

INDEPENDENT SCHOOL DISTRICT #347
WILLMAR PUBLIC SCHOOLS

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2016

Conway, Deuth & Schmiesing, PLLP
Certified Public Accountants
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, 2016

<u>Board of Education</u>		<u>Term Expires</u>
Chairperson	Liz VanDerBill	1/8/2017
Vice-Chairperson	Mike Reynolds	1/8/2017
Clerk	Jackie Saulsbury	1/8/2017
Treasurer	Laura Warne	1/7/2019
Director	Jared Anez	1/7/2019
Director	Justin Bos	1/8/2017
Director	Linda Mathiasen	1/7/2019
<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, 2016, 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Food Service and Community Service Special Revenue Funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 11 to the financial statements, for the year ended June 30, 2016, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Our opinion is not modified with respect to this matter.

Report on Partial Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated September 28, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

Supplementary and Other Information (Cont'd)

The individual fund financial schedule, UFARS Compliance Table, and the Schedule of Expenditures of Federal Awards (supplementary information) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Board of Education and Administration page has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information presented.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, 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
Willmar, Minnesota

October 10, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2016

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, 2016. 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 2015-2016 fiscal year include the following:

- The General Fund unassigned fund balance exceeded the School Board's fund balance minimum of 6% of expenditures with a fund balance of \$7,463,373, equivalent to 15.29% of expenditures. The fund balance also exceeded the revised budget estimate of \$5,453,002 or 10.91% of budgeted expenditures. The additional fund balance is attributed to increased revenue due to additional English learners and a change to special education funding. Special education revenue is still an estimate at this point in time. MDE will continue to run the calculations for the next year. Some concerns that could impact the true revenue received include other District's finalization of tuition billing information and the State's ability to fully fund the special education revenue owed to Districts. In addition, severance payments are driven by retirements. Actual severance payments were lower than budgeted. The budget included an assumption that Education MN would settle their collective bargaining agreement for 2015-16 and 2016-17 during the year. At the time of this report, an agreement has not been reached. Therefore, payments for salary increases for that group did not occur causing fund balance to increase. When the contract settles, retroactive salary and benefit payments will be made that will come from fund balance. Targeted Services was accounted for under the ALC restricted fund balance for the first time in FY 2016. Targeted Services helped supplement the ALC which lowered the general fund's responsibility for supplementing the program. The English learners program also needed less supplementing from the general fund this year due to an increase in EL ADM. Custodial repairs and maintenance and supply budgets were not fully expended. MDE requires District's to allocate bussing expenditures across transportation categories regardless of actual invoicing based on miles, routes or hours. Special education transportation was lower than expected based on direct budgeting and billing even though the allocation process results in an increase of special education transportation costs.
- Net Position decreased 59.72% from the prior year partially due to the District implementing GASB 73, Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68 which records the District's supplemental pension plan net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense on the District's government-wide financial statements.
- The combined Governmental Funds fund balance increased by 492.07%, or \$50,744,743 mainly due to the issuance of bonds to fund construction and deferred maintenance projects.
- The overall net increase to the District's long-term liabilities was \$60,573,897, or 188.63% due to the implementation of GASB 73 and the issuance of bonds to fund construction and deferred maintenance projects.
- Enrollment increased by 70 ADM's (Average Daily Membership) in FY 2016. 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 16 students.

INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED JUNE 30, 2016

FINANCIAL REVIEW (CONTINUED)

- The District's comprehensive annual financial report for the year ended June 30, 2015 was awarded the Certificate of Excellence in Financial Reporting from the Association of School Business Officials International (ASBO).

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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.

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, 2016

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 \$1,162,993 on June 30, 2016. This was a decrease of 59.72% from the previous year (see Table A-1 below).

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

	<u>Governmental Activities</u>		Percentage Change
	<u>2016</u>	<u>2015</u>	
Current and Other Assets	\$ 75,447,091	\$ 19,358,124	289.74%
Capital Assets	30,793,046	27,758,218	10.93%
Total Assets	106,240,137	47,116,342	125.48%
Related to Pensions	\$ 6,466,942	\$ 5,007,554	29.14%
Total Deferred Outflows of Resources	6,466,942	5,007,554	29.14%
Current Liabilities	\$ 8,215,390	\$ 4,906,452	67.44%
Long-term Liabilities	92,687,031	32,113,134	188.63%
Total Liabilities	100,902,421	37,019,586	172.56%
Property Taxes Levied for Subsequent Year's	\$ 7,479,509	\$ 3,973,640	88.23%
Related to Pensions	3,162,156	8,243,107	-61.64%
Total Deferred Inflows of Resources	10,641,665	12,216,747	-12.89%
Net Position			
Net Investment in Capital Assets	\$ 28,194,385	\$ 27,758,218	1.57%
Restricted	2,883,695	2,477,920	16.38%
Unrestricted	(29,915,087)	(27,348,575)	9.38%
Total Net Position	\$ 1,162,993	\$ 2,887,563	-59.72%

The largest portion of the District's net position, \$28,194,385, 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 partially due to the impact of GASB 73 implementation being reflected in the current year. Refer to Note 17 of the financial statements for additional information.

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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
	2016	2015	
Revenues			
Program Revenues			
Charges for Services	\$ 2,835,062	\$ 2,797,607	1.34%
Operating Grants and Contributions	21,731,047	20,372,678	6.67%
Capital Grants and Contributions	703,212	698,329	0.70%
General Revenues			
Property Taxes	4,299,028	4,976,512	-13.61%
Unrestricted State Aid	27,473,153	26,218,513	4.79%
Investment Earnings	275,496	5,357	5042.73%
Other	43,139	15,486	178.57%
Total Revenues	<u>57,360,137</u>	<u>55,084,482</u>	4.13%
Expenses			
Administration	2,123,474	1,817,096	16.86%
District Support Services	1,855,309	1,961,768	-5.43%
Regular Instruction	24,307,497	25,080,532	-3.08%
Vocational Education Instruction	748,658	713,935	4.86%
Special Education Instruction	9,504,775	8,980,243	5.84%
Instructional Support Services	2,967,669	2,782,791	6.64%
Pupil Support Services	3,987,023	3,833,631	4.00%
Sites and Buildings	5,800,679	4,721,575	22.85%
Fiscal and Other Fixed Costs Programs	156,742	154,413	1.51%
Food Service	2,990,408	2,896,113	3.26%
Community Service	2,942,858	3,232,372	-8.96%
Interest and Fiscal Charges on Long-Term Liabilities	1,411,012	21,184	6560.74%
Total Expenses	<u>58,796,104</u>	<u>56,195,653</u>	4.63%
Change in Net Position	(1,435,967)	(1,111,171)	29.23%
Beginning Net Position, as Originally Stated	2,887,563	35,081,760	
Prior Period Adjustment	(288,603)	(31,083,026)	
Beginning Net Position, as Restated	<u>2,598,960</u>	<u>3,998,734</u>	-35.01%
Ending Net Position	<u>\$ 1,162,993</u>	<u>\$ 2,887,563</u>	-59.72%

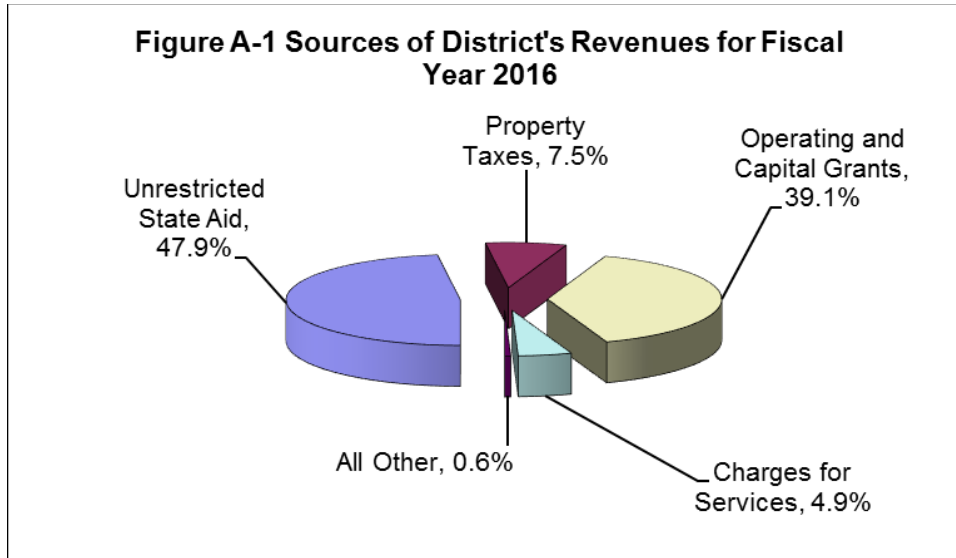
INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

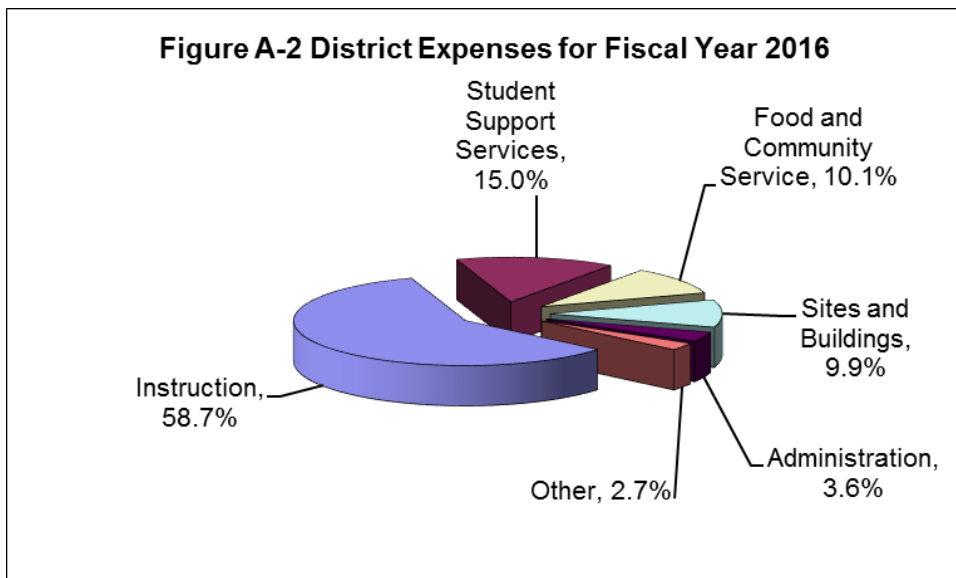
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position. The District's total revenues were \$57,360,137 for the year ended June 30, 2016. This is a 4.13% increase from the prior year's revenues.

Unrestricted state aid along with local property taxes accounted for 55.4% of the total revenue for the year (see Figure A-1 below). Another 44.0% 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 \$58,796,104 for the year ended June 30, 2016. This is a 4.63% increase from the prior year's expenses. Salary settlements for a collective bargaining group were not settled during the current fiscal year which will cause future retroactive salary payments that were not able to be estimated at the time of this report. The District's expenses are predominantly related to student education (73.7%). (See Figure A-2). While the dollar amount spent on student education increased, the percentage spent on student education decreased due to the percentage for sites and buildings and interest and fiscal charges on long-term liabilities being larger due to building projects financed by debt. The purely administrative activities of the District accounted for just 3.6% of total costs. Total expenses surpassed revenues, decreasing net position \$1,435,967 from last year.



INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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 \$58,796,104. 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 4.82%, or \$2,835,062 of the costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled \$22,434,259, or 38.16% of the total costs for 2015-2016.
- The remainder of the District's costs (\$33,526,783), 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
	2016	2015		2016	2015	
Administration	\$ 2,123,474	\$ 1,817,096	16.86%	\$ 2,110,149	\$ 1,817,096	16.13%
District Support Services	1,855,309	1,961,768	-5.43%	1,728,274	1,790,196	-3.46%
Regular Instruction	24,307,497	25,080,532	-3.08%	14,098,167	15,164,397	-7.03%
Vocational Education Instruction	748,658	713,935	4.86%	669,654	644,745	3.86%
Special Education Instruction	9,504,775	8,980,243	5.84%	2,789,125	3,037,329	-8.17%
Instructional Support Services	2,967,669	2,782,791	6.64%	1,938,908	1,697,390	14.23%
Pupil Support Services	3,987,023	3,833,631	4.00%	3,843,472	3,716,990	3.40%
Sites and Buildings	5,800,679	4,721,575	22.85%	5,062,536	3,959,940	27.84%
Fiscal and Other Fixed Costs Programs	156,742	154,413	1.51%	156,742	154,413	1.51%
Food Service	2,990,408	2,896,113	3.26%	(329,945)	(204,158)	61.61%
Community Service	2,942,858	3,232,372	-8.96%	48,689	527,517	-90.77%
Interest and Fiscal Charges on Long-Term Liabilities	1,411,012	21,184	6560.74%	1,411,012	21,184	6560.74%
Total	\$ 58,796,104	\$ 56,195,653	4.63%	\$ 33,526,783	\$ 32,327,039	3.71%

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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 2015-2016 fiscal year, the District's governmental funds reported a **combined** fund balance of \$61,057,312, a 492.07% increase from last year's ending fund balance of \$10,312,569 due to the issuance of bonds to fund building projects that will take place over several years.

Revenues for the District's governmental funds totaled \$56,740,638 while total expenditures were \$58,917,885 and other financing sources net of other financing uses totaled \$52,921,990. As a result, the District completed the year with an excess of revenues and other financing sources over expenditures and other financing uses of \$50,744,743. 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**

	2016			
	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources(Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
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>
	2015			
	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources(Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 47,991,009	\$ 50,131,914	\$ 807,088	\$ (1,333,817)
Food Service Fund	3,100,484	3,015,764		84,720
Community Service Fund	3,085,118	3,157,186		(72,068)
Building Construction		92,985		(92,985)
Debt Service Fund	907,470	1,050,400		(142,930)
Totals	<u>\$ 55,084,081</u>	<u>\$ 57,448,249</u>	<u>\$ 807,088</u>	<u>\$ (1,557,080)</u>

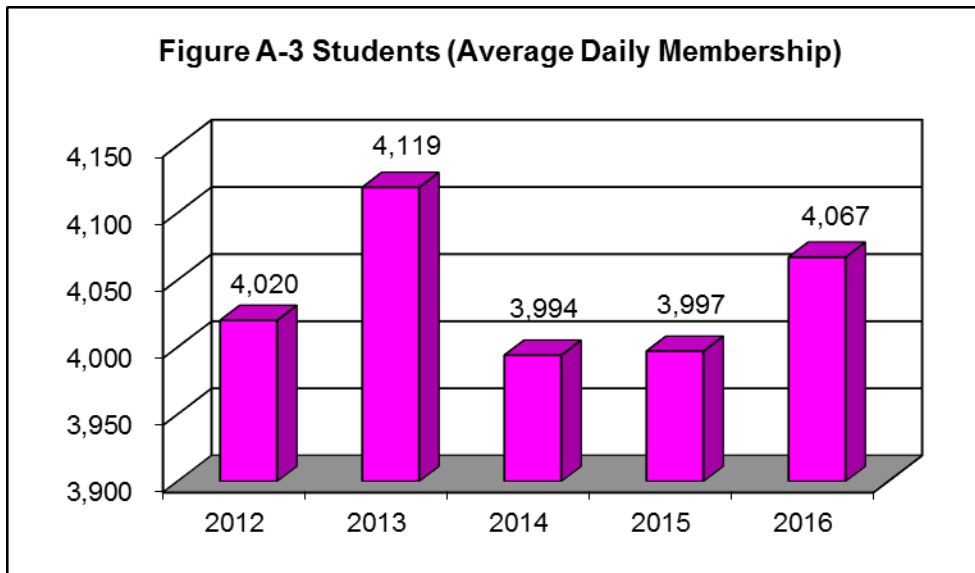
INDEPENDENT SCHOOL DISTRICT #347

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

GENERAL FUND

The General Fund is used by the District to record the primary operations of providing educational services to students from 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 which include small increases or decreases 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. 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, drop outs 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 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, 2016**

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
	2016	2015		
Local Sources				
Property Taxes	\$ 3,889,307	\$ 3,704,977	\$ 184,330	4.98%
Interest Earnings	6,522	4,727	1,795	37.97%
Other	1,516,614	1,617,411	(100,797)	-6.23%
State Sources	42,294,339	39,884,917	2,409,422	6.04%
Federal Sources	2,135,747	2,778,977	(643,230)	-23.15%
Total General Fund Revenues	\$ 49,842,529	\$ 47,991,009	\$ 1,851,520	3.86%

Total General Fund revenue increased \$1,851,520, or 3.86%, from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including operating levy referendum, involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

The increase to property taxes has to do with Health & Safety projects and adjustments as enrollment numbers are being adjusted from estimates to actuals. Other local sources decreased due to lower tuition bills for non-resident student. State aid increased as a result of increased enrollment and increases to funding formulas. Federal sources decreased due to the school improvement grant ending at the close of FY 2015 and lower federal special education entitlement.

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
	2016	2015		
Salaries	\$ 28,131,264	\$ 29,237,429	\$ (1,106,165)	-3.78%
Employee Benefits	9,600,096	9,384,736	215,360	2.29%
Purchased Services	7,470,891	7,168,651	302,240	4.22%
Supplies and Materials	1,428,502	1,536,873	(108,371)	-7.05%
Capital Expenditures	1,969,653	2,532,788	(563,135)	-22.23%
Other Expenditures	218,393	271,437	(53,044)	-19.54%
Total General Fund Expenditures	\$ 48,818,799	\$ 50,131,914	\$ (1,313,115)	-2.62%

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

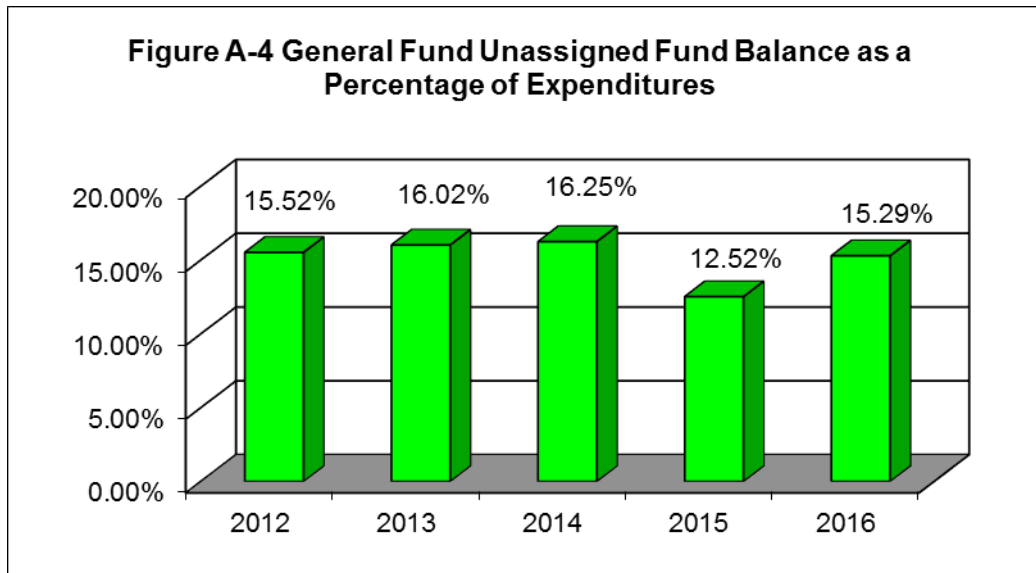
Total General Fund expenditures decreased \$1,313,115 or 2.62% from the previous year.

Salaries decreased primarily because FY 2015 included a retroactive salary payment to teachers for FY 2014 upon settlement of their contract. Staff reductions were made for FY 2016 to help reduce the budget. Employee benefits increased due to individual employee benefit choices. The District continues to proactively pursue various cost containment measures to minimize the effect of rising health insurance premiums on the costs of the District's employee compensation packages.

Combined non-payroll expenditures (Purchased Services, Supplies and Materials, Capital Expenditures, and Other Expenditures) decreased \$422,310 or 3.67%, compared to last year. The District spent more on technology and capital projects in FY 2015.

In summary, 2015-2016 General Fund revenues and other financing sources were more than General Fund expenditures by \$1,066,191. As a result, the total fund balance is \$9,776,639 at June 30, 2016. After deducting statutory reserves, committed constraints, assigned and nonspendable items, the unassigned fund balance increased from \$6,277,929 on June 30, 2015 to \$7,463,373 on June 30, 2016.

Figure A-4, below, depicts the General Fund unassigned fund balance as a percentage of expenditures for fiscal years 2012 – 2016:



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 \$7,463,373 on June 30, 2016 represents 15.29% 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, 2016**

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 2015.
- Changes in appropriations for significant unbudgeted costs.
- While the District's final budget for the General Fund anticipated that revenues would be less than expenditures by \$1,180,055, the actual results for the year show that revenues were greater than expenditures by \$1,023,730. The additional fund balance is attributed to increased revenue due to the change to special education funding. In addition, severance payments are driven by retirements. Severance payments were lower than budgeted. The Education Minnesota collective bargaining agreement for 2015-16 and 2016-17 remains unsettled. The money budgeted to pay increased salaries sits in fund balance until a settlement can be reached. Retroactive salary payments will then decrease the amount in fund balance. Targeted Services was accounted for under the ALC restricted fund balance for the first time in FY 2016. Targeted Services helped supplement the ALC which lowered the general fund's responsibility for supplementing the program. The English learners program also needed less supplementing from the general fund this year due to an increase in EL ADM. Custodial repairs and maintenance and supply budgets were not fully expended. MDE requires District's to allocate bussing expenditures across transportation categories regardless of actual invoicing based on miles, routes or hours. Special education transportation was lower than expected based on direct budgeting and billing even though the allocation process results in an increase of special education transportation costs.

FOOD SERVICE FUND

The Food Service Fund revenue and other financing sources for 2015-2016 totaled \$3,321,410 and expenditures were \$3,058,871, resulting in a fund balance increase of \$262,540. The June 30, 2016 Food Service fund balance is \$1,172,685.

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

COMMUNITY SERVICE FUND

In 2015-2016, total revenues for the Community Service Fund were \$3,303,868 and total expenditures were \$2,944,221 resulting in a fund balance increase of \$359,647. The Community Service fund balance as of June 30, 2016 is \$772,987. 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 and expenses began in earnest of the building projects. The Building Construction fund balance as of June 30, 2016 is \$48,957,800.

DEBT SERVICE FUND

The District made the final bond payment for the Senior High in 2014-2015. The remaining fund balance will be used to help make the first bond payment of the 2015 bonds.

INDEPENDENT SCHOOL DISTRICT #347

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had net capital assets of \$30,793,046 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 \$1,301,491. 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>2016</u>	<u>2015</u>	
Capital Assets Not Being Depreciated	\$ 4,285,855	\$ 716,958	497.78%
Land Improvements	4,146,948	4,013,606	3.32%
Buildings and Improvements	47,306,675	47,244,222	0.13%
Equipment	5,310,056	4,890,053	8.59%
Less: Accumulated Depreciation	(30,256,488)	(29,106,621)	3.95%
Total Net Capital Assets	<u>\$ 30,793,046</u>	<u>\$ 27,758,218</u>	10.93%

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 but expenses were incurred in FY 2015 thus the creation of the building construction fund. In FY 2016, a number of deferred maintenance projects were started. Construction began on the Middle School science addition and enclosure of the courtyard.

Long-term Liabilities

At year-end, the District had \$52,822,338 general obligation bonds outstanding including bond premium. The District continues to pay down the capital lease - as shown in Table A-8. The estimated other post-employment benefits liability is \$2,005,934 at June 30, 2016. The District also has \$3,138,662 in compensated absences payable at June 30, 2016. The District implemented the Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* during fiscal year 2016. Total net pension liability, including those related to GASB 73, total \$34,454,377 at June 30, 2016. 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 Fund. 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 and Special Revenue Funds. Compensated absences payable consists of unused vacation at June 30, 2016 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 188.63% in fiscal year 2016. 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, 2016**

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	\$	\$ 51,615,000	\$ 1,405,000
Bond Premium		1,263,851	56,513	1,207,338	61,651
Capital Leases Payable	524,656		258,936	265,720	265,720
Compensated Absences Payable	2,536,407	1,082,011	479,756	3,138,662	571,284
Other Postemployment Benefits Payable	1,866,306	484,905	345,277	2,005,934	
Net Pension Liability	27,185,765	22,545,997	15,277,385	34,454,377	
Total	\$ 32,113,134	\$ 76,991,764	\$ 16,417,867	\$ 92,687,031	\$ 2,303,655

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.

Special education aid has a new formula in FY 2016. Initially this formula is showing a large increase to special education revenue. The Minnesota Department of Education continues to run the special education aid calculations as the inputs to the calculations continue to change. There is some concern that the special education aid will need to be prorated if the state did not appropriate enough funds for the increases in revenue that are being seen by the new funding model. It could take three months to a year to really know the true impact of the funding changes. There is a \$117 (2.0%) increase to the general fund basic formula. The extended time formula allowance increased \$100. The student achievement levy will begin to phase out and will be completely eliminated in FY 2019. The operating capital levy equalizing factor will increase for the next three years which will likely lower the burden on taxpayers. Early Childhood funding continues to see increases. Voluntary Pre-K funding will begin in FY 2017. The District became eligible for the new American Indian Education funding in FY 2016. Long-Term Facilities Maintenance funding will become available for FY 2017 when the state will combine Health & Safety, Deferred Maintenance and Alternative Facilities funding along with an additional increase. The funding has very specific uses but will help the District maintain its buildings.

The Willmar area has businesses that have shut its doors and others open the doors. Hardware Hank Express, Chen Garden Chinese restaurant, Team House Hibachi Grill and Buffet, and other businesses closed their doors this year. Darling Clementine, Happy Family Grocery, Café Corti and other businesses opened in Willmar during the year.

The District sold bonds to finance the construction of a new elementary school, middle school science classrooms, senior high athletic addition, remodel projects and deferred maintenance projects. The new elementary school is scheduled to open for the 2017-18 school year. The enclosure of the courtyard at the Middle School opened in the fall of 2016. The new science wings at the Middle School are scheduled to open in early January of 2017. The senior high addition will be constructed during 2016-17 and should open 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, 2016**

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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2015

	Governmental Activities	
	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Assets		
Cash and Investments	\$ 64,420,946	\$ 10,212,142
Receivables		
Property Taxes	3,666,224	2,051,647
Other Governments	6,984,020	6,613,835
Other	143,472	224,391
Due from Agency Fund	43,915	74,340
Prepaid Items	143,508	113,414
Inventories	45,006	68,355
Capital Assets		
Assets Not Being Depreciated	4,285,855	716,958
Other Capital Assets, Net of Depreciation	26,507,191	27,041,260
Total Assets	106,240,137	47,116,342
Deferred Outflows of Resources		
Related to Pensions	6,466,942	5,007,554
	\$ 112,707,079	\$ 52,123,896
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Salaries and Wages Payable	\$ 4,224,816	\$ 4,179,806
Accounts and Contracts Payable	2,358,756	480,835
Due to Other Governmental Units	74,551	156,857
Accrued Interest Payable	1,467,525	
Unearned Revenue	89,742	88,954
Noncurrent Liabilities		
Due Within One Year	2,303,655	707,426
Due in More Than One Year	90,383,376	31,405,708
Total Liabilities	100,902,421	37,019,586
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year's Expenditures	7,479,509	3,973,640
Related to Pensions	3,162,156	8,243,107
Total Deferred Inflows of Resources	10,641,665	12,216,747
Net Position		
Net Investment in Capital Assets	28,194,385	27,758,218
Restricted for		
Operating Capital Purposes	252,127	273,849
State-Mandated Reserves	682,073	860,796
Food Service	1,172,685	910,145
Community Service	776,810	416,590
Debt Service		16,540
Unrestricted	(29,915,087)	(27,348,575)
Total Net Position	1,162,993	2,887,563
	\$ 112,707,079	\$ 52,123,896

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016				2015
	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
					Governmental Activities
GOVERNMENTAL ACTIVITIES					
Administration	\$ 2,123,474	\$	\$ 13,325	\$	\$ (2,110,149)
District Support Services	1,855,309		127,035		(1,728,274)
Regular Instruction	24,307,497	681,768	9,527,562		(14,098,167)
Vocational Education Instruction	748,658	3,692	75,312		(669,654)
Special Education Instruction	9,504,775	355,498	6,360,152		(2,789,125)
Instructional Support Services	2,967,669		1,028,761		(1,938,908)
Pupil Support Services	3,987,023		143,551		(3,843,472)
Sites and Buildings	5,800,679	31,193	3,738	703,212	(5,062,536)
Fiscal and Other Fixed Costs Programs	156,742				(156,742)
Food Service	2,990,408	764,260	2,556,093		329,945
Community Service	2,942,858	998,651	1,895,518		(48,689)
Interest and Fiscal Charges on Long-Term Liabilities	1,411,012				(1,411,012)
Total Governmental Activities	\$ 58,796,104	\$ 2,835,062	\$ 21,731,047	\$ 703,212	(33,526,783)
GENERAL REVENUES					
Property Taxes Levied for					
General Purposes					3,893,638
Community Service					406,281
Debt Service					(891)
State Aid not Restricted to Specific Purposes					27,473,153
Interest Earnings					275,496
Miscellaneous					43,139
Total General Revenues					32,090,816
Change in Net Position					(1,435,967)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED					2,887,563
PRIOR PERIOD ADJUSTMENT					(288,603)
NET POSITION, BEGINNING OF YEAR, AS RESTATED					2,598,960
NET POSITION, END OF YEAR					\$ 1,162,993

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2015

	General	Food Service	Community Service	Building Construction	Debt Service	Total Governmental Funds	
						2016	2015
ASSETS							
Cash and Investments	\$ 9,710,728	\$ 1,186,556	\$ 856,493	\$ 50,223,677	\$ 2,325,648	\$ 64,303,102	\$ 10,091,490
Receivables							
Current Property Taxes	1,716,809		209,493		1,687,644	3,613,946	1,998,139
Delinquent Property Taxes	38,049		3,823		10,406	52,278	53,508
Due from Other Minnesota School Districts	804,714	22,711				827,425	1,042,154
Due from Minnesota Department of Education	4,960,731		113,513			5,074,244	4,337,442
Due from Federal through Minnesota Department of Education	670,393	46,766	228,496			945,655	1,018,952
Due from Other Governmental Units	100,416		36,280			136,696	215,287
Other Receivables	68,179	14,160	4,144	56,989		143,472	224,391
Due from Other Funds	43,915					43,915	74,791
Prepaid Items	123,791	1,661	10,111	7,945		143,508	113,414
Inventories	29,810	15,196				45,006	68,355
Total Assets	\$ 18,267,535	\$ 1,287,050	\$ 1,462,353	\$ 50,288,611	\$ 4,023,698	\$ 75,329,247	\$ 19,237,923
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE							
Liabilities							
Salaries and Wages Payable	\$ 4,042,339	\$ 39,158	\$ 143,319	\$	\$	\$ 4,224,816	\$ 4,179,806
Accounts and Contracts Payable	965,713	28,284	26,231	1,330,811		2,351,039	472,138
Due to Other Governmental Units	51,236		23,315			74,551	156,857
Due to Other Funds							451
Unearned Revenue	1,050	46,923	41,769			89,742	88,954
Total Liabilities	5,060,338	114,365	234,634	1,330,811	0	6,740,148	4,898,206
Deferred Inflows of Resources							
Property Taxes Levied for Subsequent Year's Expenditures	3,392,509		450,909		3,636,091	7,479,509	3,973,640
Unavailable Revenue - Delinquent Property Taxes	38,049		3,823		10,406	52,278	53,508
Total Deferred Inflows of Resources	3,430,558	0	454,732	0	3,646,497	7,531,787	4,027,148
Fund Balance							
Nonspendable	153,601	16,857	10,111	7,945		188,514	181,769
Restricted	780,599	1,155,828	762,876	48,949,855	377,201	52,026,359	2,413,846
Committed	1,200,000					1,200,000	1,200,000
Assigned	179,066					179,066	332,010
Unassigned	7,463,373					7,463,373	6,184,944
Total Fund Balance	9,776,639	1,172,685	772,987	48,957,800	377,201	61,057,312	10,312,569
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 18,267,535	\$ 1,287,050	\$ 1,462,353	\$ 50,288,611	\$ 4,023,698	\$ 75,329,247	\$ 19,237,923

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, 2016
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
Total Fund Balances - Governmental Funds	\$ 61,057,312	\$ 10,312,569
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	4,285,855	716,958
Land Improvements, Net of Accumulated Depreciation	1,697,761	1,669,562
Buildings and Improvements, Net of Accumulated Depreciation	22,473,532	23,332,830
Equipment and Vehicles, Net of Accumulated Depreciation	2,335,898	2,038,868
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.	52,278	53,508
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(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.	110,127	111,955
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	6,466,942	5,007,554
Deferred Inflows of Resources Related to Pensions	(3,162,156)	(8,243,107)
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	(51,615,000)	
Unamortized Premium	(1,207,338)	
Capital Lease Payable	(265,720)	(524,656)
Compensated Absences Payable	(3,138,662)	(2,536,407)
Other Postemployment Benefits Payable	(2,005,934)	(1,866,306)
Net Pension Liability	<u>(34,454,377)</u>	<u>(27,185,765)</u>
Total Net Position - Governmental Activities	<u>\$ 1,162,993</u>	<u>\$ 2,887,563</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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	General	Food Service	Community Service	Building Construction	Debt Service	Total Governmental Funds	
						2016	2015
REVENUES							
Local Sources							
Property Taxes	\$ 3,889,307	\$	\$ 405,708	\$	\$ 5,241	\$ 4,300,256	\$ 4,985,862
Interest Earnings	6,522	380	328	267,928	339	275,497	5,357
Other	1,516,614	822,544	1,406,175			3,745,333	3,765,491
State Sources	42,294,339	209,775	1,088,501			43,592,615	41,070,471
Federal Sources	2,135,747	2,288,034	403,156			4,826,937	5,256,900
Total Revenues	49,842,529	3,320,733	3,303,868	267,928	5,580	56,740,638	55,084,081
EXPENDITURES							
Current							
Administration	1,980,112					1,980,112	1,885,624
District Support Services	1,801,426					1,801,426	1,924,638
Regular Instruction	21,878,537					21,878,537	24,159,007
Vocational Education Instruction	696,644					696,644	752,453
Special Education Instruction	9,216,348					9,216,348	9,033,968
Instructional Support Services	2,781,909					2,781,909	2,593,209
Pupil Support Services	3,876,684		31,034			3,907,718	3,818,617
Sites and Buildings	4,460,745			852,349		5,313,094	4,191,234
Fiscal and Other Fixed Costs Programs	156,742					156,742	153,982
Food Service		2,939,816				2,939,816	2,833,718
Community Service			2,887,957			2,887,957	3,102,196
Capital Outlay	1,969,652	119,055	25,230	3,243,645		5,357,582	1,949,203
Debt Service							
Principal							1,000,000
Interest and Fiscal Charges							50,400
Total Expenditures	48,818,799	3,058,871	2,944,221	4,095,994	0	58,917,885	57,448,249
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,023,730	261,862	359,647	(3,828,066)	5,580	(2,177,247)	(2,364,168)
OTHER FINANCING SOURCES (USES)							
Proceeds from Issuance of Capital Lease							797,338
Proceeds from Issuance of Bonds Payable				51,615,000		51,615,000	
Bond Premium				1,263,851		1,263,851	
Sale of Equipment	42,461	678				43,139	9,750
Total Other Financing Sources (Uses)	42,461	678	0	52,878,851	0	52,921,990	807,088
Net Change in Fund Balances	1,066,191	262,540	359,647	49,050,785	5,580	50,744,743	(1,557,080)
FUND BALANCE, BEGINNING OF YEAR	8,710,448	910,145	413,340	(92,985)	371,621	10,312,569	11,869,649
FUND BALANCE, END OF YEAR	\$ 9,776,639	\$ 1,172,685	\$ 772,987	\$ 48,957,800	\$ 377,201	\$ 61,057,312	\$ 10,312,569

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, 2016
WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	<u>2016</u>	<u>2015</u>
Total Net Change in Fund Balances - Governmental Funds	\$ 50,744,743	\$ (1,557,080)
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	4,398,471	805,629
Depreciation Expense	(1,301,491)	(1,274,657)
Cost of Capital Assets Disposed	(213,776)	(104,963)
Accumulated Deprecation Related to Disposed Capital Assets	151,624	58,165
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)	(797,338)
Premium Related to Issuance of Long-Term Debt	(1,263,851)	
Principal Retirement of Long-Term Debt	258,936	1,272,682
Change in Accrued Interest Payable	(1,467,525)	20,833
Amortization of Bond Premium	56,513	8,383
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.	(1,230)	(9,349)
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).	(1,181,553)	442,414
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.	(1,828)	24,110
Change in Net Position - Governmental Activities	<u>\$ (1,435,967)</u>	<u>\$ (1,111,171)</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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			2015	
	Budgeted Amounts		Actual	Over (Under)	
	Original	Final		Final Budget	Actual
REVENUES					
Local Sources					
Property Taxes	\$ 3,891,612	\$ 3,884,170	\$ 3,889,307	\$ 5,137	\$ 3,704,977
Interest Earnings	4,831	6,327	6,522	195	4,727
Other	1,739,767	1,466,806	1,516,614	49,808	1,617,411
State Sources	39,767,602	40,982,686	42,294,339	1,311,653	39,884,917
Federal Sources	2,324,900	2,444,826	2,135,747	(309,079)	2,778,977
Total Revenues	47,728,712	48,784,815	49,842,529	1,057,714	47,991,009
EXPENDITURES					
Current					
Administration	1,872,132	1,895,716	1,980,112	84,396	1,885,624
District Support Services	1,915,982	1,893,204	1,801,426	(91,778)	1,924,638
Regular Instruction	22,787,626	22,882,351	21,878,537	(1,003,814)	24,159,007
Vocational Education Instruction	741,448	695,849	696,644	795	752,453
Special Education Instruction	9,286,037	9,225,455	9,216,348	(9,107)	9,033,968
Instructional Support Services	2,939,295	2,879,830	2,781,909	(97,921)	2,593,209
Pupil Support Services	4,033,745	4,034,027	3,876,684	(157,343)	3,795,335
Sites and Buildings	4,196,086	4,368,476	4,460,745	92,269	4,098,249
Fiscal and Other Fixed Costs Programs	155,621	156,500	156,742	242	153,982
Capital Outlay					
Administration		4,250	4,895	645	200
District Support Services	14,500	26,000	26,981	981	21,596
Regular Instruction	810,228	733,871	750,577	16,706	688,391
Vocational Education Instruction	12,500	15,118	2,618	(12,500)	10,493
Special Education Instruction	71,050	24,651	21,957	(2,694)	86,445
Instructional Support Services	97,250	95,986	127,944	31,958	136,131
Pupil Support Services			1,500	1,500	2,980
Sites and Buildings	904,469	1,033,586	1,033,180	(406)	789,213
Total Expenditures	49,837,969	49,964,870	48,818,799	(1,146,071)	50,131,914
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,109,257)	(1,180,055)	1,023,730	2,203,785	(2,140,905)
OTHER FINANCING SOURCES (USES)					
Proceeds from Issuance of Capital Lease					797,338
Sale of Equipment			42,461	42,461	9,750
Total Other Financing Sources (Uses)	0	0	42,461	42,461	807,088
Net Change in Fund Balances	\$ (2,109,257)	\$ (1,180,055)	1,066,191	\$ 2,246,246	(1,333,817)
FUND BALANCE, BEGINNING OF YEAR			8,710,448		10,044,265
FUND BALANCE, END OF YEAR			\$ 9,776,639		\$ 8,710,448

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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			Over (Under) Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Interest Earnings	\$ 203	\$ 350	\$ 380	\$ 30	\$ 213
Other-Primarily Meal Sales	817,370	737,706	822,544	84,838	845,036
State Sources	209,400	216,264	209,775	(6,489)	219,060
Federal Sources	1,976,998	2,097,788	2,288,034	190,246	2,036,175
Total Revenues	<u>3,003,971</u>	<u>3,052,108</u>	<u>3,320,733</u>	<u>268,625</u>	<u>3,100,484</u>
EXPENDITURES					
Current					
Food Service	2,997,815	3,006,651	2,939,816	(66,835)	2,833,718
Capital Outlay					
Food Service	234,025	176,910	119,055	(57,855)	182,046
Total Expenditures	<u>3,231,840</u>	<u>3,183,561</u>	<u>3,058,871</u>	<u>(124,690)</u>	<u>3,015,764</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(227,869)	(131,453)	261,862	393,315	84,720
OTHER FINANCING SOURCES (USES)					
Sale of Equipment			678		
Net Change in Fund Balances	<u>\$ (227,869)</u>	<u>\$ (131,453)</u>	262,540	<u>\$ 393,315</u>	84,720
FUND BALANCE, BEGINNING OF YEAR			910,145		825,425
FUND BALANCE, END OF YEAR			<u>\$ 1,172,685</u>		<u>\$ 910,145</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 COMMUNITY SERVICE SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			Over (Under) Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$ 407,050	\$ 406,144	\$ 405,708	\$ (436)	\$ 378,175
Interest Earnings	131	295	328	33	167
Other-Primarily Tuition and Fees	1,151,636	1,271,632	1,406,175	134,543	1,303,044
State Sources	974,149	1,091,931	1,088,501	(3,430)	961,984
Federal Sources	438,141	430,002	403,156	(26,846)	441,748
Total Revenues	<u>2,971,107</u>	<u>3,200,004</u>	<u>3,303,868</u>	<u>103,864</u>	<u>3,085,118</u>
EXPENDITURES					
Current					
Pupil Support Services	34,851	31,538	31,034	(504)	23,282
Community Service	3,010,075	2,915,669	2,887,957	(27,712)	3,102,196
Capital Outlay					
Pupil Support Services					9,569
Community Service	4,700	26,218	25,230	(988)	22,139
Total Expenditures	<u>3,049,626</u>	<u>2,973,425</u>	<u>2,944,221</u>	<u>(29,204)</u>	<u>3,157,186</u>
Net Change in Fund Balances	<u>\$ (78,519)</u>	<u>\$ 226,579</u>	359,647	<u>\$ 133,068</u>	(72,068)
FUND BALANCE, BEGINNING OF YEAR			<u>413,340</u>		<u>485,408</u>
FUND BALANCE, END OF YEAR			<u>\$ 772,987</u>		<u>\$ 413,340</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF NET POSITION
 PROPRIETARY FUND
 JUNE 30, 2016
 WITH COMPARATIVE AMOUNTS AS OF JUNE 30, 2015

	Governmental Activities- Internal Service Fund	
	2016	2015
ASSETS		
Current Assets		
Cash and Investments	\$ 117,844	\$ 120,652
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts Payable	\$ 7,717	\$ 8,697
Net Position		
Unrestricted	110,127	111,955
Total Liabilities and Net Position	\$ 117,844	\$ 120,652

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2016
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Activities- Internal Service Fund	
	2016	2015
OPERATING REVENUES		
Charges for Services	\$ 215,604	\$ 228,882
OPERATING EXPENSES		
Dental Insurance Claim Payments	194,149	182,832
General Administration Costs	23,283	21,940
Total Operating Expenses	<u>217,432</u>	<u>204,772</u>
Net Change in Net Position	(1,828)	24,110
NET POSITION, BEGINNING OF YEAR	<u>111,955</u>	<u>87,845</u>
NET POSITION, END OF YEAR	<u>\$ 110,127</u>	<u>\$ 111,955</u>

See Accompanying Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 YEAR ENDED JUNE 30, 2016
 WITH COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Activities- Internal Service Fund	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 215,604	\$ 228,911
Payments for Administrative Costs	(23,401)	(22,086)
Payments for Dental Fees and Insurance Claims	(195,011)	(184,048)
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(2,808)</u>	<u>22,777</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>120,652</u>	<u>97,875</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 117,844</u>	<u>\$ 120,652</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (1,828)	\$ 24,110
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
(Increase) Decrease in Assets		
Accounts Receivable		84
Increase (Decrease) in Liabilities		
Accounts Payable	(980)	(1,417)
Net Cash Provided (Used) By Operating Activities	<u>\$ (2,808)</u>	<u>\$ 22,777</u>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016

	Private- Purpose Trust Fund	Agency Fund
	<u> </u>	<u> </u>
ASSETS		
Cash and Investments	\$ 33,238	\$
Receivables		
Due from Other Minnesota School Districts		58,677
Interest Receivable	104	
	<u> </u>	<u> </u>
Total Assets	<u>\$ 33,342</u>	<u>\$ 58,677</u>
LIABILITIES AND NET POSITION		
Liabilities		
Salaries and Wages Payable	\$	\$ 8,628
Accounts Payable		6,134
Due to Other Funds		43,915
Total Liabilities	<u>0</u>	<u>58,677</u>
Net Position		
Held in Trust for Scholarships	<u>33,342</u>	
	<u> </u>	<u> </u>
Total Liabilities and Net Position	<u>\$ 33,342</u>	<u>\$ 58,677</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016

	Private- Purpose Trust Fund
	<u> </u>
ADDITIONS	
Interest Earnings	\$ 171
DEDUCTIONS	
Scholarship Obligations	750
Change in Net Position	<u>(579)</u>
NET POSITION, BEGINNING OF YEAR	<u>33,921</u>
NET POSITION, END OF YEAR	<u>\$ 33,342</u>

See Accompanying Notes to the Financial Statements

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INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

Major Governmental Funds: (Cont'd)

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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

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
- (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 repurchase agreement. Investments are recorded at fair value as determined by quoted market prices.

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's repurchase agreement is valued using quoted market prices (Level 1 inputs).

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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)

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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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)

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 2009 to 2015 that remain uncollected at June 30, 2016. 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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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:

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, 2016, unpaid vacation pay totaling \$260,395 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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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)

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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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

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

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.

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, 2016, 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, 2016

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.

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

F. REVENUES AND EXPENDITURES (Cont'd)

Revenues: (Cont'd)

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

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum which is frozen at \$184,153 for the District. For the year ended June 30, 2016, 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 \$80,606 and \$14,014, respectively.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources 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, 2016, 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 and liabilities 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, 2015, from which the partial information was derived.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. VIOLATIONS OF FINANCE-RELATED OBLIGATIONS

There were no violations of finance-related obligations.

B. DEFICIT FUND BALANCES

There were no deficit fund balances.

C. EXPENDITURES EXCEEDING APPROPRIATIONS

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

	<u>Expenditures</u>	<u>Appropriations</u>
Building Construction Fund	\$ 4,095,994	\$ 3,514,130

The overage was considered by the District management to be the result of recording contracts payable at the end of the year.

NOTE 3. CASH AND INVESTMENTS

Cash and investments are as follows:

	<u>Book Balance</u>
<u>Governmental Activities</u>	
Cash and Investments	
Petty Cash	\$ 473
Pooled Cash in Checking Accounts	60,735
Non-negotiable Certificates of Deposit	251,885
Pooled Repurchase Agreement	13,884,176
MSDLAF	<u>50,223,677</u>
Total Cash and Investments	<u>\$ 64,420,946</u>
<u>Fiduciary Fund</u>	
Cash and Investments	
Pooled Cash in Checking Accounts	\$ 750
Non-negotiable Certificates of Deposit	<u>32,488</u>
Total Cash and Investments	<u>\$ 33,238</u>

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 3. CASH AND INVESTMENTS (Cont'd)

B. INVESTMENTS

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 the repurchase agreement and 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. The District's investment in the repurchase agreement does not have a specific maturity date but is cancelable by giving the institution 30 days notice.

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 the repurchase agreement and MSDLAF. The repurchase agreement and MSDLAF are 100% of the District's investments.

NOTE 4. RECEIVABLES

Receivables are as follows:

	Total Receivables	Amounts not Scheduled for Collection During the Subsequent Year
<u>Governmental Activities</u>		
Receivables		
Property Taxes		
Current Property Taxes	\$ 3,613,946	\$
Delinquent Property Taxes	52,278	
Total Property Taxes	<u>3,666,224</u>	<u>0</u>
Other Governments		
Due from Other Minnesota School Districts	827,425	
Due from Minnesota Department of Education	5,074,244	
Due from Federal through Minnesota Department of Education	945,655	
Due from Other Governmental Units	136,696	
Total Other Governments	<u>6,984,020</u>	<u>0</u>
Other		
Other Receivables	<u>143,472</u>	
Total Governmental Activities	<u>\$ 10,793,716</u>	<u>\$ 0</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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	\$	\$	\$ 617,518
Construction in Progress	99,440	3,577,432	(8,535)	3,668,337
Total Capital Assets, Not Being Depreciated	716,958	3,577,432	(8,535)	4,285,855
Capital Assets, Being Depreciated				
Land Improvements	4,013,606	152,874	(19,532)	4,146,948
Buildings and Improvements	47,244,222	62,453		47,306,675
Equipment	4,890,053	614,247	(194,244)	5,310,056
Total Capital Assets, Being Depreciated	56,147,881	829,574	(213,776)	56,763,679
Less Accumulated Depreciation for				
Land Improvements	(2,344,044)	(124,675)	19,532	(2,449,187)
Buildings and Improvements	(23,911,392)	(921,751)		(24,833,143)
Equipment	(2,851,185)	(255,065)	132,092	(2,974,158)
Total Accumulated Depreciation	(29,106,621)	(1,301,491)	151,624	(30,256,488)
Total Capital Assets Being Depreciated, Net	27,041,260	(471,917)	(62,152)	26,507,191
Governmental Activities Net Capital Assets	<u>\$ 27,758,218</u>	<u>\$ 3,105,515</u>	<u>\$ (70,687)</u>	<u>\$ 30,793,046</u>

Depreciation expense was charged to functions/programs as follows:

Governmental Activities	
District Support Services	\$ 1,500
Regular Instruction	853,383
Vocational Education Instruction	10,508
Special Education Instruction	4,717
Instructional Support Services	6,354
Pupil Support Services	59,937
Sites and Buildings	342,880
Community Service	22,212
Total Depreciation Expense - Governmental Activities	<u>\$ 1,301,491</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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>
General Fund	Agency Fund	<u>\$ 43,915</u>

The purpose of the above interfund loan was to cover deficit cash balances.

NOTE 7. LONG-TERM DEBT

A. COMPONENTS OF LONG-TERM DEBT

	<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%	\$ 51,615,000
Capital Lease Payable	797,338	6/30/2017	0.34%	265,720
Bond Premium - Net				1,207,338
Compensated Absences Payable				3,138,662
Other Postemployment Benefits Payable				2,005,934
Net Pension Liability				<u>34,454,377</u>
Total Governmental Activities				<u>\$ 92,687,031</u>

B. DESCRIPTION OF LONG-TERM DEBT

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.

Capital Lease Payable:

In 2015, the District entered into a lease agreement for the purchase of iPads. The assets under the capital lease agreement were \$797,338.

Compensated Absences Payable:

Compensated absences payable consists of unused vacation at June 30, 2016 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 the Community Service Funds.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

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

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 Fund.

Net Pension Liability:

Net pension liability consist of pension benefit payments available to employees as specified in the employee's employment contract upon retirement. Pension benefits are paid by the General and Special Revenue Funds.

C. CHANGES IN LONG-TERM DEBT

The following table summarizes changes in long-term debt:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Bonds Payable	\$	\$ 51,615,000	\$	\$ 51,615,000	\$ 1,405,000
Bond Premium		1,263,851	(56,513)	1,207,338	61,651
Capital Lease Payable	524,656		(258,936)	265,720	265,720
Compensated Absences Payable	2,536,407	1,082,011	(479,756)	3,138,662	571,284
Other Postemployment Benefits Payable	1,866,306	484,905	(345,277)	2,005,934	
Net Pension Liability	27,185,765	22,545,997	(15,277,385)	34,454,377	
Total Governmental Activities	<u>\$ 32,113,134</u>	<u>\$ 76,991,764</u>	<u>\$ (16,417,867)</u>	<u>\$ 92,687,031</u>	<u>\$ 2,303,655</u>

* - Additions include a change in accounting principal of \$288,603. See Note 11 for additional information.

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, 2016) and is unsecured. This line matures on December 31, 2017. There is no balance outstanding under this arrangement as of June 30, 2016.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

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
2017	\$ 1,405,000	\$ 2,408,132	\$ 3,813,132
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
2022-2026	11,840,000	6,218,250	18,058,250
2027-2031	13,990,000	4,070,400	18,060,400
2032-2036	16,350,000	1,701,806	18,051,806
	<u>\$ 51,615,000</u>	<u>\$ 20,512,848</u>	<u>\$ 72,127,848</u>

Year Ending June 30,	Capital Lease Payable		
	Principal	Interest	Total
2017	\$ 265,720	\$ 6,962	\$ 272,682

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8. FUND BALANCE

The following is a summary of fund balance components.

	General	Food Service	Community Service	Subtotal
Nonspendable				
Prepaid Items	\$ 123,791	\$ 1,661	\$ 10,111	\$ 135,563
Inventories	29,810	15,196		45,006
Total Nonspendable	<u>153,601</u>	<u>16,857</u>	<u>10,111</u>	<u>180,569</u>
Restricted				
Operating Capital	252,127			252,127
Staff Development	467,096			467,096
Community Education			414,870	414,870
ECFE			94,286	94,286
School Readiness			181,436	181,436
Adult Basic Education			71,376	71,376
Gifted and Talented Teacher	13,050			13,050
Development	48,312			48,312
Safe Schools	14			14
Other Fund Activities		1,155,828	908	1,156,736
Total Restricted	<u>780,599</u>	<u>1,155,828</u>	<u>762,876</u>	<u>2,699,303</u>
Committed				
Severance	1,200,000			1,200,000
Assigned				
Third Party Billing	179,066			179,066
Unassigned				
	<u>7,463,373</u>			<u>7,463,373</u>
	<u>\$ 9,776,639</u>	<u>\$ 1,172,685</u>	<u>\$ 772,987</u>	<u>\$ 11,722,311</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 8. FUND BALANCE (Cont'd)

The following is a summary of fund balance components.

	Building Construction	Debt Service	Subtotal	Total
Nonspendable				
Prepaid Items	\$ 7,945	\$	\$ 7,945	\$ 143,508
Inventories				45,006
Total Nonspendable	7,945	0	7,945	188,514
Restricted				
Operating Capital				252,127
Staff Development				467,096
Community Education				414,870
ECFE				94,286
School Readiness				181,436
Adult Basic Education				71,376
Gifted and Talented				13,050
Teacher				
Development				48,312
Safe Schools				14
Other Fund Activities	48,949,855	377,201	49,327,056	50,483,792
Total Restricted	48,949,855	377,201	49,327,056	52,026,359
Committed				
Severance				1,200,000
Assigned				
Third Party Billing				179,066
Unassigned				
				7,463,373
	<u>\$ 48,957,800</u>	<u>\$ 377,201</u>	<u>\$ 49,335,001</u>	<u>\$ 61,057,312</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 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, 2016

NOTE 8. FUND BALANCE (Cont'd)

B. 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.

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. RESTRICTED FOR SCHOOL READINESS

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

F. 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.

G. 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.

H. RESTRICTED FOR TEACHER DEVELOPMENT AND EVALUATION

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

I. RESTRICTED FOR SAFE SCHOOLS

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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.

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.

PERA:

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

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

B. BENEFITS PROVIDED (Cont'd)

GERF Benefits:

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

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

B. BENEFITS PROVIDED (Cont'd)

TRA Benefits: (Cont'd)

Tier I Benefits: (Cont'd)

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.

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

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

C. CONTRIBUTIONS

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

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

C. CONTRIBUTIONS (Cont'd)

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, in fiscal year 2016. In fiscal year 2016, 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, 2016, were \$661,610. 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 were:

	Ending June 30, 2015		Ending June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%
Coordinated	7.50%	7.50%	7.50%	7.50%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2016 were \$1,567,327. The District's contributions were equal to the required contributions for each year as set by state statute.

The following is a reconciliation of employer contributions in TRA's 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	\$	340,207,590
Deduct Employer Contributions Not Related to Future Contribution Efforts		(704,635)
Deduct TRA's Contributions Not Included in Allocation		(435,999)
Total Employer Contributions		(339,066,956)
Total Non-Employer Contributions		41,587,410
Total Contributions Reported in Schedule of Employer and Non-Employer Allocations	\$	380,654,366

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.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

D. MERGER OF DULUTH TEACHER'S RETIREMENT FUND ASSOCIATION (DTRFA)

Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Association (DTRFA) with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	6/30/14 CAFR	Restated
Total Pension Liability (A)	\$ 24,901,612,000	\$ 25,299,564,000
Plan Fiduciary Net Position (B)	20,293,684,000	20,519,756,000
Net Pension Liability (A-B)	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

E. PENSION COSTS

GERF Pension Costs:

At June 30, 2016, the District reported a liability of \$7,514,653 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.1450%, which was lower than the 0.1469% from its proportion measured as of June 30, 2014.

GERF benefit provision changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to *Minnesota Statutes* to make changes to contribution rates less prescriptive and more flexible.

Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016 measurement date, the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of \$979,372 for its proportionate share of GERF's pension expense.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

E. PENSION COSTS (Cont'd)

GERF Pension Costs: (Cont'd)

At June 30, 2016, 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	\$ 69,689	\$ 378,867
Changes in actuarial assumptions	467,987	
Differences between projected and actual investment earnings		668,943
Changes in proportion		77,100
Contributions paid to PERA subsequent to measurement date	<u>661,610</u>	
Totals	<u>\$ 1,199,286</u>	<u>\$ 1,124,910</u>

\$661,610 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, 2017. 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</u>	<u>Pension Expense Amount</u>
2017	\$ (165,413)
2018	(165,413)
2019	(256,407)
2020	
2021	

TRA Pension Costs:

At June 30, 2016, the District reported a liability of \$26,636,869 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportion share was 0.4306% at the end of the measurement period and 0.4403% for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid, and 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	\$ 26,636,869
State's proportionate share of the net pension liability associated with the District	3,267,150

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

E. PENSION COSTS (Cont'd)

TRA Pension Costs: (Cont'd)

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% with no increase to 2.5% projected. The prior year valuation assumed a 2.5% increase commencing July 1, 2034.

For the year ended June 30, 2016, the District recognized pension expense of \$3,038,503. It also recognized \$577,590 as pension expense for the support provided by direct aid.

At June 30, 2016, the District reported its proportionate share of TRA's deferred outflows of resources and deferred inflows of resources from the following sources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,364,869	\$
Changes in actuarial assumptions	2,047,668	
Differences between projected and actual investment earnings		2,037,246
Changes in proportion	287,792	
Contributions paid to TRA subsequent to measurement date	1,567,327	
	<u>\$ 5,267,656</u>	<u>\$ 2,037,246</u>
Totals		

\$1,567,327 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, 2016. 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</u>	<u>Pension Expense Amount</u>
2017	\$ (33,660)
2018	599,020
2019	1,031,392
2020	66,330
2021	

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

F. ACTUARIAL ASSUMPTIONS

The total pension liability in the June 30, 2015 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Assumption	GERF	TRA
Inflation	2.75% per year	3.00%
Active Member Payroll Growth	3.50% per year	3.5 - 12% based on years of service
Investment Rate of Return	7.90%	8.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015 valuations were based on the results of actuarial experience studies. The experience study was for the period July 1, 2004, through June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

There was a change in actuarial assumptions that affected the measurement of the total liability for TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2.0% annually with no increase to 2.5% projected. The prior year valuation assumed a 2.5% increase commencing July 1, 2034.

The long-term expected rate of return on pension plan investments is 7.9% for GERF and 8.0% for TRA. The State Board of Investment, which manages the investments of PERA and TRA, 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%

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

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

G. DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.0% for TRA. This is a decrease from the discount rate at the prior measurement date of 8.25% for TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

H. 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
	<u>Rate</u>	<u>Rate</u>	<u>Rate</u>
GERF Discount Rate	6.90%	7.90%	8.90%
District's proportionate share of the GERF net pension liability	\$ 11,815,705	\$ 7,514,653	\$ 3,962,644
TRA Discount Rate	7.00%	8.00%	9.00%
District's proportionate share of the TRA net pension liability	40,544,762	26,636,869	15,030,330

I. PENSION PLAN FIDUCIARY NET POSITION

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

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report 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, 2016

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 2016, the District contributed \$345,277 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	\$ 521,057
Interest on Net OPEB Obligation	65,321
Adjustment to Annual Required Contribution	<u>(101,473)</u>
Annual OPEB Cost (Expense)	484,905
Contributions Made	<u>(345,277)</u>
Increase (Decrease) in Net OPEB Obligation	139,628
Net OPEB Obligation - Beginning of Year	<u>1,866,306</u>
Net OPEB Obligation - End of Year	<u><u>\$ 2,005,934</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
6/30/2016	\$ 484,905	\$ 345,277	71%	\$ 2,005,934
6/30/2015	775,575	450,864	58%	1,866,306
6/30/2014	770,299	478,269	62%	1,541,595

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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

At June 30, 2016 the District adopted Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. This implementation allows the District to report the net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees less the pension plan's fiduciary net position on the financial statements for those plans not administered through a trust.

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, 2016.

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11. SUPPLEMENTAL PENSION PLAN (Cont'd)

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.

Benefits Provided:

The plan provides lump-sum supplemental benefits to covered teachers. Benefits are based on age, the number of years of service and hire date and paid out as indicated in the following table:

Eligibility	Severance Benefit	Payment and Benefit Type
Age 55 and 15 years of service, hired before 7/1/2000	Severance payment equal to the smaller of (1+2) or 3 with offset for any District 403(b) contributions (max \$20,000): 1) 50% of unused sick leave (max 90 days); 2) 4 days per year of service (max 100 days); 3) 150 days	Lump sum with 25% paid to 401(a) account and 75% paid to HCSP; 1) GASB 16, 2) and 3) 25% GASB 73 and 75% GASB 45

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 6/30/2015	\$ 285,035	\$	\$ 285,035
Changes for the Year:			
Service Cost	15,278		15,278
Interest	8,474		8,474
Benefit Payments	(5,932)		(5,932)
Net Changes	17,820	0	17,820
Balances at 6/30/2016	\$ 302,855	\$ 0	\$ 302,855

For the year ended June 30, 2016, the District recognized pension expense of \$23,752. At June 30, 2016, there were no deferred outflows or resources and deferred inflows of resources related to pensions to report.

Actuarial Assumptions:

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:

Inflation Rate:	2.75 percent
Expected Long-Term Investment Return:	N/A
Amortization Method:	Straight-line amortization over a closed period
Remaining Amortization Period:	N/A
Asset Valuation Method:	Market Value of Assets
Discount Rate:	2.85 percent

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11. SUPPLEMENTAL PENSION PLAN (Cont'd)

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

Actuarial Assumptions: (Cont'd)

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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015 - June 30, 2016.

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 (1.85%)	Discount Rate (2.85%)	1% Increase in Discount Rate (3.85%)
District's Net Pension Liability	\$ 308,974	\$ 302,855	\$ 296,345

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.

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 \$217,432 for the year ended June 30, 2016 which includes administrative costs of \$23,283.

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

	June 30,	
	2016	2015
Unpaid Claims, Beginning of Year	\$ 8,697	\$ 10,114
Incurred Claims	194,149	182,832
Claims Payments (cash basis)	(195,129)	(184,249)
Unpaid Claims, End of Year	<u>\$ 7,717</u>	<u>\$ 8,697</u>

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 13. OPERATING LEASES

The District is committed under long-term operating leases for the rental of office equipment and vehicles. Office equipment is leased under varying terms, with leases running through June 2021. Vehicles are leased under varying terms with leases running through June 2018.

Total lease expenditures include the following:

Maintenance equipment	\$ 9,000
Facilities	10,156
Office equipment	119,750
Vehicles	10,804
Miscellaneous rental	<u>55,034</u>
Total	<u>\$ 204,744</u>

Future minimum lease payments due under existing operating leases are as follows:

<u>Year Ending June 30,</u>	
2017	\$ 57,996
2018	51,280
2019	41,912
2020	31,714
2021	<u>26,513</u>
Total	<u>\$ 209,415</u>

NOTE 14. 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:

	<u>Original Contract</u>	<u>Remaining Commitment</u>
Middle School Additions & Alterations	\$ 6,929,491	\$ 6,159,915
Elementary School Construction	1,153,557	1,153,557
Middle School Sprinkler System	549,000	507,085

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 15. 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.

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 16. 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 17. PRIOR PERIOD ADJUSTMENT

The beginning net position of the governmental activities has been decreased to reflect a change in accounting principle. As mentioned in Note 11, the District implemented GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* which records the District's supplemental pension plan net pension liability, deferred inflows of resources and deferred outflows of resources, and pension expense on the District's government-wide financial statements. Beginning governmental activities net position has been restated from \$2,887,563 to \$2,598,960 (a decrease of \$288,603). Prior year partial comparative information does not reflect this change in accounting principle because the single-employer defined benefit pension plans in which the District participates have not made this information available.

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REQUIRED SUPPLEMENTARY INFORMATION

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INDEPENDENT SCHOOL DISTRICT #347

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
JUNE 30, 2016

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>				
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.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
EMPLOYER CONTRIBUTIONS
JUNE 30, 2016

Schedule of Proportionate Share of the Net Pension Liability

Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>					
<u>PERA</u>					
6/30/2015	0.1450%	\$ 7,514,653	\$ 8,580,142	87.6%	78.2%
6/30/2014	0.1469%	6,900,626	7,740,462	89.2%	78.7%
<u>TRA</u>					
6/30/2015	0.4306%	26,636,869	22,055,367	120.8%	76.8%
6/30/2014	0.4403%	20,288,707	20,120,785	100.8%	81.5%

Schedule of Employer Contributions

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>					
2016	\$ 661,610	\$ 661,610	\$	\$ 8,813,781	7.51%
2015	631,134	631,134		8,580,142	7.36%
<u>TRA</u>					
2016	1,567,327	1,567,327		20,898,836	7.50%
2015	1,657,313	1,657,313		22,055,367	7.51%

The District implemented GASB Statement No. 68 for fiscal year ended June 30, 2015. Information for prior years is not available.

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF CHANGES IN THE DISTRICT'S NET PENSION LIABILITY
 JUNE 30, 2016

Service Cost	\$ 15,278
Interest	8,474
Benefit Payments	<u>(5,932)</u>
Net Change in Total Pension Liability	17,820
Total Pension Liability - Beginning of Year 7/1/2015	<u>285,035</u>
 Total Pension Liability - End of Year 6/30/2016	 <u>\$ 302,855</u>
 District's Net Pension Liability - Ending 6/30/2016	 <u>\$ 302,855</u>

The District implemented GASB Statement No. 73 for fiscal year ended June 30, 2016. Information for prior years is not available.

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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, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			Over (Under) Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Interest Earnings	\$	\$ 149,134	\$ 267,928	\$ 118,794	\$
EXPENDITURES					
Current					
Sites and Buildings	142,795	839,825	852,349	12,524	92,985
Capital Outlay					
Sites and Buildings	4,869,000	2,674,305	3,243,645	569,340	
Total Expenditures	5,011,795	3,514,130	4,095,994	581,864	92,985
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,011,795)	(3,364,996)	(3,828,066)	(463,070)	(92,985)
OTHER FINANCING SOURCES (USES)					
Proceeds from Issuance of Bonds Payable	51,615,000	51,615,000	51,615,000		
Bond Premium	6,893	1,263,851	1,263,851		
Total Other Financing Sources (Uses)	51,621,893	52,878,851	52,878,851	0	0
Net Change in Fund Balances	\$ 46,610,098	\$ 49,513,855	49,050,785	\$ (463,070)	(92,985)
FUND BALANCE, BEGINNING OF YEAR			(92,985)		
FUND BALANCE, END OF YEAR			\$ 48,957,800		\$ (92,985)

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 DEBT SERVICE FUND
 YEAR ENDED JUNE 30, 2016
 WITH PARTIAL COMPARATIVE AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015

	2016			Over (Under) Final Budget	2015
	Budgeted Amounts		Actual		Actual
	Original	Final			
REVENUES					
Local Sources					
Property Taxes	\$	\$	\$ 5,241	\$ 5,241	\$ 902,710
Interest Earnings			339	339	250
State Sources					
Total Revenues	0	0	5,580	5,580	907,470
EXPENDITURES					
Debt Service					
Bond Principal					1,000,000
Bond Interest					50,000
Paying Agent Fees and Other					400
Total Expenditures	0	0	0	0	1,050,400
Net Change in Fund Balances	\$ 0	\$ 0	5,580	\$ 5,580	(142,930)
FUND BALANCE, BEGINNING OF YEAR			371,621		514,551
FUND BALANCE, END OF YEAR			\$ 377,201		\$ 371,621

REQUIRED REPORTS

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INDEPENDENT SCHOOL DISTRICT #347

UFARS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2016

	Audited	UFARS	Difference		Audited	UFARS	Difference
<u>01 GENERAL FUND</u>					<u>06 BUILDING CONSTRUCTION</u>		
Total Revenue	\$ 49,842,529	\$ 49,842,528	\$ 1	Total Revenue	\$ 267,928	\$ 267,928	\$
Total Expenditures	48,818,799	48,818,799		Total Expenditures	4,095,994	4,095,994	
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable	153,601	153,601		460 Nonspendable	7,945	7,945	
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	467,096	467,097	(1)	407 Capital Projects Levy			
405 Deferred Maintenance				409 Alternative Facilities Program			
406 Health and Safety	(567,730)	(567,730)		413 Project Funded by COP/LP			
407 Capital Projects Levy				467 LTFM			
408 Cooperative Revenue				<i>Restricted:</i>			
409 Alternative FAC Program				464 Restricted	48,949,855	48,949,855	
413 Project Funded by Cop				<i>Unassigned:</i>			
414 Operating Debt				463 Unassigned			
416 Levy Reduction				<u>07 DEBT SERVICE</u>			
417 Taconite Building Maintenance				Total Revenue	5,580	5,580	
423 Certain Teacher Programs				Total Expenditures			
424 Operating Capital	252,127	252,127		<i>Nonspendable:</i>			
426 \$25 Taconite				460 Nonspendable			
427 Disabled Accessibility				<i>Restricted/Reserved:</i>			
428 Learning & Development				425 Bond Refundings			
434 Area Learning Center				451 QZAB and QSCB Payments			
435 Contracted Alt. Programs				<i>Restricted:</i>			
436 State Approved Alt. Programs				464 Restricted	377,201	377,201	
438 Gifted & Talented	13,050	13,050		<i>Unassigned:</i>			
440 Teacher Development & Eval	48,312	48,312		463 Unassigned			
441 Basic Skills Programs				<u>08 TRUST</u>			
445 Career & Technical Programs				Total Revenue	171	172	(1)
448 Achievement and Integration				Total Expenditures	750	750	
449 Safe Schools - Crime Levy	14	14		<i>Unassigned:</i>			
450 Transition for Pre-Kindergarten				422 Unassigned	33,342	33,342	
451 QZAB and QSCB Payments				<u>20 INTERNAL SERVICE</u>			
452 OPEB Liab Not Held in a Trust				Total Revenue	215,604	215,604	
453 Unfunded Sev & Retirement Levy				Total Expenditures	217,432	217,432	
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted				422 Unassigned	110,127	110,127	
467 LTFM				<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	179,066	179,066		<u>45 OPEB IRREVOCABLE TRUST</u>			
<i>Unassigned:</i>				Total Revenue			
422 Unassigned	8,031,103	8,031,103		Total Expenditures			
<u>02 FOOD SERVICE</u>				<i>Unassigned:</i>			
Total Revenue	3,320,733	3,320,732	1	422 Unassigned			
Total Expenditures	3,058,871	3,058,871		<u>47 OPEB DEBT SERVICE</u>			
<i>Nonspendable:</i>				Total Revenue			
460 Nonspendable	16,857	16,857		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	1,155,828	1,155,828		425 Bond Refundings			
<i>Unassigned:</i>				464 Restricted			
463 Unassigned				<i>Unassigned:</i>			
<u>04 COMMUNITY SERVICE</u>				463 Unassigned			
Total Revenue	3,303,868	3,303,868		<u>05 OPEB IRREVOCABLE TRUST</u>			
Total Expenditures	2,944,221	2,944,221		Total Revenue			
<i>Nonspendable:</i>				Total Expenditures			
460 Nonspendable	10,111	10,111		<i>Unassigned:</i>			
<i>Restricted/Reserved:</i>				422 Unassigned			
426 \$25 Taconite				<u>47 OPEB DEBT SERVICE</u>			
431 Community Education	414,870	414,870		Total Revenue			
432 E.C.F.E	94,286	94,286		Total Expenditures			
444 School Readiness	181,436	181,436		<i>Nonspendable:</i>			
447 Adult Basic Education	71,376	71,376		460 Nonspendable			
452 OPEB Liab Not Held in a Trust				<i>Restricted:</i>			
<i>Restricted:</i>				425 Bond Refundings			
464 Restricted	908	908		464 Restricted			
<i>Unassigned:</i>				<i>Unassigned:</i>			
463 Unassigned				463 Unassigned			

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

Federal Grantor\ Pass-Through Grantor\ Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Minnesota Department of Education		
Child Nutrition Cluster:		
National School Lunch Program:		
Regular Lunch	10.555	\$ 204,295
Free and Reduced Lunch	10.555	1,010,432
After School Snack	10.555	42,058
Commodities Rebates	10.555	389
Food Distribution (Commodities-noncash)	10.555	182,553
Special Milk Program for Children	10.556	1,053
School Breakfast Program	10.553	679,879
Summer Food Service Program	10.559	34,886
Total Child Nutrition Cluster		<u>2,155,545</u>
Fresh Fruit and Vegetable Program	10.582	114,561
Child and Adult Care Food Program	10.558	17,927
Total U.S. Department of Agriculture		<u>2,288,033</u>
U.S. Department of Education		
Minnesota Department of Education		
Title I Grants to Local Educational Agencies	84.010	1,055,438
Adult Education - Basic Grants to States	84.002	40,328
Title I, Part C - Migrant Education_State Grant Program	84.011	89,617
Title II, Part A - Improving Teacher Quality State Grants	84.367	167,435
Title III, Part A - English Language Acquisition Grants	84.365	126,555
Title VI, Part B - Rural and Low Income Schools	84.358B	27,306
Race to the Top Early Learning Challenge	84.412A	181,414
SW/WC Service Cooperative		
Special Education Cluster:		
Special Education_Grants to States:		
Federal Flow Through, P.L. 108-446	84.027	624,178
Special Education_Preschool Grants	84.173	28,773
Total Special Education Cluster		<u>652,951</u>
Pact for Families Collaborative		
21st Century Community Learning Centers	84.287	175,212
Ridgewater College		
Career and Technical Education - Basic Grants to States	84.048A	18,957
Total U.S. Department of Education		<u>2,535,213</u>
Total Federal Awards		<u>\$ 4,823,246</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

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, 2016. 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.

The District elected to charge indirect costs to the program at a rate of 4.3% approved by the Minnesota Department of Education.

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, 2016, the District did not pass any federal money to subrecipients.

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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, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*, except as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001. 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
Willmar, Minnesota

October 10, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 10, 2016.

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
Willmar, Minnesota

October 10, 2016



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, 2016. 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 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, 2016.

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
Willmar, Minnesota

October 10, 2016

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

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 section 510(a) of Circular A-133? 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

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

II. MINNESOTA LEGAL COMPLIANCE

ITEMS ARISING DURING THE CURRENT YEAR

FINDING 2016-001 CONTRACT AND BID LAWS

Condition: The District did not obtain two or more quotes for all purchases of equipment and vehicles made during the year between \$25,000 and \$100,000.

Criteria: Minnesota Statutes 471.345 requires the District to obtain two or more quotes whenever possible for contracts between \$25,000 and \$100,000. These quotes are also required to be retained on file for at least one year.

Cause: The District does not have controls in place to prevent this from happening.

Effect: The District was not in compliance with Minnesota Statutes.

Recommendation: We recommend the District enforce a process for quotes obtained for contracts that is in compliance with Minnesota Statutes.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:
None

Actions Planning in Response to Finding:

The District will ensure two or more quotes are obtained for contracts between \$25,000 and \$100,000 and kept on file for at least one year.

Official Responsible for Ensuring CAP:

Pam Harrington, Business Manager

Planned Completion Date for CAP:

June 30, 2017

Plan to Monitor Completion for CAP:

Pam Harrington, Business Manager

III. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

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, 2016, 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 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 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, 2016, 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, 2016, 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 October 10, 2016, 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
Willmar, Minnesota

October 10, 2016

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
MIDDLE SCHOOL ACTIVITY FUND
YEAR ENDED JUNE 30, 2016

	Balance July 1, 2015	Transfers and Receipts	Disbursements	Balance June 30, 2016
Musical	\$ 140	\$ 960	\$ 1,082	\$ 18
Pop Concert T-Shirts	(123)	2,707	2,572	12
Yearbook	2,754	14,025	15,060	1,719
Student Council	(363)	5,177	4,177	637
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 2,408	\$ 22,869	\$ 22,891	\$ 2,386
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

INDEPENDENT SCHOOL DISTRICT #347

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
 SENIOR HIGH ACTIVITY FUND
 YEAR ENDED JUNE 30, 2016

	Balance July 1, 2015	Transfers and Receipts	Disbursements	Balance June 30, 2016
Cardettes	\$ 691	\$ 1,548	\$ 2,117	\$ 122
F.F.A.	3,187	431	3,032	586
General Account (Bank Interest/Expenses)		107	107	
Cross Country	8,112	3,798	1,396	10,514
National Honor Society	1,367	3,877	2,605	2,639
Nordic Ski	52	1,947	1,993	6
Seventh Rendition	24,794	67,895	25,813	66,876
Student Council	4,461	9,857	10,723	3,595
"W" Fund	391	3,959	24	4,326
Wihisean	1,189	562	629	1,122
Orchestra	4,270	63	193	4,140
Willmar Athletics	2,974	37,257	34,539	5,692
Final Concessions	532	28,960	25,259	4,233
Knowledge Bowl	1,355	914	954	1,315
Art Club	659	1,451	625	1,485
High Mileage	357			357
Gymnastics	3,268	3,051	2,728	3,591
Fastpitch Softball	1,104	2,895	3,923	76
Tennis	1,357	2,118	1,633	1,842
Volleyball	10,111	7,322	6,862	10,571
Track	4,707	3,734	1,454	6,987
Girls Soccer	280	6,518	6,506	292
Boys Soccer	1,384	3,995	3,980	1,399
Boys Swim	175	2,045	1,257	963
Girls Swim	3,324	4,668	4,534	3,458
Wrestling	1,484	3,193	4,451	226
Boys Basketball	855	499	1,150	204
Girls Basketball	277	727	904	100
Boys Hockey		984	646	338
Girls Hockey	203	890	297	796
Boys Baseball	2,184	4,296	3,269	3,211
Boys Golf	1,476	371	600	1,247
Girls Golf	519	539	502	556
Boys Tennis	132	6,154	6,165	121
Football	1,603	13,331	13,990	944
First Robotics	433	7,826	7,935	324
Special Needs	513	125	324	314
Total	\$ 89,780	\$ 237,907	\$ 183,119	\$ 144,568

See Accompanying Notes and Auditor's Report on Student Activities

INDEPENDENT SCHOOL DISTRICT #347

NOTES TO THE STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2016, 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, 2016. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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, 2016.

Conway, Deuth & Schmiesing, PLLP

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

October 10, 2016

INDEPENDENT SCHOOL DISTRICT #347

SCHEDULE OF STUDENT ACTIVITIES FINDINGS
JUNE 30, 2016

I. FINDINGS RELATED TO STUDENT ACTIVITY COMPLIANCE

PREVIOUSLY REPORTED ITEMS RESOLVED

FINDING 2015-001 *MANUAL FOR ACTIVITY FUND ACCOUNTING FOR MINNESOTA SCHOOL DISTRICTS*
(MAFA) NONCOMPLIANCE

Condition: The District had two funds with deficit balances.

Resolution: The District did not have any funds with deficit balances.