	No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	2018-001
Noncompliance material to financial statements noted?	No

B. FEDERAL AWARDS

Type of auditor's report issued on compliance for major program(s):	Unmodified
Internal control over major programs:	
- Material weakness(es) identified?	No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Part 200.516(a) of the Uniform Guidance?	No

C. IDENTIFICATION OF MAJOR PROGRAMS

CFDA No.:	10.553, 10.555, 10.556, 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between Types A and B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2018

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

FINDING: 2018-001 LIMITED SEGREGATION OF DUTIES

Condition:	There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees.
Criteria:	The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.
Cause:	The District has assigned duties to staff based on a cost-benefit relationship to the District and the practicality of the level of staffing the District maintains.
Effect:	The lack of adequate segregation of duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.
Recommendation:	The District should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

CORRECTIVE ACTION PLAN (CAP):
Explanation of Disagreement with Audit Finding:
None

Actions Planned in Response to Finding:
The District is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

Official Responsible for Ensuring CAP:
Pam Harrington, Director of Business and Finance

Planned Completion Date for CAP:
June 30, 2019

Plan to Monitor Completion of CAP:
Board of Education

III. MINNESOTA LEGAL COMPLIANCE

None

IV. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None

INDEPENDENT SCHOOL DISTRICT #347

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2018

Comment Reference	Comment Title	Status	Year Finding Initially Occurred	If not corrected, Provide Planned Corrective Action or Other Explanation

Financial Statement Findings:

None

Minnesota Legal Compliance Findings:

None

Federal Awards Findings:

None

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STUDENT ACTIVITIES

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INDEPENDENT AUDITOR'S REPORT ON STUDENT ACTIVITIES

Members of the Board of Education, Advisors, and Students
Independent School District #347
Willmar, Minnesota

Report on the Financial Statements

We have audited the accompanying Statements of Cash Receipts and Disbursements of the Student Activity Fund of Independent School District #347 for the year ended June 30, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting described in Note 1. Management is also responsible for 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 error or fraud.

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. 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 opinion.

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

As described in Note 1, the financial statements are prepared by the Independent School District #347 in accordance with the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the financial reporting requirements of the Minnesota Department of Education.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District #347 as of June 30, 2018, and the respective changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

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

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the "Basis for Qualified Opinion on Regulatory Basis" paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District #347 as of June 30, 2018, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the notes to the financial statements.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated November 13, 2018, on our consideration of the District's compliance with provisions of the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49. The purpose of that report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

November 13, 2018

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
MIDDLE SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2018

	Balance July 1, 2017	Transfers and Receipts	Transfers and Disbursements	Balance June 30, 2018
Musical	$ 18	$	$ 18	$
Pop Concert T-Shirts	18	2,535	2,466	87
Student Council	714	5,278	5,374	618
Total	$ 750	$ 7,813	$ 7,858	$ 705

See Accompanying Notes and Auditor's Report on Student Activities

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
SENIOR HIGH ACTIVITY FUND
YEAR ENDED JUNE 30, 2018

	Balance July 1, 2017	Transfers and Receipts	Transfers and Disbursements	Balance June 30, 2018
Cardettes	$ 1	$ 3,584	$ 2,405	$ 1,180
F.F.A.	571	850	934	487
General Account (Bank Interest/Expenses)		178	178	
Cross Country	11,013	776	2,844	8,945
National Honor Society	2,651	1,675	3,183	1,143
Nordic Ski	1,207	2,109	3,276	40
Culture Club	168			168
Seventh Rendition	22,875	87,793	35,140	75,528
Student Council	7,271	8,964	9,720	6,515
"W" Fund	7,102	8,728	4,155	11,675
Wihisean	296	304	553	47
Orchestra	3,937	82	287	3,732
Willmar Athletics	4,258	31,150	29,697	5,711
Final Concessions	3,794	43,677	42,076	5,395
Knowledge Bowl	715	1,014	1,370	359
Art Club	1,126		649	477
High Mileage	540	1,250	1,260	530
Key Club	1,034	2,214	2,230	1,018
Gymnastics	5,535	5,038	4,488	6,085
Speech		1,395	143	1,252
Fastpitch Softball	173	2,247	1,369	1,051
Tennis	2,984	1,842	2,851	1,975
Volleyball	12,407	4,021	2,752	13,676
Track	5,918	3,104	3,057	5,965
Girls Soccer	84	3,280	2,227	1,137
Boys Soccer	1,239	3,971	3,669	1,541
Boys Swim	969	2,644	1,355	2,258
Girls Swim	4,433	6,385	5,949	4,869
Wrestling	2,888	1,899	3,153	1,634
Boys Basketball	1,153	1,885	2,251	787
Girls Basketball	292	2,307	1,862	737
Boys Hockey	752	1,503	1,833	422
Girls Hockey	1,236	714		1,950
Boys Baseball	4,180	2,852	4,661	2,371
Boys Golf	1,482	898		2,380
Girls Golf	854	1,082	130	1,806
Boys Tennis	104	760	679	185
Football		6,297	3,995	2,302
First Robotics	97	19,060	16,801	2,356
Special Needs	306	18		324
Total	$ 115,645	$ 267,550	$ 203,182	$ 180,013

See Accompanying Notes and Auditor's Report on Student Activities

NOTES TO THE STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the Student Activity Funds are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.

NOTE 2. COLLATERAL

Cash balances are held in demand accounts. In accordance with Minnesota Statutes, the Student Activity Funds maintain deposits at those depository banks authorized by the Board of Education.

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

As of June 30, 2018, the Student Activity Funds' deposits were entirely covered by federal depository insurance.

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CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON STUDENT ACTIVITIES COMPLIANCE

Members of the Board of Education, Advisors, and Students
Independent School District #347
Willmar, Minnesota

We have audited Independent School District #347's compliance with the types of compliance requirements described in the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49 for the year ended June 30, 2018. The *Manual for Activity Fund Accounting* provides uniform financial accounting and reporting standards for student activities.

Management's Responsibility

Management is responsible for compliance with the requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the District's compliance based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, and the *Manual for Activity Fund Accounting.* Those standards and the *Manual for Activity Fund Accounting* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the District occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with the *Manual for Activity Fund Accounting.* Our audit does not provide a legal determination of the District's compliance with those requirements.

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Opinion

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the Student Activity Fund for the year ended June 30, 2018, except those described in the accompanying Schedule of Student Activity Findings as Finding 2018-002.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
Certified Public Accountants & Consultants
Willmar, Minnesota

November 13, 2018

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF STUDENT ACTIVITY FINDINGS
JUNE 30, 2018

I. FINDINGS RELATED TO STUDENT ACTIVITY COMPLIANCE
AUDITING STANDARDS

FINDING: 2018-002	MANUAL FOR ACTIVITY FUND ACCOUNTING FOR MINNESOTA SCHOOL DISTRICTS (MAFA) NONCOMPLIANCE
Condition:	During review of the District's student activities, we noted certain transactions and forms that were not in compliance with MAFA requirements. Specifically: -The District's Student Activity Forms did not specify instructions for disposal or transfer of the balance of the activities' funds upon termination. -During review, not all expenditures were approved by all required parties. -There was an instance of an activity account paying for a service/labor payment rather than the District paying for it and the activity account reimbursing the District. -The Board did not accept donations of funds received or approve student activity fundraising.
Criteria:	The MAFA indicates the following: -Balances shall be transferred as directed by the activity purpose form. -Check requests must be prepared and approved by a student representative, the advisor and the building principal (or his/her designee). -Inappropriate expenditures include labor or service payments as those need to be processed and paid by the District via normal district processes (student activity account must reimburse the District for such expenditures). -Gifts and donations may only be accepted by the Board. -School activity fundraising must have the approval of the Board and/or administration, either directly or through policy and procedures.
Cause:	The District does not have policies or procedures in place to ensure compliance with these requirements of MAFA.
Effect:	Noncompliance with the requirements of MAFA.
Recommendation:	We recommend the District implement policies and procedures District-wide to ensure compliance with these MAFA requirements.

CORRECTIVE ACTION PLAN (CAP):
Explanation of Disagreement with Audit Finding:
None

Actions Planned in Response to Finding:
The requirements of the MAFA will be reviewed with applicable personnel as a refresher training. All accounts will be monitored and new procedures will be developed to ensure compliance with MAFA requirements.

Official Responsible for Ensuring CAP:
Pam Harrington, Director of Business and Finance

Planned Completion Date for CAP:
June 30, 2019

Plan to Monitor Completion of CAP:
Board of Education