

INDEPENDENT SCHOOL DISTRICT #347
WILLMAR PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2017

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

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INDEPENDENT SCHOOL DISTRICT #347

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INDEPENDENT SCHOOL DISTRICT #347

BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2017

<u>Board of Education</u>		<u>Term Expires</u>
Chairperson	Jared Anez-through 3/14/2017 Mike Reynolds-starting 3/14/2017	1/4/2021
Vice-Chairperson	Mike Reynolds-through 3/14/2017 Vacant	
Clerk	Justin Bos	1/4/2021
Treasurer	Laura Warne	1/7/2019
Director	Tammy Barnes	1/4/2021
Director	Linda Mathiasen	1/7/2019
Director	Scott Thaden	1/4/2021
<u>Administration</u>		
Superintendent	Dr. Jeff Holm	
Director of Business and Finance	Pam Harrington	
Director of Human Resources	Liz Fischer	
Director of Teaching and Learning	Carrie Thomas	

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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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2017, 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.

Report on Partial Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 10, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 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 Schedules of Funding Progress and Employer Contributions, 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.

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.

Supplementary and Other Information (Cont'd)

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, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

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

November 13, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2017

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, 2017. 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 that is required by the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. 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 2016-2017 fiscal year include the following:

- The General Fund net unassigned fund balance (a combination of the unassigned fund balance with negative Health and Safety and Long-term Facility Maintenance fund balances) exceeded the School Board's fund balance minimum of 6% of expenditures with a fund balance of \$10,221,290, equivalent to 20.02% of expenditures. The fund balance also exceeded the revised budget estimate of \$8,166,215 or 16.18% of budgeted expenditures. The additional fund balance is attributed to increased revenue due to the increase to the growth limit cap in the newer special education funding formula. Actual adjusted pupil units (APU) which drives general basic aid was 31.28 APU or 0.7% higher than budgeted. Revenue for third party billing services was also higher this year. Expenditures for purchased services were lower than expected as lawyer's fees were down along with tuition paid for care and treatment. Salaries were lower than expected due to some positions remaining unfilled during parts of the year. There is a large 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.
- Net Position decreased 631.42% from the prior year mainly due to a significant increase in the District's proportionate share of the Teachers Retirement Association's net pension liability and related deferred outflows of resources and deferred inflows of resources. This was a result in the change in the estimated discount rate from 8.00% to 4.66%.
- The combined Governmental Funds fund balance decreased by 30.25%, or \$18,467,319 mainly due to the ongoing project and completion of construction and deferred maintenance projects.
- The overall net increase to the District's long-term liabilities was \$72,220,719, or 77.92% mainly due to the significant increase in the District's proportionate share of the Teachers Retirement Association's net pension liability.
- Enrollment increased by 67 ADM's (Average Daily Membership) in FY 2017. 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 23 students.
- The District's comprehensive annual financial report for the year ended June 30, 2016 was awarded the Certificate of Excellence in Financial Reporting from the Association of School Business Officials International (ASBO).

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2017

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 more detailed data.

Government-wide Statements

The government-wide statements (Statement of Net Position and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes **all** of the District's assets, 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.

INDEPENDENT SCHOOL DISTRICT #347
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

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.

INDEPENDENT SCHOOL DISTRICT #347

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

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 \$(6,180,378) on June 30, 2017. This was a decrease of 631.42% from the previous year (see Table A-1 below).

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

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2017</u>	<u>2016</u>	
Current and Other Assets	\$ 58,231,059	\$ 75,447,091	-22.82%
Capital Assets	<u>53,121,377</u>	<u>30,793,046</u>	72.51%
Total Assets	111,352,436	106,240,137	4.81%
Related to Pensions	<u>\$ 65,890,033</u>	<u>\$ 6,466,942</u>	918.87%
Total Deferred Outflows of Resources	65,890,033	6,466,942	918.87%
Current Liabilities	\$ 7,707,894	\$ 8,215,390	-6.18%
Noncurrent Liabilities	<u>164,907,750</u>	<u>92,687,031</u>	77.92%
Total Liabilities	172,615,644	100,902,421	71.07%
Property Taxes Levied for Subsequent Year's	\$ 8,439,624	\$ 7,479,509	12.84%
Related to Pensions	<u>2,367,579</u>	<u>3,162,156</u>	-25.13%
Total Deferred Inflows of Resources	10,807,203	10,641,665	1.56%
Net Position			
Net Investment in Capital Assets	\$ 28,751,118	\$ 28,194,385	1.97%
Restricted	2,169,766	1,242,738	74.60%
Unrestricted	<u>(37,101,262)</u>	<u>(28,274,130)</u>	-31.22%
Total Net Position	<u><u>\$ (6,180,378)</u></u>	<u><u>\$ 1,162,993</u></u>	-631.42%

The largest portion of the District's net position, \$28,751,118, 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 increase in the District's proportionate share of the Teachers Retirement Association's net pension liability and related deferred outflows of resources and deferred inflows of resources. Refer to Note 9 of the financial statements for additional information.

INDEPENDENT SCHOOL DISTRICT #347

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

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 Change
	2017	2016	
Revenues			
Program Revenues			
Charges for Services	\$ 3,058,749	\$ 2,835,062	7.89%
Operating Grants and Contributions	23,538,909	21,731,047	8.32%
Capital Grants and Contributions	1,052,483	703,212	49.67%
General Revenues			
Property Taxes	7,826,307	4,299,028	82.05%
Unrestricted State Aid	29,498,624	27,473,153	7.37%
Investment Earnings	447,503	275,496	62.44%
Other	25,775	43,139	-40.25%
Total Revenues	<u>65,448,350</u>	<u>57,360,137</u>	14.10%
Expenses			
Administration	2,560,073	2,123,474	20.56%
District Support Services	1,800,770	1,855,309	-2.94%
Regular Instruction	33,508,290	24,307,497	37.85%
Vocational Education Instruction	1,085,165	748,658	44.95%
Special Education Instruction	11,978,430	9,504,775	26.03%
Instructional Support Services	3,497,150	2,967,669	17.84%
Pupil Support Services	4,569,983	3,987,023	14.62%
Sites and Buildings	5,395,060	5,800,679	-6.99%
Fiscal and Other Fixed Costs Programs	157,159	156,742	0.27%
Food Service	3,067,268	2,990,408	2.57%
Community Service	3,629,063	2,942,858	23.32%
Interest and Fiscal Charges on Long-Term Liabilities	1,543,310	1,411,012	9.38%
Total Expenses	<u>72,791,721</u>	<u>58,796,104</u>	23.80%
Change in Net Position	(7,343,371)	(1,435,967)	-411.39%
Beginning Net Position, as Originally Stated	1,162,993	2,887,563	
Prior Period Adjustment		(288,603)	
Beginning Net Position, as Restated	<u>1,162,993</u>	<u>2,598,960</u>	-55.25%
Ending Net Position	<u>\$ (6,180,378)</u>	<u>\$ 1,162,993</u>	-631.42%

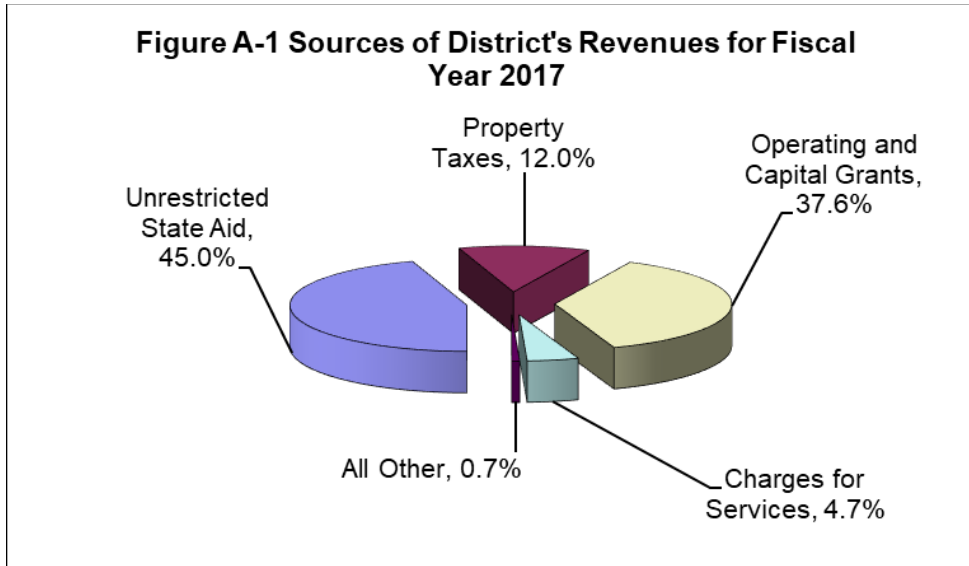
INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

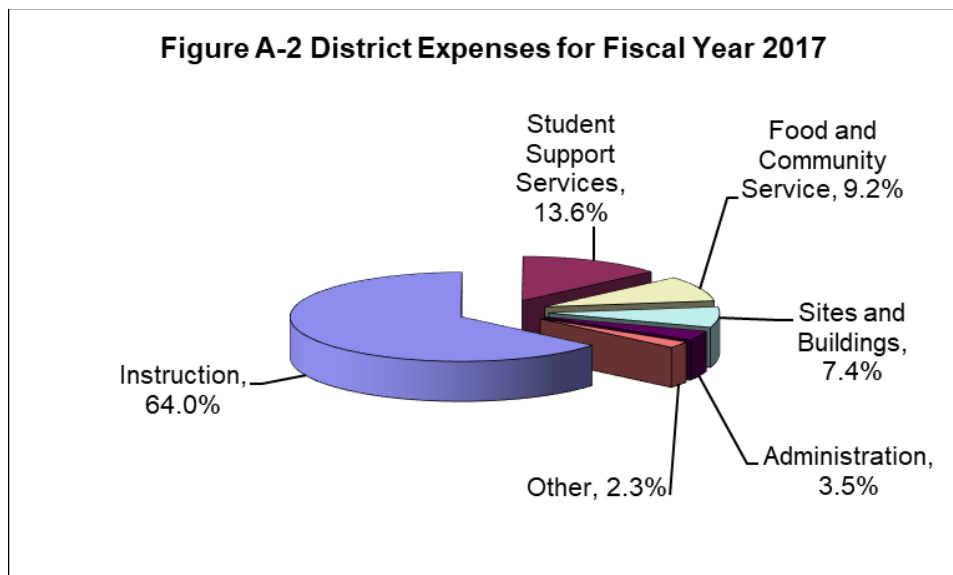
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position. The District's total revenues were \$65,448,350 for the year ended June 30, 2017. This is a 14.10% increase from the prior year's revenues.

Unrestricted state aid along with local property taxes accounted for 57.0% of the total revenue for the year (see Figure A-1 below). Another 42.3% 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 \$72,791,721 for the year ended June 30, 2017. This is a 23.80% increase from the prior year's expenses. Salary settlements for a collective bargaining group were not settled during the prior fiscal year which caused retroactive salary payments to occur in the current year in addition to salary increases for the current year. The District's expenses are predominantly related to student education (77.6%). (See Figure A-2). The purely administrative activities of the District accounted for just 3.5% of total costs. Total expenses surpassed revenues, decreasing net position \$7,343,371 from last year.



INDEPENDENT SCHOOL DISTRICT #347

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

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 \$72,791,721. 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 4.20%, or \$3,058,749 of the costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled \$24,591,392, or 33.78% of the total costs for 2016-2017.
- The remainder of the District's costs (\$45,141,580), 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 Change	Net Cost of Services		Percentage Change
	2017	2016		2017	2016	
Administration	\$ 2,560,073	\$ 2,123,474	20.56%	\$ 2,560,073	\$ 2,110,149	21.32%
District Support Services	1,800,770	1,855,309	-2.94%	1,632,403	1,728,274	-5.55%
Regular Instruction	33,508,290	24,307,497	37.85%	22,017,286	14,098,167	56.17%
Vocational Education Instruction	1,085,165	748,658	44.95%	1,012,811	669,654	51.24%
Special Education Instruction	11,978,430	9,504,775	26.03%	4,559,806	2,789,125	63.49%
Instructional Support Services	3,497,150	2,967,669	17.84%	2,365,926	1,938,908	22.02%
Pupil Support Services	4,569,983	3,987,023	14.62%	4,475,957	3,843,472	16.46%
Sites and Buildings	5,395,060	5,800,679	-6.99%	4,286,044	5,062,536	-15.34%
Fiscal and Other Fixed Costs Programs	157,159	156,742	0.27%	157,159	156,742	0.27%
Food Service	3,067,268	2,990,408	2.57%	(235,350)	(329,945)	-28.67%
Community Service	3,629,063	2,942,858	23.32%	766,155	48,689	1473.57%
Interest and Fiscal Charges on Long-Term Liabilities	1,543,310	1,411,012	9.38%	1,543,310	1,411,012	9.38%
Total	<u>\$ 72,791,721</u>	<u>\$ 58,796,104</u>	23.80%	<u>\$ 45,141,580</u>	<u>\$ 33,526,783</u>	34.64%

INDEPENDENT SCHOOL DISTRICT #347

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

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 2016-2017 fiscal year, the District's governmental funds reported a **combined** fund balance of \$42,589,993, a 30.25% decrease from last year's ending fund balance of \$61,057,312 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 \$65,445,179 while total expenditures were \$83,912,498. As a result, the District completed the year with an excess of expenditures over revenues of \$18,467,319. 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**

	2017			Fund Balance Increase (Decrease)
	Revenues	Expenditures	Other Financing Sources(Uses)	
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	<u>\$ 65,445,179</u>	<u>\$ 83,912,498</u>	<u>\$ 0</u>	<u>\$ (18,467,319)</u>

	2016			Fund Balance Increase (Decrease)
	Revenues	Expenditures	Other Financing Sources(Uses)	
General Fund	\$ 49,842,529	\$ 48,818,799	\$ 42,461	\$ 1,066,191
Food Service Fund	3,320,733	3,058,871	678	262,540
Community Service Fund	3,303,868	2,944,221		359,647
Building Construction	267,928	4,095,994	52,878,851	49,050,785
Debt Service Fund	5,580			5,580
Totals	<u>\$ 56,740,638</u>	<u>\$ 58,917,885</u>	<u>\$ 52,921,990</u>	<u>\$ 50,744,743</u>

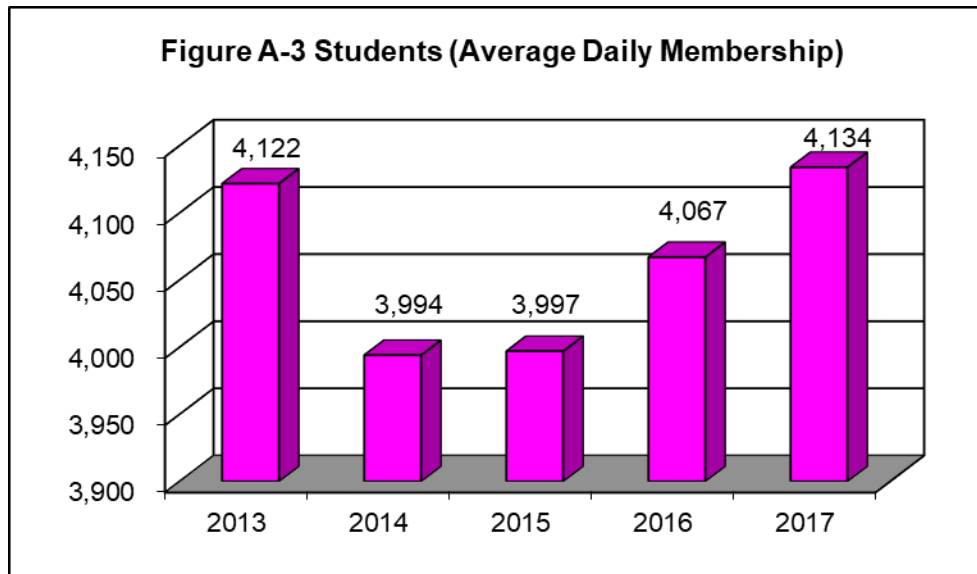
INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

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 with the exception of 2013 which saw an unusual spike in enrollment as seen in Figure A-3 below followed by a significant decrease in the following year. 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.

INDEPENDENT SCHOOL DISTRICT #347

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

GENERAL FUND (CONTINUED)

The following table presents a summary of General Fund revenues:

**Table A-5
General Fund Revenues**

Sources	Year Ended June 30,		Amount Difference	Percentage Change
	2017	2016		
Local Sources				
Property Taxes	\$ 3,781,834	\$ 3,889,307	\$ (107,473)	-2.76%
Interest Earnings	38,096	6,522	31,574	484.12%
Other	2,050,516	1,516,614	533,902	35.20%
State Sources	46,460,848	42,294,339	4,166,509	9.85%
Federal Sources	2,415,835	2,135,747	280,088	13.11%
Total General Fund Revenues	\$ 54,747,129	\$ 49,842,529	\$ 4,904,600	9.84%

Total General Fund revenue increased \$4,904,600, or 9.84%, from the previous year. Basic general education revenue is determined by the state per student funding formula. In addition, the District was required to record support it received from the State of Minnesota for the TRA special funding situation per GASB 68. The District does not actually receive this revenue and there is an offsetting pension expense recorded so the net impact to fund balance is zero.

The decrease to property taxes is due to Health & Safety and Deferred Maintenance funding being rolled into Long-Term Facility Maintenance (LTFM) funding. LTFM has a different aid/levy split which resulted in less funding coming from levy and more coming from state aid. Interest earnings increased as the District switched from a repurchase agreement to a money market account with a higher interest rate. Other local sources increased due to increased third party billing revenue from the Department of Human Services for services provided by the District, large donations for Senior High media center updates, Middle School math technology, a portion of an early childhood playground and a portion of a music teacher position. State aid increased as a result of increased enrollment and increases to funding formulas. Federal sources increased due to an increase to the 21st Century grant award and larger entitlement and/or carryover funds for Title IA, Title II and Rural and Low Income Schools.

The following table presents a summary of General Fund expenditures:

**Table A-6
General Fund Expenditures**

Expenditures	Year Ended June 30,		Amount Difference	Percentage Change
	2017	2016		
Salaries	\$ 29,437,963	\$ 28,131,264	\$ 1,306,699	4.65%
Employee Benefits	9,292,194	9,600,096	(307,902)	-3.21%
Purchased Services	6,952,485	7,470,891	(518,406)	-6.94%
Supplies and Materials	2,192,027	1,428,502	763,525	53.45%
Capital Expenditures	1,667,398	1,969,653	(302,255)	-15.35%
Other Expenditures	1,506,352	218,393	1,287,959	589.74%
Total General Fund Expenditures	\$ 51,048,419	\$ 48,818,799	\$ 2,229,620	4.57%

INDEPENDENT SCHOOL DISTRICT #347

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

GENERAL FUND (CONTINUED)

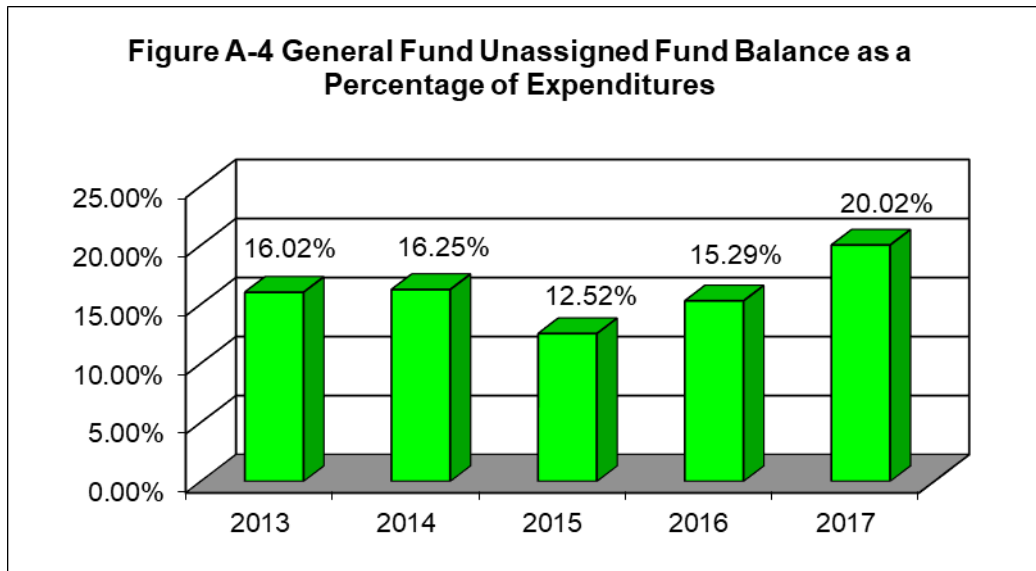
Total General Fund expenditures increased \$2,229,620 or 4.57% from the previous year.

Salaries increased primarily due to the implementation of a Voluntary Pre-Kindergarten program, a larger number of severance payments due to retirements and retroactive payments to EdMN members for 2015-16, as well as, salary increases for 2016-17. Employee Benefits were lower due to a one-time reimbursement of health insurance premium that was distributed in 2015-16.

Combined non-payroll expenditures (Purchased Services, Supplies and Materials, Capital Expenditures, and Other Expenditures) increased \$1,230,823. 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 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, 2016-2017 General Fund revenues were more than General Fund expenditures by \$3,698,710. As a result, the total fund balance is \$13,475,349 at June 30, 2017. After deducting statutory reserves, committed constraints, assigned and nonspendable items, the unassigned fund balance increased from \$7,463,373 on June 30, 2016 to \$10,221,290 on June 30, 2017.

Figure A-4, below, depicts the General Fund unassigned fund balance as a percentage of expenditures for fiscal years 2013 – 2017:



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 \$10,221,290 on June 30, 2017 represents 20.02% 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.

INDEPENDENT SCHOOL DISTRICT #347

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

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 2016.
- Changes in appropriations for significant unbudgeted costs.
- While the District's final budget for the General Fund anticipated that revenues would be greater than expenditures by \$1,180,054, the actual results for the year show that revenues were greater than expenditures by \$3,698,710. The additional fund balance is attributed to increased revenue due to the increase to the growth limit cap in the newer special education funding formula. In addition, average daily membership (ADM) for EL students was 109.72 ADM higher than budgeted which drove revenue to be higher than budgeted. Actual adjusted pupil units (APU), which drives general basic aid, was 31.28 APU or 0.7% higher than budgeted. Extended time revenue is generated based on extended time APU. Actual extended time APU was 40.05 APU higher than budgeted. Revenue for third party billing services was also higher this year. Expenditures for purchases services were lower than expected as lawyer's fees were down along with tuition paid for care and treatment. Salaries were lower than expected due to some positions remaining unfilled through parts of the year. There is a large 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 for 2016-2017 totaled \$3,305,427 and expenditures were \$3,106,942, resulting in a fund balance increase of \$198,485. The June 30, 2017 Food Service Fund fund balance is \$1,371,170.

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

COMMUNITY SERVICE FUND

In 2016-2017, total revenues for the Community Service Fund were \$3,368,140 and total expenditures were \$3,072,895 resulting in a fund balance increase of \$295,245. The Community Service fund balance as of June 30, 2017 is \$1,068,232. 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, 2017 is \$26,492,201.

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 expenditures exceeded revenues by \$194,160 in 2016-17. The Debt Service fund balance as of June 30, 2017 is \$183,041. This fund balance is only available for meeting future debt service obligations.

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had net capital assets of \$53,121,377 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 \$1,390,265. More detailed information about capital assets can be found in Note 5 to the financial statements.

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

<u>Assets</u>	<u>Year Ended June 30,</u>		<u>Percentage Change</u>
	<u>2017</u>	<u>2016</u>	
Capital Assets Not Being Depreciated	\$ 20,514,651	\$ 4,285,855	378.66%
Land Improvements	4,312,962	4,146,948	4.00%
Buildings and Improvements	53,137,527	47,306,675	12.33%
Equipment	6,173,209	5,310,056	16.26%
Less: Accumulated Depreciation	(31,016,972)	(30,256,488)	2.51%
Total Net Capital Assets	<u>\$ 53,121,377</u>	<u>\$ 30,793,046</u>	72.51%

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. Work began on the Senior High addition and Lakeland Elementary. Deferred maintenance projects including electrical switch gear replacement at Kennedy Elementary, reroofing the Senior High, Roosevelt Elementary and Kennedy Elementary began in FY 2017.

Long-term Liabilities

At year-end, the District had \$51,355,687 in general obligation bonds outstanding including bond premium. The District paid off the capital lease - as shown in Table A-8. The estimated other post-employment benefits liability is \$2,156,791 at June 30, 2017. The District also has \$2,929,335 in compensated absences payable at June 30, 2017. Total net pension liability is \$108,465,937 at June 30, 2017. Other postemployment benefits payable consist of postemployment health insurance benefits available to employees as specified in the employee's employment contract upon retirement. Health benefits have been paid by the General and Community Service Funds. Net pension liability consists of pension benefit payments available to employees as specified in the employee's employment contract upon retirement. Pension benefits are paid by the General, Food Service and Community Service Funds. Compensated absences payable consists of unused vacation at June 30, 2017 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 increased by 77.92% in fiscal year 2017. More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.

INDEPENDENT SCHOOL DISTRICT #347

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

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	\$ 51,615,000	\$	\$ 1,405,000	\$ 50,210,000	\$ 1,875,000
Bond Premium	1,207,338		61,651	1,145,687	61,651
Capital Leases Payable	265,720		265,720		
Compensated Absences Payable	3,138,662	394,663	603,990	2,929,335	510,773
Other Postemployment Benefits Payable	2,005,934	486,721	335,864	2,156,791	
Net Pension Liability	34,454,377	89,725,343	15,713,783	108,465,937	
Total	\$ 92,687,031	\$ 90,606,727	\$ 18,386,008	\$ 164,907,750	\$ 2,447,424

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 have been a few concerns about the new special education aid formula that was implemented in FY 2016. The Minnesota Department of Education has had a few issues with programming the systems to calculate the revenue correctly. Districts are also finding that they are reaching the funding limit very quickly. There is a \$119 (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. In FY 2017, English Learner (EL) students are eligible for EL revenue for up to seven years (increased from 6 years). The operating capital levy equalizing factor will increase for the next two years 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. 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. Best Buy, Sara Lee Bread Store, Café Corti, and other businesses closed their doors this year. Mattress Firm, Hobby Lobby, 1000 Degree Pizza and other businesses opened in Willmar during the year.

The new elementary school is scheduled to open in January of the 2017-18 school year. The new science wing at the Middle School opened in early January of 2017. 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.

INDEPENDENT SCHOOL DISTRICT #347

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

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.

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BASIC FINANCIAL STATEMENTS

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INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET POSITION
 JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2016

	Governmental Activities	
	2017	2016
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Cash and Investments	\$ 46,269,718	\$ 64,420,946
Receivables		
Property Taxes	4,127,046	3,666,224
Other Governments	7,320,104	6,984,020
Other	143,706	143,472
Due from Agency Fund	19,383	43,915
Prepaid Items	286,628	143,508
Inventories	64,474	45,006
Capital Assets		
Assets Not Being Depreciated	20,514,651	4,285,855
Other Capital Assets, Net of Depreciation	32,606,726	26,507,191
Total Assets	<u>111,352,436</u>	<u>106,240,137</u>
Deferred Outflows of Resources		
Related to Pensions	<u>65,890,033</u>	<u>6,466,942</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 177,242,469</u>	<u>\$ 112,707,079</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Salaries and Wages Payable	\$ 4,459,433	\$ 4,224,816
Accounts and Contracts Payable	2,409,077	2,358,756
Due to Other Governmental Units	94,602	74,551
Accrued Interest Payable	660,954	1,467,525
Unearned Revenue	83,828	89,742
Noncurrent Liabilities		
Due Within One Year	2,447,424	2,303,655
Due in More Than One Year	162,460,326	90,383,376
Total Liabilities	<u>172,615,644</u>	<u>100,902,421</u>
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year's Expenditures	8,439,624	7,479,509
Related to Pensions	2,367,579	3,162,156
Total Deferred Inflows of Resources	<u>10,807,203</u>	<u>10,641,665</u>
Net Position		
Net Investment in Capital Assets	28,751,118	28,194,385
Restricted for		
Operating Capital Purposes	452,839	252,127
State-Mandated Reserves	1,159,004	528,472
Food Service	557,923	462,139
Unrestricted	<u>(37,101,262)</u>	<u>(28,274,130)</u>
Total Net Position	<u>(6,180,378)</u>	<u>1,162,993</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 177,242,469</u>	<u>\$ 112,707,079</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			2016	
	Expenses	Program Revenues		Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities	Governmental Activities
GOVERNMENTAL ACTIVITIES					
Administration	\$ 2,560,073	\$	\$	\$ (2,560,073)	\$ (2,110,149)
District Support Services	1,800,770		168,367	(1,632,403)	(1,728,274)
Regular Instruction	33,508,290	716,829	10,774,175	(22,017,286)	(14,098,167)
Vocational Education Instruction	1,085,165	2,185	70,169	(1,012,811)	(669,654)
Special Education Instruction	11,978,430	601,496	6,817,128	(4,559,806)	(2,789,125)
Instructional Support Services	3,497,150		1,131,224	(2,365,926)	(1,938,908)
Pupil Support Services	4,569,983		94,026	(4,475,957)	(3,843,472)
Sites and Buildings	5,395,060	30,531	26,002	1,052,483	(4,286,044)
Fiscal and Other Fixed Costs Programs	157,159			(157,159)	(156,742)
Food Service	3,067,268	724,310	2,578,308	235,350	329,945
Community Service	3,629,063	983,398	1,879,510	(766,155)	(48,689)
Interest and Fiscal Charges on Long-Term Liabilities	1,543,310			(1,543,310)	(1,411,012)
Total Governmental Activities	\$ 72,791,721	\$ 3,058,749	\$ 23,538,909	\$ 1,052,483	(45,141,580)
GENERAL REVENUES					
Property Taxes Levied for					
General Purposes				3,775,907	3,893,638
Community Service				446,532	406,281
Debt Service				3,603,868	(891)
State Aid not Restricted to Specific Purposes				29,498,624	27,473,153
Interest Earnings				447,503	275,496
Miscellaneous				25,775	43,139
Total General Revenues				<u>37,798,209</u>	<u>32,090,816</u>
Change in Net Position				(7,343,371)	(1,435,967)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED				<u>1,162,993</u>	<u>2,887,563</u>
PRIOR PERIOD ADJUSTMENT					<u>(288,603)</u>
NET POSITION, BEGINNING OF YEAR, AS RESTATED				<u>1,162,993</u>	<u>2,598,960</u>
NET POSITION, END OF YEAR				<u>\$ (6,180,378)</u>	<u>\$ 1,162,993</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2016

	General	Food Service	Community Service	Building Construction	Debt Service	Total Governmental Funds	
						2017	2016
ASSETS							
Cash and Investments	\$ 14,667,620	\$ 1,128,533	\$ 1,246,140	\$ 26,985,427	\$ 2,135,935	\$ 46,163,655	\$ 64,303,102
Receivables							
Current Property Taxes	2,204,755		188,335		1,678,507	4,071,597	3,613,946
Delinquent Property Taxes	32,123		3,490		19,836	55,449	52,278
Due from Other Minnesota School Districts	439,993	31,609				471,602	827,425
Due from Minnesota Department of Education	5,215,375	27,293	126,369		2,580	5,371,617	5,074,244
Due from Federal through Minnesota Department of Education	636,739	323,272	91,398			1,051,409	945,655
Due from Other Governmental Units	341,477	5,828	78,171			425,476	136,696
Other Receivables	63,856	18,753	8,293	52,804		143,706	143,472
Due from Other Funds	19,383			689,701		709,084	43,915
Prepaid Items	247,641	1,201	37,717	69		286,628	143,508
Inventories	27,764	36,710				64,474	45,006
Total Assets	\$ 23,896,726	\$ 1,573,199	\$ 1,779,913	\$ 27,728,001	\$ 3,836,858	\$ 58,814,697	\$ 75,329,247
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE							
Liabilities							
Salaries and Wages Payable	\$ 4,236,694	\$ 55,816	\$ 166,923	\$	\$	\$ 4,459,433	\$ 4,224,816
Accounts and Contracts Payable	993,578	96,668	76,021	1,235,800		2,402,067	2,351,039
Due to Other Governmental Units	70,693	36	23,873			94,602	74,551
Due to Other Funds	689,701					689,701	
Unearned Revenue	690	49,509	33,629			83,828	89,742
Total Liabilities	5,991,356	202,029	300,446	1,235,800	0	7,729,631	6,740,148
Deferred Inflows of Resources							
Property Taxes Levied for Subsequent Year's Expenditures	4,397,898		407,745		3,633,981	8,439,624	7,479,509
Unavailable Revenue - Delinquent Property Taxes	32,123		3,490		19,836	55,449	52,278
Total Deferred Inflows of Resources	4,430,021	0	411,235	0	3,653,817	8,495,073	7,531,787
Fund Balance							
Nonspendable	275,405	37,911	37,717	69		351,102	188,514
Restricted	1,611,843	1,333,259	1,030,515	26,492,132	183,041	30,650,790	52,026,359
Committed	1,200,000					1,200,000	1,200,000
Assigned	166,811					166,811	179,066
Unassigned	10,221,290					10,221,290	7,463,373
Total Fund Balance	13,475,349	1,371,170	1,068,232	26,492,201	183,041	42,589,993	61,057,312
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 23,896,726	\$ 1,573,199	\$ 1,779,913	\$ 27,728,001	\$ 3,836,858	\$ 58,814,697	\$ 75,329,247

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, 2017
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
Total Fund Balances - Governmental Funds	\$ 42,589,993	\$ 61,057,312
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	20,514,651	4,285,855
Land Improvements, Net of Accumulated Depreciation	1,731,128	1,697,761
Buildings and Improvements, Net of Accumulated Depreciation	27,348,783	22,473,532
Equipment and Vehicles, Net of Accumulated Depreciation	3,526,815	2,335,898
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.	55,449	52,278
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(660,954)	(1,467,525)
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.	99,053	110,127
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	65,890,033	6,466,942
Deferred Inflows of Resources Related to Pensions	(2,367,579)	(3,162,156)
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	(50,210,000)	(51,615,000)
Unamortized Premium	(1,145,687)	(1,207,338)
Capital Lease Payable		(265,720)
Compensated Absences Payable	(2,929,335)	(3,138,662)
Other Postemployment Benefits Payable	(2,156,791)	(2,005,934)
Net Pension Liability	<u>(108,465,937)</u>	<u>(34,454,377)</u>
Total Net Position - Governmental Activities	<u>\$ (6,180,378)</u>	<u>\$ 1,162,993</u>

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, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	General	Food Service	Community Service	Building Construction	Debt Service	Total Governmental Funds	
						2017	2016
REVENUES							
Local Sources							
Property Taxes	\$ 3,781,834	\$	\$ 446,865	\$	\$ 3,594,438	\$ 7,823,137	\$ 4,300,256
Interest Earnings	38,096	2,810	2,828	402,111	2,136	447,981	275,497
Other	2,050,516	799,367	1,314,353			4,164,236	3,745,333
State Sources	46,460,848	193,052	1,399,082		25,798	48,078,780	43,592,615
Federal Sources	2,415,835	2,310,198	205,012			4,931,045	4,826,937
Total Revenues	54,747,129	3,305,427	3,368,140	402,111	3,622,372	65,445,179	56,740,638
EXPENDITURES							
Current							
Administration	2,033,506					2,033,506	1,980,112
District Support Services	1,725,188					1,725,188	1,801,426
Regular Instruction	23,960,732					23,960,732	21,878,537
Vocational Education Instruction	754,628					754,628	696,644
Special Education Instruction	9,542,453					9,542,453	9,216,348
Instructional Support Services	2,850,341					2,850,341	2,781,909
Pupil Support Services	4,135,316		19,557			4,154,873	3,907,718
Sites and Buildings	4,221,698					4,221,698	5,313,094
Fiscal and Other Fixed Costs Programs	157,159					157,159	156,742
Food Service		2,983,823				2,983,823	2,939,816
Community Service			3,040,096			3,040,096	2,887,957
Capital Outlay	1,667,398	123,119	13,242	22,867,710		24,671,469	5,357,582
Debt Service							
Principal					1,405,000	1,405,000	
Interest and Fiscal Charges					2,411,532	2,411,532	
Total Expenditures	51,048,419	3,106,942	3,072,895	22,867,710	3,816,532	83,912,498	58,917,885
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,698,710	198,485	295,245	(22,465,599)	(194,160)	(18,467,319)	(2,177,247)
OTHER FINANCING SOURCES (USES)							
Issuance of Bonds Payable							51,615,000
Bond Premium							1,263,851
Sale of Equipment							43,139
Total Other Financing Sources (Uses)	0	0	0	0	0	0	52,921,990
Net Change in Fund Balances	3,698,710	198,485	295,245	(22,465,599)	(194,160)	(18,467,319)	50,744,743
FUND BALANCE, BEGINNING OF YEAR	9,776,639	1,172,685	772,987	48,957,800	377,201	61,057,312	10,312,569
FUND BALANCE, END OF YEAR	\$ 13,475,349	\$ 1,371,170	\$ 1,068,232	\$ 26,492,201	\$ 183,041	\$ 42,589,993	\$ 61,057,312

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, 2017
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
Total Net Change in Fund Balances - Governmental Funds	\$ (18,467,319)	\$ 50,744,743
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	23,766,622	4,398,471
Depreciation Expense	(1,390,265)	(1,301,491)
Cost of Capital Assets Disposed	(677,807)	(213,776)
Accumulated Deprecation Related to Disposed Capital Assets	629,781	151,624
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:		
Proceeds from Issuance of Long-Term Debt		(51,615,000)
Premium Related to Issuance of Long-Term Debt		(1,263,851)
Principal Retirement of Long-Term Debt	1,670,720	258,936
Change in Accrued Interest Payable	806,571	(1,467,525)
Amortization of Bond Premium	61,651	56,513
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	3,171	(1,230)
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).	(13,735,422)	(1,181,553)
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.	(11,074)	(1,828)
Change in Net Position - Governmental Activities	<u>\$ (7,343,371)</u>	<u>\$ (1,435,967)</u>

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, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			Over (Under) Final Budget	2016
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 3,726,574	\$ 3,725,998	\$ 3,781,834	\$ 55,836	\$ 3,889,307
Interest Earnings	4,684	41,180	38,096	(3,084)	6,522
Other	1,436,014	1,769,093	2,050,516	281,423	1,516,614
State Sources	42,958,097	43,551,610	46,460,848	2,909,238	42,294,339
Federal Sources	2,153,187	2,552,757	2,415,835	(136,922)	2,135,747
Total Revenues	50,278,556	51,640,638	54,747,129	3,106,491	49,842,529
EXPENDITURES					
Current					
Administration	1,972,856	1,974,000	2,033,506	59,506	1,980,112
District Support Services	1,683,992	1,750,684	1,725,188	(25,496)	1,801,426
Regular Instruction	22,345,344	23,401,233	23,960,732	559,499	21,878,537
Vocational Education Instruction	617,910	659,337	754,628	95,291	696,644
Special Education Instruction	9,051,970	9,447,844	9,542,453	94,609	9,216,348
Instructional Support Services	3,057,704	2,840,659	2,850,341	9,682	2,781,909
Pupil Support Services	4,112,132	4,185,114	4,135,316	(49,798)	3,876,684
Sites and Buildings	4,213,224	4,400,196	4,221,698	(178,498)	4,460,745
Fiscal and Other Fixed Costs Programs	156,681	157,120	157,159	39	156,742
Capital Outlay					
Administration	1,000	500		(500)	4,895
District Support Services	36,888	58,477	55,976	(2,501)	26,981
Regular Instruction	844,813	358,634	354,918	(3,716)	750,577
Vocational Education Instruction	10,000				2,618
Special Education Instruction	19,966	29,198	29,198		21,957
Instructional Support Services	99,000	790	790		127,944
Pupil Support Services		13,500	15,747	2,247	1,500
Sites and Buildings	1,435,184	1,183,298	1,210,769	27,471	1,033,180
Total Expenditures	49,658,664	50,460,584	51,048,419	587,835	48,818,799
Excess (Deficiency) of Revenues Over (Under) Expenditures	619,892	1,180,054	3,698,710	2,518,656	1,023,730
OTHER FINANCING SOURCES (USES)					
Sale of Equipment					
					42,461
Net Change in Fund Balances	\$ 619,892	\$ 1,180,054	3,698,710	\$ 2,518,656	1,066,191
FUND BALANCE, BEGINNING OF YEAR			9,776,639		8,710,448
FUND BALANCE, END OF YEAR			\$ 13,475,349		\$ 9,776,639

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, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			Over (Under) Final Budget	2016
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Interest Earnings	\$ 349	\$ 1,008	\$ 2,810	\$ 1,802	\$ 380
Other-Primarily Meal Sales	726,030	803,428	799,367	(4,061)	822,544
State Sources	215,690	187,323	193,052	5,729	209,775
Federal Sources	2,123,125	2,234,927	2,310,198	75,271	2,288,034
Total Revenues	<u>3,065,194</u>	<u>3,226,686</u>	<u>3,305,427</u>	<u>78,741</u>	<u>3,320,733</u>
EXPENDITURES					
Current					
Food Service	3,036,768	3,058,483	2,983,823	(74,660)	2,939,816
Capital Outlay					
Food Service	344,000	123,825	123,119	(706)	119,055
Total Expenditures	<u>3,380,768</u>	<u>3,182,308</u>	<u>3,106,942</u>	<u>(75,366)</u>	<u>3,058,871</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(315,574)	44,378	198,485	154,107	261,862
OTHER FINANCING SOURCES (USES)					
Sale of Equipment					
					678
Net Change in Fund Balances	<u>\$ (315,574)</u>	<u>\$ 44,378</u>	198,485	<u>\$ 154,107</u>	262,540
FUND BALANCE, BEGINNING OF YEAR			<u>1,172,685</u>		<u>910,145</u>
FUND BALANCE, END OF YEAR			<u>\$ 1,371,170</u>		<u>\$ 1,172,685</u>

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, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			Over (Under) Final Budget	2016
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 450,909	\$ 447,623	\$ 446,865	\$ (758)	\$ 405,708
Interest Earnings	295	1,008	2,828	1,820	328
Other-Primarily Tuition and Fees	1,254,765	1,190,047	1,314,353	124,306	1,406,175
State Sources	1,171,350	1,350,651	1,399,082	48,431	1,088,501
Federal Sources	192,374	197,038	205,012	7,974	403,156
Total Revenues	<u>3,069,693</u>	<u>3,186,367</u>	<u>3,368,140</u>	<u>181,773</u>	<u>3,303,868</u>
EXPENDITURES					
Current					
Pupil Support Services	31,538	25,514	19,557	(5,957)	31,034
Community Service	2,949,355	2,902,817	3,040,096	137,279	2,887,957
Capital Outlay					
Community Service	11,500	12,082	13,242	1,160	25,230
Total Expenditures	<u>2,992,393</u>	<u>2,940,413</u>	<u>3,072,895</u>	<u>132,482</u>	<u>2,944,221</u>
Net Change in Fund Balances	<u>\$ 77,300</u>	<u>\$ 245,954</u>	295,245	<u>\$ 49,291</u>	359,647
FUND BALANCE, BEGINNING OF YEAR			<u>772,987</u>		<u>413,340</u>
FUND BALANCE, END OF YEAR			<u>\$ 1,068,232</u>		<u>\$ 772,987</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2017
 WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2016

	Governmental Activities- Internal Service Fund	
	<u>2017</u>	<u>2016</u>
ASSETS		
Current Assets		
Cash and Investments	<u>\$ 106,063</u>	<u>\$ 117,844</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 7,010	\$ 7,717
Net Position		
Unrestricted	<u>99,053</u>	<u>110,127</u>
Total Liabilities and Net Position	<u>\$ 106,063</u>	<u>\$ 117,844</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2017
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Activities- Internal Service Fund	
	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Charges for Services	\$ 205,483	\$ 215,604
OPERATING EXPENSES		
Dental Insurance Claim Payments	194,133	194,149
General Administration Costs	<u>22,424</u>	<u>23,283</u>
Total Operating Expenses	<u>216,557</u>	<u>217,432</u>
Net Change in Net Position	(11,074)	(1,828)
NET POSITION, BEGINNING OF YEAR	<u>110,127</u>	<u>111,955</u>
NET POSITION, END OF YEAR	<u><u>\$ 99,053</u></u>	<u><u>\$ 110,127</u></u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2017
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	Governmental Activities- Internal Service Fund	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 205,483	\$ 215,604
Payments for Administrative Costs	(22,487)	(23,401)
Payments for Dental Fees and Insurance Claims	(194,777)	(195,011)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(11,781)</u>	<u>(2,808)</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>117,844</u>	<u>120,652</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 106,063</u>	<u>\$ 117,844</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (11,074)	\$ (1,828)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Increase (Decrease) in Liabilities		
Accounts Payable	<u>(707)</u>	<u>(980)</u>
Net Cash Provided (Used) By Operating Activities	<u>\$ (11,781)</u>	<u>\$ (2,808)</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017

	Private- Purpose Trust Fund	Agency Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and Investments	\$ 32,668	\$
Receivables		
Due from Other Minnesota School Districts		33,088
Interest Receivable	114	
	<u> </u>	<u> </u>
Total Assets	<u>\$ 32,782</u>	<u>\$ 33,088</u>
LIABILITIES AND NET POSITION		
Liabilities		
Salaries and Wages Payable	\$	\$ 7,642
Accounts Payable		3,229
Due to Other Funds		19,383
Due to Other Minnesota School Districts		2,834
Total Liabilities	<u>0</u>	<u>33,088</u>
Net Position		
Held in Trust for Scholarships	<u>32,782</u>	
	<u> </u>	<u> </u>
Total Liabilities and Net Position	<u>\$ 32,782</u>	<u>\$ 33,088</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017

	Private- Purpose Trust Fund
	<u> </u>
ADDITIONS	
Interest Earnings	\$ 190
DEDUCTIONS	
Scholarship Obligations	750
Change in Net Position	<u>(560)</u>
NET POSITION, BEGINNING OF YEAR	<u>33,342</u>
NET POSITION, END OF YEAR	<u>\$ 32,782</u>

See Accompanying Notes to the Financial Statements

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INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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 serving of regular and incidental meals, lunches or snacks in connection with school 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 recreation, civic activities, nonpublic pupils, veterans, adult or 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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, 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, AND EQUITY

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (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 and money market accounts. 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (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 2010 to 2016 that remain uncollected at June 30, 2017. 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (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 fair market 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Long-Term Obligations: (Cont'd)

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.

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, 2017, unpaid vacation pay totaling \$244,081 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Compensated Absences: (Cont'd)

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.

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 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 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

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.

The District participates in various pension plans; total pension expense for the fiscal year ended was \$18,037,977. 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 and pensions.

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, 2017, 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY (Cont'd)

Fund Balance: (Cont'd)

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.

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."

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

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

F. REVENUES AND EXPENDITURES (Cont'd)

Revenues: (Cont'd)

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, 2017, 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 \$97,020 and \$56,139, 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, 2017, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

Expenditures:

Expenditure recognition for governmental fund types is limited to amounts represented by current liabilities. Noncurrent 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, 2016, 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Cont'd)

C. EXPENDITURES EXCEEDING APPROPRIATIONS

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

	<u>Expenditures</u>	<u>Appropriations</u>
General Fund	\$ 51,048,419	\$ 50,460,584
Community Service Special Revenue Fund	3,072,895	2,940,413

The General Fund overage was due to contributions paid directly by the State of Minnesota to the Teacher's Retirement Association. The Community Service Special Revenue Fund overage was the result of necessary expenditures critical to operations and were approved by the Board.

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:

<u>Governmental Activities</u>	
Petty Cash	\$ 358
Pooled Cash in Checking Accounts	8,767,411
Money Market Deposit Account	10,039,629
Non-negotiable Certificates of Deposit	476,893
Total Governmental Activities	<u>19,284,291</u>
<u>Fiduciary Fund</u>	
Pooled Cash in Checking Accounts	750
Non-negotiable Certificates of Deposit	31,918
Total Fiduciary Fund	<u>32,668</u>
Total Deposits	<u><u>\$ 19,316,959</u></u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3. CASH AND INVESTMENTS (Cont'd)

B. INVESTMENTS

The District has the following investments:

	Fair Value or Amortized Cost	Interest Rate Risk Weighted Average Maturity (Years)	Credit Risk Credit Ratings
<u>Governmental Activities</u>			
Investments at fair value:			
MSDLAF Managed Account	\$ 7,488,609	N/A	AAA
MSDLAF CD Program	1,220,000	0.27	AAA
Investments at amortized cost:			
MSDLAF+ Liquid Class	4,271,962	N/A	AAA
MSDLAF+ MAX Class	2,004,856	N/A	AAA
MSDLAF TERM	<u>12,000,000</u>	N/A	AAA
Total Investments	<u>\$ 26,985,427</u>		

The fair value of the MSDLAF Managed Account and MSDLAF CD Program are measured at Level 2.

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 19,316,959
Investments (Note 3.B.)	<u>26,985,427</u>
Total Deposits and Investments	<u>\$ 46,302,386</u>

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

Statement of Net Position	
Cash and Investments	\$ 46,269,718
Statement of Fiduciary Net Position	
Cash and Investments	<u>32,668</u>
Total Cash and Investments	<u>\$ 46,302,386</u>

Custodial Credit Risk. 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 underlying securities of MSDLAF are held by the investment company who acts as the agent and serves as the custodian of the securities for the District and are uninsured.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4. RECEIVABLES

Receivables are as follows:

	<u>Total Receivables</u>	<u>Amounts not Scheduled for Collection During the Subsequent Year</u>
<u>Governmental Activities</u>		
Receivables		
Property Taxes		
Current Property Taxes	\$ 4,071,597	\$
Delinquent Property Taxes	55,449	
Total Property Taxes	<u>4,127,046</u>	<u>0</u>
Other Governments		
Due from Other Minnesota School Districts	471,602	
Due from Minnesota Department of Education	5,371,617	
Due from Federal through Minnesota Department of Education	1,051,409	
Due from Other Governmental Units	425,476	
Total Other Governments	<u>7,320,104</u>	<u>0</u>
Other		
Other Receivables	<u>143,706</u>	
Total Governmental Activities	<u>\$ 11,590,856</u>	<u>\$ 0</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5. CAPITAL ASSETS

Capital asset activity was as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
<u>Governmental Activities</u>				
Capital Assets, Not Being Depreciated				
Land	\$ 617,518	\$ 880,067	\$	\$ 1,497,585
Construction in Progress	3,668,337	22,013,910	(6,665,181)	19,017,066
Total Capital Assets, Not Being Depreciated	4,285,855	22,893,977	(6,665,181)	20,514,651
Capital Assets, Being Depreciated				
Land Improvements	4,146,948	166,014		4,312,962
Buildings and Improvements	47,306,675	5,830,852		53,137,527
Equipment	5,310,056	1,540,960	(677,807)	6,173,209
Total Capital Assets, Being Depreciated	56,763,679	7,537,826	(677,807)	63,623,698
Less Accumulated Depreciation for				
Land Improvements	(2,449,187)	(132,647)		(2,581,834)
Buildings and Improvements	(24,833,143)	(955,601)		(25,788,744)
Equipment	(2,974,158)	(302,017)	629,781	(2,646,394)
Total Accumulated Depreciation	(30,256,488)	(1,390,265)	629,781	(31,016,972)
Total Capital Assets Being Depreciated, Net	26,507,191	6,147,561	(48,026)	32,606,726
Governmental Activities Net Capital Assets	<u>\$ 30,793,046</u>	<u>\$ 29,041,538</u>	<u>\$ (6,713,207)</u>	<u>\$ 53,121,377</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
District Support Services	\$ 4,882
Regular Instruction	818,071
Vocational Education Instruction	10,411
Special Education Instruction	4,286
Instructional Support Services	2,275
Pupil Support Services	65,172
Sites and Buildings	462,956
Community Service	22,212
Total Depreciation Expense - Governmental Activities	<u>\$ 1,390,265</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6. INTERFUND RECEIVABLES AND PAYABLES

The District had the following interfund balances:

<u>Due From Other Funds</u>	<u>Due to Other Funds</u>	<u>Amount</u>
Building Construction Fund	General Fund	\$ 689,701
General Fund	Agency Fund	19,383
		<u>\$ 709,084</u>

The purpose of the above interfund loans were to cover deficit cash balances and reimbursements for expenditures paid from the Building Construction Fund.

NOTE 7. LONG-TERM LIABILITIES

A. COMPONENTS OF LONG-TERM LIABILITIES

	<u>Original Amount Issued</u>	<u>Final Maturity Date</u>	<u>Interest Rate</u>	<u>Balance Outstanding</u>
<u>Governmental Activities</u>				
General Obligation Bonds				
Series 2015A	\$ 51,615,000	2/1/2036	2.00-4.00%	\$ 50,210,000
Bond Premium - Net				1,145,687
Compensated Absences Payable				2,929,335
Other Postemployment Benefits Payable				2,156,791
Net Pension Liability				108,465,937
Total Governmental Activities				<u>\$ 164,907,750</u>

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, 2017 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.

Other Postemployment Benefits Payable:

Other postemployment benefits payable consist of postemployment health insurance benefits available to employees as specified in the employee's employment contract upon retirement. Health benefits have been paid by the General and Community Service Funds.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7. LONG-TERM LIABILITIES (Cont'd)

B. DESCRIPTION OF LONG-TERM LIABILITIES (Cont'd)

Net Pension Liability:

Net pension liability consists of pension benefit payments available to employees as specified in the employee's employment contract upon retirement. Pension benefits are 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
<u>Governmental Activities</u>					
Bonds Payable	\$ 51,615,000	\$	\$ (1,405,000)	\$ 50,210,000	\$ 1,875,000
Bond Premium	1,207,338		(61,651)	1,145,687	61,651
Capital Lease Payable	265,720		(265,720)		
Compensated Absences Payable	3,138,662	394,663	(603,990)	2,929,335	510,773
Other Postemployment Benefits Payable	2,005,934	486,721	(335,864)	2,156,791	
Net Pension Liability	<u>34,454,377</u>	<u>89,725,343</u>	<u>(15,713,783)</u>	<u>108,465,937</u>	
Total Governmental Activities	<u>\$ 92,687,031</u>	<u>\$ 90,606,727</u>	<u>\$ (18,386,008)</u>	<u>\$ 164,907,750</u>	<u>\$ 2,447,424</u>

In addition, the District has available a \$750,000 line of credit with a local financial institution. The line bears interest at variable rates (4.5% at June 30, 2017) and is unsecured. This line matures on December 31, 2017. There is no balance outstanding under this arrangement as of June 30, 2017.

D. MINIMUM DEBT PAYMENTS

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

Year Ending June 30,	General Obligation Bonds Payable		
	Principal	Interest	Total
2018	\$ 1,875,000	\$ 1,586,290	\$ 3,461,290
2019	1,910,000	1,548,790	3,458,790
2020	2,100,000	1,510,590	3,610,590
2021	2,145,000	1,468,590	3,613,590
2022	2,185,000	1,425,690	3,610,690
2023-2027	12,290,000	5,770,200	18,060,200
2028-2032	14,415,000	3,641,160	18,056,160
2033-2036	13,290,000	1,153,406	14,443,406
	<u>\$ 50,210,000</u>	<u>\$ 18,104,716</u>	<u>\$ 68,314,716</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8. FUND BALANCE

The following is a summary of fund balance components.

	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Subtotal</u>
Nonspendable				
Prepaid Items	\$ 247,641	\$ 1,201	\$ 37,717	\$ 286,559
Inventories	27,764	36,710		64,474
Total Nonspendable	<u>275,405</u>	<u>37,911</u>	<u>37,717</u>	<u>351,033</u>
Restricted				
Staff Development	694,835			694,835
Operating Capital	452,839			452,839
Community Education			516,134	516,134
ECFE			130,741	130,741
Area Learning Center	25,706			25,706
Gifted and Talented	13,889			13,889
School Readiness			275,576	275,576
Adult Basic Education			108,064	108,064
Safe Schools	560			560
Medical Assistance	424,014			424,014
Other Fund Activities		1,333,259		1,333,259
Total Restricted	<u>1,611,843</u>	<u>1,333,259</u>	<u>1,030,515</u>	<u>3,975,617</u>
Committed				
Severance	1,200,000			1,200,000
Assigned				
Elaine Adams Media Center Remodel	166,811			166,811
Unassigned				
	<u>10,221,290</u>			<u>10,221,290</u>
	<u>\$ 13,475,349</u>	<u>\$ 1,371,170</u>	<u>\$ 1,068,232</u>	<u>\$ 15,914,751</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8. FUND BALANCE (Cont'd)

The following is a summary of fund balance components.

	<u>Building Construction</u>	<u>Debt Service</u>	<u>Subtotal</u>	<u>Total</u>
Nonspendable				
Prepaid Items	\$ 69	\$	\$ 69	\$ 286,628
Inventories				64,474
Total Nonspendable	69	0	69	351,102
Restricted				
Staff Development				694,835
Operating Capital				452,839
Community Education				516,134
ECFE				130,741
Area Learning Center				25,706
Gifted and Talented				13,889
School Readiness				275,576
Adult Basic Education				108,064
Safe Schools				560
Medical Assistance				424,014
Other Fund Activities	26,492,132	183,041	26,675,173	28,008,432
Total Restricted	26,492,132	183,041	26,675,173	30,650,790
Committed				
Severance				1,200,000
Assigned				
Elaine Adams Media Center Remodel				166,811
Unassigned				
				10,221,290
	<u>\$ 26,492,201</u>	<u>\$ 183,041</u>	<u>\$ 26,675,242</u>	<u>\$ 42,589,993</u>

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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8. FUND BALANCE (Cont'd)

Fund Equity: (Cont'd)

C. RESTRICTED FOR COMMUNITY EDUCATION

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

D. 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.

E. 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.

F. 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.

G. RESTRICTED FOR SCHOOL READINESS

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

H. 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.

I. RESTRICTED FOR SAFE SCHOOLS

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

J. RESTRICTED FOR MEDICAL ASSISTANCE

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

NOTE 9. 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

A. PLAN DESCRIPTION (Cont'd)

General Employees Retirement Fund (GERF):

All full-time and certain part-time employees of the District, other than teachers, are covered by GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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 College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. BENEFITS PROVIDED

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

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

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

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	1st ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	1st ten years if service years are up to July 1, 2006	1.2% per year
	1st ten years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

- a. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b. 3% 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. 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

TRA Benefits: (Cont'd)

Tier II Benefits: (Cont'd)

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.

GERF Contributions:

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, of their annual covered salary in fiscal year 2017. The District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2017, were \$667,928. The District's contributions were equal to the required contributions for each year as set by state statute.

TRA Contributions:

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

	<u>Employee</u>	<u>Employer</u>
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, 2017 were \$1,644,165. The District's contributions were equal to the required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

C. CONTRIBUTIONS (Cont'd)

TRA Contributions: (Cont'd)

The following is a reconciliation of employer contributions in TRA's FAFR "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	\$ 354,961,140
Add Employer Contributions Not Related to Future Contribution Efforts	26,356
Deduct TRA's Contributions Not Included in Allocation	<u>(442,978)</u>
Total Employer Contributions	354,544,518
Total Non-Employer Contributions	<u>35,587,410</u>
 Total Contributions Reported in Schedule of Employer and Non-Employer Allocations	 <u>\$ 390,131,928</u>

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

GERF:

At June 30, 2017, the District reported a liability of \$11,570,293 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$151,048. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.1425% at the end of the measurement period and 0.1450% at the beginning of the period.

For the year ended June 30, 2017, the District recognized pension expense of \$1,571,293 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$45,039 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

GERF: (Cont'd)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 34,244	\$ 939,915
Changes in actuarial assumptions	2,495,433	
Differences between projected and actual investment earnings	1,291,744	
Changes in proportion		144,273
Contributions paid to PERA subsequent to measurement date	<u>667,928</u>	
Totals	<u>\$ 4,489,349</u>	<u>\$ 1,084,188</u>

\$667,928 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 748,571
2019	484,369
2020	1,086,354
2021	417,939

TRA:

At June 30, 2017, the District reported a liability of \$95,528,806 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. At June 30, 2016, the District's proportion share was 0.4005% at the end of the measurement period and 0.4306% 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	\$ 95,528,806
State's proportionate share of the net pension liability associated with the District	9,588,605

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

TRA: (Cont'd)

For the year ended June 30, 2017, the District recognized pension expense of \$13,845,304. It also recognized \$1,338,890 as pension expense (and grant revenue) for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 935,744	\$ 2,663
Changes in actuarial assumptions	54,474,165	
Differences between projected and actual investment earnings	4,132,639	
Changes in proportion	213,971	1,277,038
Contributions paid to TRA subsequent to measurement date	<u>1,644,165</u>	
Totals	<u>\$ 61,400,684</u>	<u>\$ 1,279,701</u>

\$1,644,165 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 11,610,155
2019	11,610,155
2020	12,984,126
2021	11,933,865
2022	10,338,517

E. ACTUARIAL ASSUMPTIONS

GERF:

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

<u>Actuarial Assumption</u>	
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 males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

GERF: (Cont'd)

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

The following changes in actuarial assumptions occurred in 2016:

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

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

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

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	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

TRA:

Valuation Date: July 1, 2016
 Experience Study: June 5, 2015
 Actuarial Cost Method: Entry Age Normal

Actuarial Assumption

Investment Rate of Return: 4.66% from the Single Equivalent Interest Rate calculation
 Price Inflation: 2.75%
 Wage Growth Rate: 3.50%
 Projected Salary Increase: 3.50% - 9.50%
 Cost of Living Adjustment: 2.00%

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

TRA: (Cont'd)

Mortality Assumptions

Pre-Retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-Retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-Disability:	RP-2014 disabled retiree mortality table, without adjustment.

The long-term expected rate of return on pension plan investments was determined using the building-block method in which best-estimates 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:

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

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 Actuarial 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.

F. DISCOUNT RATE

GERF:

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.90% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

F. DISCOUNT RATE (Cont'd)

TRA:

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

G. PENSION LIABILITY SENSITIVITY

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 16,433,245	\$ 11,570,293	\$ 7,564,544
TRA Discount Rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	\$ 123,064,979	\$ 95,528,806	\$ 73,101,491

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 #400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10. OTHER POSTEMPLOYMENT BENEFIT PLAN

A. PLAN DESCRIPTION

The District operates a single-employer defined benefit plan ("the Plan") that provides health, life and dental insurance to eligible employees and their families through the District's health insurance plan. There are 585 active participants and 37 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available report.

B. FUNDING POLICY

Contribution requirements are also negotiated between the District and union representatives. The District contributes 0% - 100% of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2017, the District contributed \$335,864 to the Plan. The Plan is financed on a pay-as-you-go basis.

C. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution	\$ 525,578
Interest on Net OPEB Obligation	70,208
Adjustment to Annual Required Contribution	<u>(109,065)</u>
Annual OPEB Cost (Expense)	486,721
Contributions Made	<u>(335,864)</u>
Increase (Decrease) in Net OPEB Obligation	150,857
Net OPEB Obligation - Beginning of Year	<u>2,005,934</u>
Net OPEB Obligation - End of Year	<u><u>\$ 2,156,791</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan and the net OPEB obligation for 2016 and the preceding two years was:

Fiscal Year Ended	Annual OPEB Cost	Annual Plan Sponsor Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 486,721	\$ 335,864	69%	\$ 2,156,791
6/30/2016	484,905	345,277	71%	2,005,934
6/30/2015	775,575	450,864	58%	1,866,306

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10. OTHER POSTEMPLOYMENT BENEFIT PLAN (Cont'd)

D. FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2015, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$4,470,457 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,470,457. The covered payroll (annual payroll of active employees covered by the Plan) was \$32,359,378 and the ratio of the UAAL to the covered payroll of 13.8%.

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

E. ACTUARIAL METHODS AND ASSUMPTIONS

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

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumption included a 3.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.2% reduced by decrements to an ultimate rate of 5.0% after seven years. The inflation rate is 2.75%. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2016 was 30 years.

NOTE 11. 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, 2017.

A. GENERAL INFORMATION ABOUT THE PENSION PLAN

Plan Description:

The District participates in a single employer lump-sum defined benefit pension plan administered by the District. At July 1, 2015, the plan covered 676 active members.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11. SUPPLEMENTAL PENSION PLAN (Cont'd)

A. GENERAL INFORMATION ABOUT THE PENSION PLAN (Cont'd)

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 bargaining period. The Plan does not issue a publicly available report.

B. 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 6/30/2016	\$ 302,855	\$	\$ 302,855
Changes for the Year:			
Service Cost	16,337		16,337
Interest	6,678		6,678
Changes of Assumptions	(4,278)		(4,278)
Changes of Benefit Terms	1,215,024		1,215,024
Benefit Payments	(169,778)		(169,778)
Net Changes	<u>1,063,983</u>	<u>0</u>	<u>1,063,983</u>
Balances at 6/30/2017	<u>\$ 1,366,838</u>	<u>\$ 0</u>	<u>\$ 1,366,838</u>

For the year ended June 30, 2017, the District recognized pension expense of \$1,237,451 for its supplemental pension plan.

At June 30, 2017, 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
Change of assumptions	\$	\$ 3,690

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11. SUPPLEMENTAL PENSION PLAN (Cont'd)

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

\$3,690 reported as deferred inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Pension Expense Amount</u>	
2018	\$	(588)
2019		(588)
2020		(588)
2021		(588)
2022		(588)
Thereafter		(750)

Actuarial Assumptions:

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:

Inflation Rate:	2.75 percent
Expected Long-Term Investment Return:	N/A
Amortization Method:	Straight-line amortization over a closed period
Remaining Amortization Period:	6.27 years
Asset Valuation Method:	Market Value of Assets
Discount Rate:	3.53 percent

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males and Females as appropriate, with adjustments for mortality improvements based on Scale AA.

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.

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 2.85 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 (2.53%)	Discount Rate (3.53%)	1% Increase in Discount Rate (4.53%)
District's Net Pension Liability	\$ 1,392,079	\$ 1,366,838	\$ 1,340,107

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in a separately-issued financial report that may be obtained through Independent School District #347, 611 5th Street SW, Willmar, MN 56201, or (320) 235-231-8500.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12. 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 \$216,557 for the year ended June 30, 2017 which includes administrative costs of \$22,424.

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

	June 30,	
	2017	2016
Unpaid Claims, Beginning of Year	\$ 7,717	\$ 8,697
Incurred Claims	194,133	194,149
Claims Payments (cash basis)	<u>(194,840)</u>	<u>(195,129)</u>
Unpaid Claims, End of Year	<u>\$ 7,010</u>	<u>\$ 7,717</u>

NOTE 13. 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.

B. CONSTRUCTION COMMITMENT

The District has active construction projects, including the following:

	Original Contract	Remaining Commitment
Elementary School Construction	\$ 27,819,441	\$ 14,742,373
Senior High Addition and Alterations	7,499,113	2,902,807

NOTE 14. 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 an annual premium 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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14. RISK MANAGEMENT (Cont'd)

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 15. 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. The District is responsible for providing necessary facilities, services, and employees to provide Early Childhood and Adult Basic Education programs. This agreement is perpetual but may be canceled upon six months written notice by either party.

NOTE 16. 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 6/30/2017, the District abated property taxes totaling \$28,811 under this program. The abatement for MinnWest Technology Campus was \$24,554. The abatement for West Central Steel, Inc. was \$4,257.

NOTE 17. PRIOR PERIOD ADJUSTMENT

The prior period ending net position of the governmental activities has been adjusted to reflect a correction of an error. The adjustment reflects a reclassification of \$1,640,957 from restricted net position to unrestricted net position. There was no effect on total net position.

Other prior period adjustments should be read in conjunction with the District's 2016 financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #347

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
JUNE 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
<u>Other Postemployment Benefits</u>						
7/1/2015	\$	\$ 4,470,457	\$ 4,470,457	0.0%	\$ 32,359,378	13.8%
7/1/2013		6,924,061	6,924,061	0.0%	23,003,885	30.1%
7/1/2011		5,957,004	5,957,004	0.0%	22,744,318	26.2%
7/1/2009		6,228,886	6,228,886	0.0%	22,444,970	27.8%

Schedule of Employer Contributions

Year Ended June 30,	Annual Required Contribution	Employer Contribution	Percentage Contributed	Net Obligation
<u>Other Postemployment Benefits</u>				
2017	\$ 525,578	\$ 335,864	63.9%	\$ 2,156,791
2016	521,057	345,277	66.3%	2,005,934
2015	775,575	450,864	58.1%	1,866,306
2014	770,299	478,269	62.1%	1,541,595
2013	638,983	473,805	74.1%	1,249,565
2012	637,623	497,928	78.1%	1,104,073
2011	738,086	385,054	52.2%	981,886
2010	701,059	339,551	48.4%	640,270
2009	506,567	222,745	44.0%	283,822

The District implemented GASB Statement No. 45 for fiscal year ended June 30, 2009. Information for prior years is not available. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR PENSION PLANS ADMINISTERED THROUGH A TRUST
JUNE 30, 2017

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- Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a/b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>							
<u>PERA</u>							
6/30/2016	0.1425%	\$ 11,570,293	\$ 151,048	\$ 11,721,341	\$ 8,821,467	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%
<u>TRA</u>							
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.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR PENSION PLANS ADMINISTERED THROUGH A TRUST
JUNE 30, 2017

Year Ended June 30,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
<u>Pensions</u>					
<u>PERA</u>					
6/30/2017	\$ 667,928	\$ 667,928	\$	\$ 8,905,707	7.50%
6/30/2016	661,610	661,610		8,821,467	7.50%
6/30/2015	631,134	631,134		8,415,120	7.50%
<u>TRA</u>					
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		22,097,507	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.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL PENSION LIABILITY
FOR PENSION PLANS NOT ADMINISTERED THROUGH A TRUST
JUNE 30, 2017

	<u>2017</u>	<u>2016</u>
Service Cost	\$ 16,337	\$ 15,278
Interest	6,678	8,474
Changes of Assumptions	(4,278)	
Changes of Benefit Terms	1,215,024	
Benefit Payments	<u>(169,778)</u>	<u>(5,932)</u>
Net Change in Total Pension Liability	1,063,983	17,820
Total Pension Liability - Beginning of Year	<u>302,855</u>	<u>285,035</u>
 Total Pension Liability - End of Year 6/30/2016	 <u>\$ 1,366,838</u>	 <u>\$ 302,855</u>
 District's Total Pension Liability - Ending 6/30/2016	 <u>\$ 1,366,838</u>	 <u>\$ 302,855</u>
 Payroll for Measurement Period	 \$ 10,025,698	 \$ 8,632,095
 Total Pension Liability as a % of Employee Payroll	 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.

SUPPLEMENTARY INFORMATION

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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, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			2016	
	Budgeted Amounts		Actual	Over (Under) Final Budget	Actual
	Original	Final			
REVENUES					
Interest Earnings	\$ 185,580	\$ 348,448	\$ 402,111	\$ 53,663	\$ 267,928
EXPENDITURES					
Current					
Sites and Buildings					852,349
Capital Outlay					
Sites and Buildings	38,302,000	26,796,839	22,867,710	(3,929,129)	3,243,645
Total Expenditures	38,302,000	26,796,839	22,867,710	(3,929,129)	4,095,994
Excess (Deficiency) of Revenues Over (Under) Expenditures	(38,116,420)	(26,448,391)	(22,465,599)	3,982,792	(3,828,066)
OTHER FINANCING SOURCES (USES)					
Issuance of Bonds Payable					51,615,000
Bond Premium					1,263,851
Total Other Financing Sources (Uses)	0	0	0	0	52,878,851
Net Change in Fund Balances	\$ (38,116,420)	\$ (26,448,391)	(22,465,599)	\$ 3,982,792	49,050,785
FUND BALANCE, BEGINNING OF YEAR			48,957,800		(92,985)
FUND BALANCE, END OF YEAR			\$ 26,492,201		\$ 48,957,800

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 DEBT SERVICE FUND
 YEAR ENDED JUNE 30, 2017
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016

	2017			Over (Under) Final Budget	2016
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 3,636,091	\$ 3,610,581	\$ 3,594,438	\$ (16,143)	\$ 5,241
Interest Earnings	193	518	2,136	1,618	339
State Sources		25,798	25,798		
Total Revenues	<u>3,636,284</u>	<u>3,636,897</u>	<u>3,622,372</u>	<u>(14,525)</u>	<u>5,580</u>
EXPENDITURES					
Debt Service					
Bond Principal	1,405,000	1,405,000	1,405,000		
Bond Interest	2,408,132	2,408,132	2,408,132		
Paying Agent Fees and Other	3,250	3,400	3,400		
Total Expenditures	<u>3,816,382</u>	<u>3,816,532</u>	<u>3,816,532</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>\$ (180,098)</u>	<u>\$ (179,635)</u>	(194,160)	<u>\$ (14,525)</u>	5,580
FUND BALANCE, BEGINNING OF YEAR			<u>377,201</u>		<u>371,621</u>
FUND BALANCE, END OF YEAR			<u>\$ 183,041</u>		<u>\$ 377,201</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 JUNE 30, 2017

	<u>2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>2017</u>
ASSETS				
Receivables				
Due from Other Minnesota School Districts	\$ 58,677	\$ 100,738	\$ (126,327)	\$ 33,088
LIABILITIES AND NET POSITION				
Liabilities				
Salaries and Wages Payable	\$ 8,628	\$ 88,555	\$ (89,541)	\$ 7,642
Accounts Payable	6,134	9,349	(12,254)	3,229
Due to Other Funds	43,915	101,795	(126,327)	19,383
Due from Other Minnesota School Districts		2,834		2,834
	<u>58,677</u>	<u>202,533</u>	<u>(228,122)</u>	<u>33,088</u>
Total Liabilities	\$	\$	\$	\$

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REQUIRED REPORTS

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INDEPENDENT SCHOOL DISTRICT #347

UFARS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2017

	Audited	UFARS	Difference		Audited	UFARS	Difference
<u>01 GENERAL FUND</u>				<u>06 BUILDING CONSTRUCTION</u>			
Total Revenue	\$ 54,747,129	\$ 54,747,129	\$	Total Revenue	\$ 402,111	\$ 402,111	\$
Total Expenditures	51,048,419	51,048,419		Total Expenditures	22,867,710	22,867,710	
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	275,405	275,405		460 Nonspendable	69	69	
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	694,835	694,835		407 Capital Projects Levy			
405 Deferred Maintenance				409 Alternative Facilities Program			
406 Health and Safety	(514,275)	(514,275)		413 Project Funded by COP/LP			
407 Capital Projects Levy				467 LTFM			
408 Cooperative Revenue				<i>Restricted:</i>			
409 Alternative FAC Program				464 Restricted	26,492,132	26,492,132	
413 Project Funded by Cop				<i>Unassigned:</i>			
414 Operating Debt				463 Unassigned			
416 Levy Reduction							
417 Taconite Building Maintenance				<u>07 DEBT SERVICE</u>			
423 Certain Teacher Programs				Total Revenue	3,622,372	3,622,372	
424 Operating Capital	452,839	452,839		Total Expenditures	3,816,532	3,816,532	
426 \$25 Taconite				<i>Nonspendable:</i>			
427 Disabled Accessibility				460 Nonspendable			
428 Learning & Development				<i>Restricted/Reserved:</i>			
434 Area Learning Center	25,706	25,706		425 Bond Refundings			
435 Contracted Alt. Programs				451 QZAB and QSCB Payments			
436 State Approved Alt. Programs				<i>Restricted:</i>			
438 Gifted & Talented	13,889	13,889		464 Restricted	183,041	183,040	1
440 Teacher Development & Eval				<i>Unassigned:</i>			
441 Basic Skills Programs				463 Unassigned			
445 Career & Technical Programs				<u>08 TRUST</u>			
448 Achievement and Integration				(1) Total Revenue	190	190	
449 Safe Schools - Crime Levy	560	561	(1)	Total Expenditures	750	750	
450 Transition for Pre-Kindergarten				<i>Unassigned:</i>			
451 QZAB and QSCB Payments				422 Unassigned	32,782	32,782	
452 OPEB Liab Not Held in a Trust				<u>20 INTERNAL SERVICE</u>			
453 Unfunded Sev & Retirement Levy				Total Revenue	205,483	205,483	
467 LTFM	(100,569)	(100,569)		Total Expenditures	216,557	216,557	
472 Medical Assistance	424,014	424,014		<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned	99,053	99,053	
464 Restricted				<u>25 OPEB REVOCABLE TRUST</u>			
<i>Committed:</i>				Total Revenue			
418 Separation/Retirement Benefits	1,200,000	1,200,000		Total Expenditures			
461 Committed				<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned			
462 Assigned	166,811	166,811		<u>45 OPEB IRREVOCABLE TRUST</u>			
<i>Unassigned:</i>				Total Revenue			
422 Unassigned	10,836,134	10,836,134		Total Expenditures			
<u>02 FOOD SERVICE</u>				<i>Unassigned:</i>			
Total Revenue	3,305,427	3,305,427		422 Unassigned			
Total Expenditures	3,106,942	3,106,942		<u>47 OPEB DEBT SERVICE</u>			
<i>Nonspendable:</i>				Total Revenue			
460 Nonspendable	37,911	37,911		Total Expenditures			
<i>Restricted/Reserved:</i>				<i>Nonspendable:</i>			
452 OPEB Liab Not Held in a Trust				460 Nonspendable			
<i>Restricted:</i>				<i>Restricted:</i>			
464 Restricted	1,333,259	1,333,258	1	425 Bond Refundings			
<i>Unassigned:</i>				464 Restricted			
463 Unassigned				<i>Unassigned:</i>			
<u>04 COMMUNITY SERVICE</u>				463 Unassigned			
Total Revenue	3,368,140	3,368,140		<u>09 GENERAL FUND</u>			
Total Expenditures	3,072,895	3,072,895		Total Revenue			
<i>Nonspendable:</i>				Total Expenditures			
460 Nonspendable	37,717	37,717		<i>Nonspendable:</i>			
<i>Restricted/Reserved:</i>				460 Nonspendable			
426 \$25 Taconite				<i>Restricted:</i>			
431 Community Education	516,134	516,134		425 Bond Refundings			
432 E.C.F.E	130,741	130,741		464 Restricted			
444 School Readiness	275,576	275,576		<i>Unassigned:</i>			
447 Adult Basic Education	108,064	108,064		463 Unassigned			
452 OPEB Liab Not Held in a Trust				<u>10 GENERAL FUND</u>			
<i>Restricted:</i>				Total Revenue			
464 Restricted				Total Expenditures			
<i>Unassigned:</i>				<i>Nonspendable:</i>			
463 Unassigned				460 Nonspendable			

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

Federal Grantor\ Pass-Through Grantor\ Program Title	Federal CFDA Number	Passed Through Entity Identifying Number	Expenditures
U.S. Department of Agriculture			
Conservation Reserve Program	10.069		\$ 3,913
Minnesota Department of Education			
Child Nutrition Cluster:			
National School Lunch Program:			
Regular Lunch			222,486
Free and Reduced Lunch			1,049,332
After School Snack			48,991
Commodities Rebates			442
Food Distribution (Commodities-noncash)			215,133
Total National School Lunch Program	10.555	0000193883	1,536,384
Special Milk Program for Children	10.556	0000193883	1,092
School Breakfast Program	10.553	0000193883	580,196
Summer Food Service Program	10.559	0000193883	43,039
Total Child Nutrition Cluster			2,160,711
Fresh Fruit and Vegetable Program	10.582	0000193883	111,933
Child and Adult Care Food Program	10.558	0000193883	37,554
Total U.S. Department of Agriculture			2,314,111
U.S. Department of Education			
Minnesota Department of Education			
Title I Grants to Local Educational Agencies	84.010	* 0000193883	1,078,195
Adult Education - Basic Grants to States	84.002	0000193883	47,038
Title I, Part C - Migrant Education_State Grant Program	84.011	0000193883	62,742
Title II, Part A - Improving Teacher Quality State Grants	84.367	0000193883	207,982
Title III, Part A - English Language Acquisition Grants	84.365	0000193883	134,232
Title VI, Part B - Rural and Low Income Schools	84.358B	0000193883	60,049
SW/WC Service Cooperative			
Special Education Cluster:			
Special Education_Grants to States:			
Federal Flow Through, P.L. 108-446	84.027	Not Assigned	648,826
Special Education_Preschool Grants	84.173	Not Assigned	31,650
Total Special Education Cluster			680,476
Pact for Families Collaborative			
21st Century Community Learning Centers	84.287	Not Assigned	324,620
Ridgewater College			
Career and Technical Education - Basic Grants to States	84.048A	Not Assigned	21,600
Total U.S. Department of Education			2,616,934
Total Federal Awards			\$ 4,931,045

* Denotes Major Program

See Accompanying Notes to Schedule of Expenditures of Federal Awards

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

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, 2017. 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, 2017, 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

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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 of Independent School District #347, Willmar, Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 13, 2017.

The *Minnesota Legal Compliance Audit Guide for Schools*, 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 Schools*. 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, 2017

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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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 13, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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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*.

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, 2017



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, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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, 2017

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2017

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)? No

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.: 84.010

Name of Federal Program or Cluster: Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Types A and B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

II. MINNESOTA LEGAL COMPLIANCE

None

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None

INDEPENDENT SCHOOL DISTRICT #347

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>Year Finding Initially Occurred</u>	<u>If not corrected, Provide Planned Corrective Action or Other Explanation</u>
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Financial Statement Findings:

None

Minnesota Legal Compliance Findings:

2016-001	Contract and Bid Laws	Corrected	2016	N/A
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Federal Awards Findings:

None

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, 2017, 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.

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, 2017, 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, 2017, 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, 2017, 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, 2017

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
MIDDLE SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2017

	Balance July 1, 2016	Transfers and Receipts	Transfers and Disbursements	Balance June 30, 2017
Musical	\$ 18	\$	\$	\$ 18
Pop Concert T-Shirts	12	2,445	2,439	18
Yearbook	1,719		1,719	
Student Council	637	7,107	7,030	714
	<u>2,386</u>	<u>9,552</u>	<u>11,188</u>	<u>750</u>
Total	<u>\$ 2,386</u>	<u>\$ 9,552</u>	<u>\$ 11,188</u>	<u>\$ 750</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 SENIOR HIGH ACTIVITY FUND
 YEAR ENDED JUNE 30, 2017

	Balance July 1, 2016	Transfers and Receipts	Transfers and Disbursements	Balance June 30, 2017
Cardettes	\$ 122	\$ 4,108	\$ 4,229	\$ 1
F.F.A.	586	818	833	571
General Account (Bank Interest/Expenses)		137	137	
Cross Country	10,514	4,489	3,990	11,013
National Honor Society	2,639	2,068	2,056	2,651
Nordic Ski	6	2,337	1,136	1,207
Culture Club		168		168
Seventh Rendition	66,876	360,896	404,897	22,875
Student Council	3,595	9,911	6,235	7,271
"W" Fund	4,326	2,889	113	7,102
Wihisean	1,122	1,872	2,698	296
Orchestra	4,140	85	288	3,937
Willmar Athletics	5,692	82,260	83,694	4,258
Final Concessions	4,233	31,824	32,263	3,794
Knowledge Bowl	1,315	1	601	715
Art Club	1,485	1	360	1,126
High Mileage	357	701	518	540
Key Club		1,848	814	1,034
Gymnastics	3,591	3,802	1,858	5,535
Fastpitch Softball	76	2,641	2,544	173
Tennis	1,842	2,980	1,838	2,984
Volleyball	10,571	5,824	3,988	12,407
Track	6,987	3,834	4,903	5,918
Girls Soccer	292	3,004	3,212	84
Boys Soccer	1,399	2,034	2,194	1,239
Boys Swim	963	1,781	1,775	969
Girls Swim	3,458	3,699	2,724	4,433
Wrestling	226	4,448	1,786	2,888
Boys Basketball	204	2,530	1,581	1,153
Girls Basketball	100	4,015	3,823	292
Boys Hockey	338	1,201	787	752
Girls Hockey	796	793	353	1,236
Boys Baseball	3,211	7,085	6,116	4,180
Boys Golf	1,247	704	469	1,482
Girls Golf	556	781	483	854
Boys Tennis	121	5,088	5,105	104
Football	944	7,866	8,810	
First Robotics	324	10,035	10,262	97
Special Needs	314	180	188	306
	<u>\$ 144,568</u>	<u>\$ 580,738</u>	<u>\$ 609,661</u>	<u>\$ 115,645</u>
Total	<u>\$ 144,568</u>	<u>\$ 580,738</u>	<u>\$ 609,661</u>	<u>\$ 115,645</u>

See Accompanying Notes and Auditor's Report on Student Activities

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENTS
JUNE 30, 2017

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, 2017, the Student Activity Funds' deposits were entirely covered by federal depository insurance.

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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, 2017. 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.

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, 2017.

Conway, Deuth & Schmiesing, PLLP

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

November 13, 2017