

**Independent School District No. 879  
Delano, Minnesota**

**Financial Statements**

**June 30, 2018**



**Independent School District No. 879  
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**Independent School District No. 879**  
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**Independent School District No. 879  
Board of Education and Administration  
June 30, 2018**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Mark Larson	Chairperson	December 31, 2018
Lisa Seguin	Vice Chairperson	December 31, 2018
Carolyn Milano	Clerk	December 31, 2018
Corey Black	Treasurer	December 31, 2018
Alan Briesemeister	Director	December 31, 2020
Rachel Depa	Director	December 31, 2020
Amy Johnson	Director	December 31, 2020

Administration

Matthew Schoen	Superintendent
Mary Reeder	Business Manager



## Independent Auditor's Report

To the School Board  
Independent School District No. 879  
Delano, Minnesota

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ended June 30, 2018, and the related notes to 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



## **Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of June 30, 2018, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Implementation of GASB 75**

As discussed in Note 9 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information 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 GASB, 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.

### *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 accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.



## **Other Matters (Continued)**

### *Other Information (Continued)*

The accompanying supplementary information identified in the Table of Contents is 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 accompanying supplementary information and is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

### **Report on Summarized Comparative Information**

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which such partial information was derived.

We also have previously audited the District's 2017 basic financial statements and our report, dated November 7, 2017, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*BerganKDV Ltd.*

Minneapolis, Minnesota  
November 26, 2018

## **Independent School District No. 879 Management's Discussion and Analysis**

This section of Independent School District No. 879, Delano Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in 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. Certain comparative information between the current year (2017-2018) and the prior year (2016-2017) is required to be presented in the MD&A.

### **FINANCIAL HIGHLIGHTS**

- *General Fund 01:* - The overall fund balance increased by \$1,043,415.
- *Food Service Fund 02:* - The overall fund balance increased by \$35,238.
- *Community Service Fund 04:* - The overall fund balance increased by \$37,407.
- *Debt Service Fund 07:* - The overall fund balance increased by \$210,970.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- 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. The following outline shows how the various parts of this annual report are arranged and related to one another.

- A. Management's Discussion and Analysis
- B. Basic Financial Statements
  - 1. Government-Wide Financial Statements
  - 2. Fund Financial Statements



## **Independent School District No. 879 Management's Discussion and Analysis**

### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

#### **Government-Wide Financial Statements**

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

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

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

#### **Fund Financial Statements**

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

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

The District has two kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in governmental funds, which generally focus on:
  - (1) How cash and other financial assets that can readily be converted to cash flow in and out, and
  - (2) The balances left at year-end that are available for spending.

**Independent School District No. 879  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Fund Financial Statements (Continued)**

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, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- **Fiduciary Funds** – The District is the trustee, or fiduciary, for assets that belong to others. 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 excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position (Table A-1)**

	Governmental Activities		Percentage Change
	2018	2017	
Current and other assets	\$ 34,406,819	\$ 67,201,746	-48.80%
Capital assets	79,353,128	49,834,886	59.23%
Total assets	<u>\$ 113,759,947</u>	<u>\$ 117,036,632</u>	-2.80%
Deferred outflows of resources	<u>\$ 25,478,836</u>	<u>\$ 33,579,947</u>	-24.12%
Current liabilities	\$ 7,416,177	\$ 12,671,983	-41.48%
Long-term liabilities	78,460,649	78,619,235	-0.20%
Net Pension and OPEB liabilities	48,708,452	53,537,615	-9.02%
Total liabilities	<u>\$ 134,585,278</u>	<u>\$ 144,828,833</u>	-7.07%
Deferred inflows of resources	<u>\$ 17,000,846</u>	<u>\$ 9,716,804</u>	74.96%
<b>Net Position</b>			
Invested in capital assets, Net of related debt	\$ 7,193,508	\$ 7,049,433	-2.04%
Restricted	3,324,290	3,021,701	10.01%
Unrestricted	(22,865,139)	(14,000,192)	-63.32%
Total net position	<u>\$ (12,347,341)</u>	<u>\$ (3,929,058)</u>	-214.26%

The District's combined net position was (\$12,347,341) on June 30, 2018, a decrease of \$8,418,283, which was due in large part to the pension expense related to the state-wide plans.

**Independent School District No. 879  
Management's Discussion and Analysis**

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

**Changes in Net Position**

The following Table A-2 presents the Change in Net Position of the District:

<b>Revenues</b>	Governmental Activities for the		Percentage Change
	Fiscal Year Ended June 30,		
	2018	2017	
Program revenues			
Charges for services	\$ 3,101,854	\$ 3,082,916	0.61%
Operating grants and contributions	8,065,203	4,568,914	76.52%
Capital grants and contributions	16,690	3,055	446.32%
General revenues			
Property taxes	9,358,012	9,482,776	-1.32%
State aid - formula grants	16,138,251	19,211,951	-16.00%
Investment earnings	378,890	420,414	-9.88%
Other	5,020	-	100.00%
Total revenues	<u>37,063,920</u>	<u>36,770,026</u>	0.80%
<b>Expenses</b>			
Administration	1,540,693	1,485,548	3.71%
District support services	1,105,212	1,080,189	2.32%
Elem and sec regular instruction	16,939,320	17,495,060	-3.18%
Vocational education instruction	446,100	492,317	-9.39%
Special education instruction	5,236,379	5,031,749	4.07%
Instructional support services	1,719,217	1,725,565	-0.37%
Pupil support services	2,377,019	2,439,275	-2.55%
Sites and buildings	5,786,432	2,244,074	157.85%
Fiscal and other fixed cost programs	109,373	103,182	6.00%
Food service	1,035,074	1,053,092	-1.71%
Community education and services	2,536,557	2,704,696	-6.22%
Unallocated depreciation	810,929	763,446	6.22%
Interest and fiscal charges on long-term debt	2,424,973	2,496,280	-2.86%
Total expenses	<u>42,067,278</u>	<u>39,114,473</u>	7.55%
Increase/(decrease) in net position	(5,003,358)	(2,344,447)	113.41%
Beginning of year net position (restated in FY18)	<u>(7,343,983)</u>	<u>(1,584,611)</u>	363.46%
End of year net position	<u>\$ (12,347,341)</u>	<u>\$ (3,929,058)</u>	214.26%

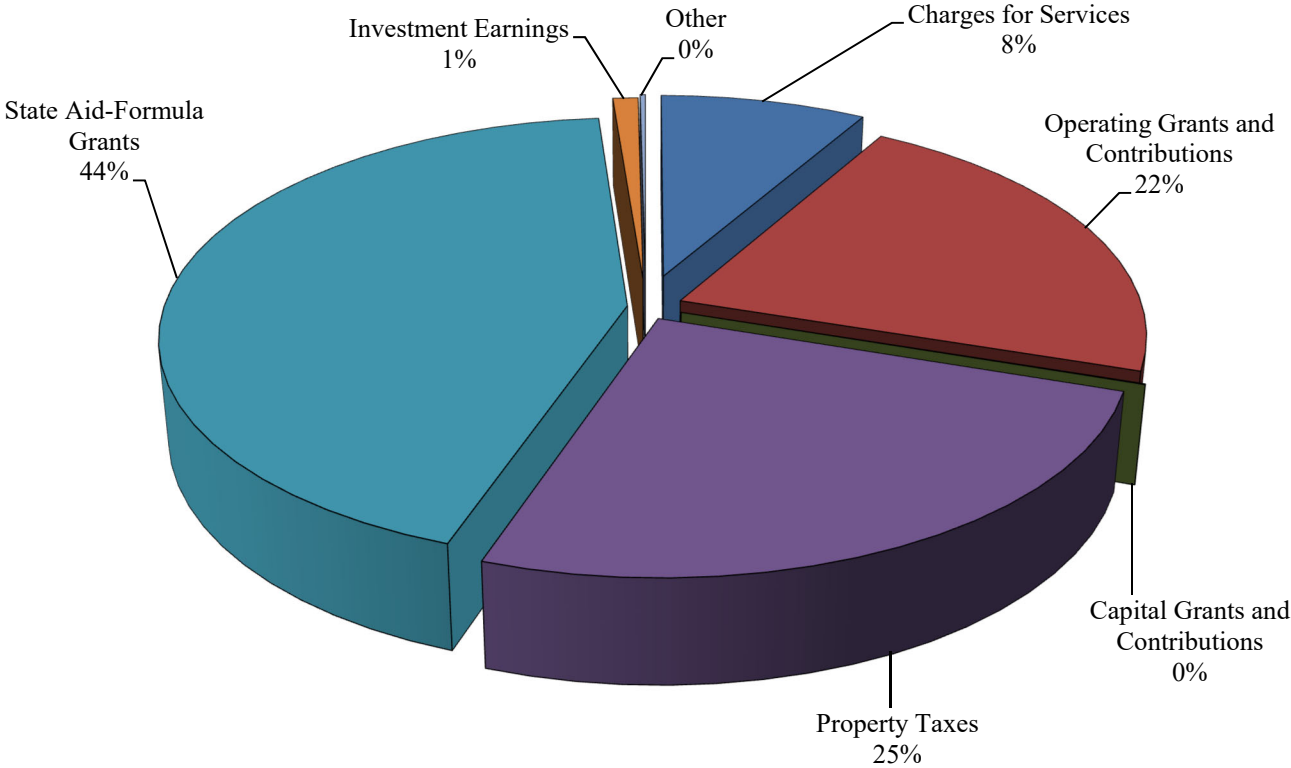
**Independent School District No. 879  
Management's Discussion and Analysis**

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

**District's Revenues**

The District's total revenues were \$37,063,920 for the year ended June 30, 2018. Property taxes and state aid-formula grants accounted for 69% of total revenue for the year. (See Figure A-1). The remaining 31% came from other program revenues (charges for services and operating and capital grants and contributions) and investment earnings.

**Figure A-1 Sources of District's Revenues for Fiscal 2018**

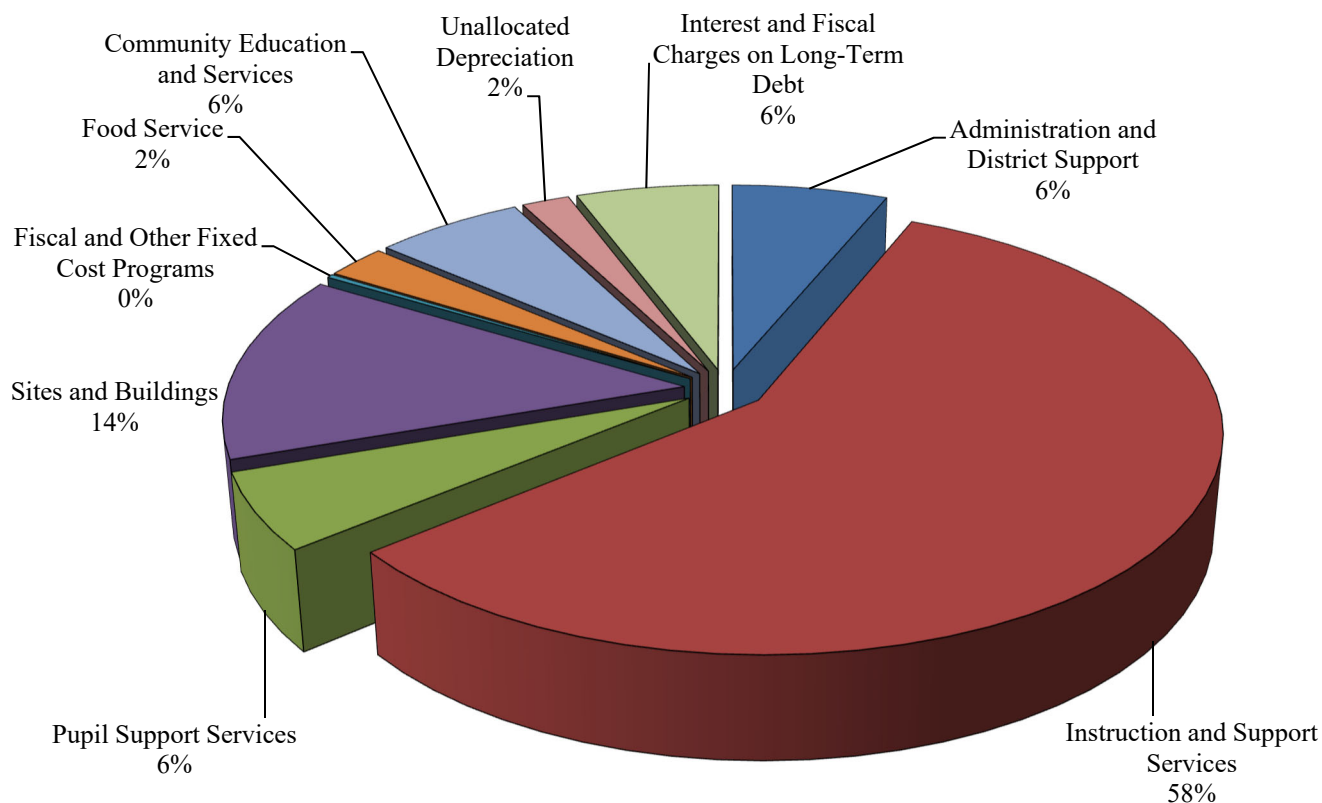


**Independent School District No. 879  
Management's Discussion and Analysis**

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

**District's Expenses**

**Figure A-2 District Expenses for Fiscal 2018**



The total costs of all programs and services were \$42,067,278 for fiscal year 2018. The District's expenses are predominately related to instruction and pupil support services (64%). (See Figure A-2.) Interest and fiscal charges for the District's bonds account for another 6%, and 14% accounts for the facilities maintenance needs of the entire district.

The cost of all governmental activities this year was \$42,067,278.

- Some of the cost was paid by the users of the District's programs - \$3,101,854
- The federal and state governments subsidized certain programs with grants and contributions – \$8,065,203
- Most of the District's costs - \$25,946,263, however, were paid for by District taxpayers and the taxpayers of the State of Minnesota

**Independent School District No. 879  
Management's Discussion and Analysis**

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

**District's Expenses (Continued)**

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 64% of those resources are spent on instruction and support services associated with education.

**NET COST OF GOVERNMENTAL ACTIVITIES**

**Table A-3**

	Total Cost of Services		Total Percent Change	Net Cost of Services		Total Percentage Change
	2018	2017	2017-2018	2018	2017	2017-2018
Administration	\$ 1,540,693	\$ 1,485,548	3.71%	\$ 1,496,232	\$ 1,422,952	5.15%
District support services	1,105,212	1,080,189	2.32%	1,067,121	1,061,459	0.53%
Elementary and secondary regular education	16,939,320	17,495,060	-3.18%	14,641,360	16,462,595	-11.06%
Vocational education instruction	446,100	492,317	-9.39%	431,607	491,157	-12.12%
Special education instruction	5,236,379	5,031,749	4.07%	2,170,408	2,386,979	-9.07%
Instructional support services	1,719,217	1,725,565	-0.37%	1,355,597	1,717,114	-21.05%
Pupil support services	2,377,019	2,439,275	-2.55%	1,350,928	2,370,926	-43.02%
Sites and buildings	5,786,432	2,244,074	157.85%	4,954,829	1,628,847	204.19%
Fiscal and other fixed cost programs	109,373	103,182	6.00%	109,373	103,182	6.00%
Food service	1,035,074	1,053,092	-1.71%	(12,697)	(20,956)	-39.41%
Community education and services	2,536,557	2,704,696	-6.22%	438,304	555,607	-21.11%
Unallocated depreciation	810,929	763,446	6.22%	810,929	763,446	6.22%
Interest and fiscal charges on long-term debt	2,424,973	2,496,280	-2.86%	2,069,544	2,496,280	-17.09%
<b>Total</b>	<b>\$ 42,067,278</b>	<b>\$ 39,114,473</b>	<b>7.55%</b>	<b>\$ 30,883,535</b>	<b>\$ 31,439,588</b>	<b>-1.77%</b>

Table A-3 presents the total cost of governmental activities, as well as the cost of those activities. The net cost represents total cost less program revenues applicable in each category.

**Independent School District No. 879  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

**Governmental Funds**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$18,165,735, a decrease of \$31,092,493 over last year's ending fund balance of \$49,258,228.

Revenues and other financing sources for the District's governmental funds were \$40,680,308, while total expenditures and other financing uses were \$71,772,801, for a negative net change of \$31,092,493.

**General Fund**

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

General Fund revenues are outlined in Table A-4 below:

**SUMMARY OF GENERAL FUND REVENUES  
Table A-4**

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2018	2017		
Local sources				
Property taxes	\$ 4,051,011	\$ 3,777,936	\$ 273,075	7.23%
Other local and county sources	1,274,873	1,056,613	218,260	20.66%
State sources	22,295,466	21,639,532	655,934	3.03%
Federal sources	211,252	207,588	3,664	1.77%
Sales and other conversion of assets	7,361	15,894	(8,533)	-53.69%
<b>Total general fund revenue</b>	<b>\$ 27,839,963</b>	<b>\$ 26,697,563</b>	<b>\$ 1,142,400</b>	<b>4.28%</b>

Revenues from the General Fund totaled \$27,839,963, an increase of 4.28% over the preceding year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue, including excess levy referendum, involves an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

State sources of revenue increased due to general education aid revenue, enrollment and special education revenue. Property taxes increased due to the levying of a previously under levied operating referendum that had been authorized by the voters. Other local and county sources increased because of revenue generated through fundraising for activities and athletic groups to participate in out-of-state competitions.

**Independent School District No. 879  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)**

**General Fund (Continued)**

General Fund expenditures are itemized in Table A-5:

**SUMMARY OF GENERAL FUND EXPENDITURES  
Table A-5**

	Year Ended June 30,		Amonunt of Increase (Decrease)	Percent Increase (Decrease)
	2018	2017		
Salaries	\$ 14,001,461	\$ 13,329,072	\$ 672,389	5.04%
Employee benefits	5,647,386	5,529,082	118,304	2.14%
Purchased services	4,233,234	4,083,965	149,269	3.66%
Supplies and materials	1,099,932	1,084,526	15,406	1.42%
Capital expenditures	1,643,637	763,105	880,532	115.39%
Other expenditures	172,148	196,982	(24,834)	-12.61%
<b>Total general fund expenditures</b>	<b>\$ 26,797,798</b>	<b>\$ 24,986,732</b>	<b>\$ 1,811,066</b>	<b>7.25%</b>

Total General Fund expenditures increased by \$1,811,066 or 7.25% over the previous year.

Salaries increased due to hiring new staff due to opening of the new Intermediate School, including a Buildings and Grounds Coordinator, as well as contract settlements. Employee benefits increased due to benefits associated with additional new staff and contract changes. Purchased services increased due to long-term facility repairs and maintenance. Capital expenditures increased due to a roof replacement and new dishwasher at the High School building, as well as technology e-rate purchases for the High School building.

In 2017-2018, the General Fund recorded a surplus of \$1,043,415. The unassigned fund balance closed at \$6,737,345, which is 32.50% of General Fund unrestricted, operating expenditures.

It is the goal of the School Board of Education to maintain an unassigned fund balance of 12% of operating expenditures. For the fiscal year ended June 30, 2018, the District is in compliance with that fund balance goal.



**Independent School District No. 879  
Management's Discussion and Analysis**

**GENERAL FUND**

**General Fund Budgetary Highlights**

Actual revenues were \$118,242 over the final budget, a 0.43% variance. Actual expenditures were \$806,744 under budget, which is a variance of 2.92%. The variance between original and final budgeted revenue amounts was due to under budgeting for interest and donations that came in June that had not been budgeted. The expenditure budget variance is due to QComp goals not met so salaries and benefits were not spent, and unspent Staff Development, building and department supply budgets, donated funds, capital and LTFM funds.

**DEBT SERVICE FUND**

The Debt Service Fund revenues exceeded expenditures by \$158,732 in 2017-2018.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District investment in capital assets for its governmental activities amounts to \$79,353,128 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment (see Table A-6). Additional information on capital assets can be found in Note 3 of this report.

**CAPITAL ASSETS - GOVERNMENTAL ACTIVITIES  
Table A-6**

	2018	2017	Percentage Change
Land	\$ 1,022,151	\$ 1,022,151	0.00%
Land improvements	5,819,369	1,574,775	269.54%
Buildings	40,719,389	37,473,707	8.66%
Equipment	2,665,815	2,340,624	13.89%
Capital lease	3,178,525	3,178,525	0.00%
Construction in progress	47,066,109	24,124,208	95.10%
Less accumulated depreciation	(21,118,230)	(19,879,104)	6.23%
<b>Total</b>	<b>\$ 79,353,128</b>	<b>\$ 49,834,886</b>	<b>59.23%</b>

**Independent School District No. 879  
Management's Discussion and Analysis**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Long-Term Liabilities**

At year-end, the District had \$78,460,69 in total long-term debt, a decrease of 3.95% from the previous year, as shown in Table A-7. (More detailed information about long-term liabilities can be found in Note 5 of the financial statements.)

**LONG-TERM LIABILITIES  
Table A-7**

	2018	2017	Percentage Change
General obligation bonds payable	\$ 73,775,000	\$ 76,680,000	-3.79%
Bond premium payable	3,422,078	3,514,315	-2.62%
Capital lease payable	1,214,071	1,458,238	-16.74%
Compensated absences payable	49,500	36,235	36.61%
<b>Total</b>	<b>\$ 78,460,649</b>	<b>\$ 81,688,788</b>	<b>-3.95%</b>

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The District had a healthy General fund balance at the end of the 2017-2018 school year. A five-year financial planning program will continue to be used as a tool in long-term financial planning.

Enrollment will continue to be monitored; enrollment in 2017-2018 decreased by 9 students from 2016-2017, and the District is projecting enrollment to increase by 26 students in the 2018-2019 school year.

The new Intermediate School, which will serve students in Grades 4 through 6, opened in the fall of 2018.

Finally, the District will continue to strive to achieve its mission statement of "Educational Excellence is our Foremost Goal".

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our 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. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Delano Public Schools ISD #879, Attention: Business Manager, 700 Elm Avenue East, Delano, MN 55328.

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## **BASIC FINANCIAL STATEMENTS**

**Independent School District No. 879**  
**Statement of Net Position**  
**June 30, 2018**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 27,337,308
Current property taxes receivable	4,540,941
Delinquent property taxes receivable	74,961
Accounts receivable	33,883
Interest receivable	90,082
Due from Department of Education	2,125,042
Due from Federal Government through Department of Education	11,313
Due from other Minnesota school districts	51,199
Due from other governmental units	750
Inventory	36,757
Prepaid items	36,546
Equity interest in joint venture	68,037
Capital assets, not being depreciated	
Land	1,022,151
Construction in progress	47,066,109
Capital assets, net of accumulated depreciation	
Land improvements	4,373,938
Buildings	25,887,637
Machinery and equipment	1,003,293
Total assets	<u>113,759,947</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	25,168,523
Deferred outflows of resources related to other post employment benefits (OPEB)	<u>310,313</u>
Total deferred outflows of resources	<u>25,478,836</u>
 Total assets and deferred outflows of resources	 <u><u>\$ 139,238,783</u></u>
<b>Liabilities</b>	
Accounts payable	\$ 250,771
Contracts payable	3,888,982
Salaries and benefits payable	2,083,234
Interest payable	1,010,829
Due to other Minnesota school districts	67,511
Due to other governmental units	44,602
Unearned revenue	70,248
Bonds payable	
Payable within one year	2,765,000
Payable after one year	74,432,078
Capital lease payable	
Payable within one year	238,307
Payable after one year	975,764
Vacation payable	
Payable within one year	49,500
Net pension liability	44,768,897
Total OPEB liability	<u>3,939,555</u>
Total liabilities	<u>134,585,278</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	9,704,388
Deferred inflows of resources related to pensions	<u>7,296,458</u>
Total deferred inflows of resources	<u>17,000,846</u>
<b>Net Position</b>	
Net investment in capital assets	7,193,508
Restricted for	
Debt service	168,918
Capital projects	678,230
Other purposes	2,477,142
Unrestricted	<u>(22,865,139)</u>
Total net position	<u>(12,347,341)</u>
 Total liabilities, deferred inflows of resources, and net position	 <u><u>\$ 139,238,783</u></u>

**Independent School District No. 879**  
**Statement of Activities**  
**Year Ended June 30, 2018**

Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
Governmental activities					
Administration	\$ 1,540,693	-	\$ 44,461	\$ -	\$ (1,496,232)
District support services	1,105,212	10,033	28,058	-	(1,067,121)
Elementary and secondary regular instruction	16,939,320	444,452	1,836,818	16,690	(14,641,360)
Vocational education instruction	446,100	-	14,497	-	(431,603)
Special education instruction	5,236,379	20,159	3,045,812	-	(2,170,408)
Instructional support services	1,719,217	-	363,620	-	(1,355,597)
Pupil support services	2,377,019	-	1,026,091	-	(1,350,928)
Sites and buildings	5,786,432	-	831,603	-	(4,954,829)
Fiscal and other fixed cost programs	109,373	-	-	-	(109,373)
Food service	1,035,074	739,943	307,828	-	12,697
Community education and services	2,536,557	1,887,267	210,986	-	(438,304)
Unallocated depreciation	810,929	-	-	-	(810,929)
Interest and fiscal charges on long-term debt	2,424,973	-	355,429	-	(2,069,544)
<b>Total governmental activities</b>	<b>\$ 42,067,278</b>	<b>\$ 3,101,854</b>	<b>\$ 8,065,203</b>	<b>\$ 16,690</b>	<b>(30,883,531)</b>
General revenues					
Taxes					
Property taxes, levied for general purposes					4,041,228
Property taxes, levied for community service					241,071
Property taxes, levied for debt service					5,075,713
State aid-formula grants					16,138,251
Other general revenues					5,020
Investment income					378,890
Total general revenues					25,880,173
Change in net position					(5,003,358)
Net position - beginning					(3,929,058)
Change in accounting principle (Note 9)					(3,414,925)
Net position - beginning, restated					(7,343,983)
Net position - ending					\$ (12,347,341)

**Independent School District No. 879**  
**Balance Sheet - Governmental Funds**  
**June 30, 2018**

	General	Debt Service	Capital Project	Other Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 12,056,609	\$ 3,730,131	\$ 10,851,324	\$ 699,244	\$ 27,337,308
Current property taxes receivable	2,084,246	2,322,140	-	134,555	4,540,941
Delinquent property taxes receivable	34,302	37,900	-	2,759	74,961
Accounts receivable	26,940	-	-	6,943	33,883
Interest receivable	34,971	-	55,111	-	90,082
Due from Department of Education	2,055,064	52,594	-	17,384	2,125,042
Due from Federal Government through Department of Education	11,313	-	-	-	11,313
Due from other Minnesota school districts	42,730	-	-	8,469	51,199
Due from other governmental units	-	-	-	750	750
Inventory	9,066	-	-	27,691	36,757
Prepaid items	35,951	-	-	595	36,546
<b>Total assets</b>	<b><u>\$ 16,391,192</u></b>	<b><u>\$ 6,142,765</u></b>	<b><u>\$ 10,906,435</u></b>	<b><u>\$ 898,390</u></b>	<b><u>\$ 34,338,782</u></b>
<b>Liabilities</b>					
Accounts payable	\$ 135,276	\$ -	\$ 87,694	\$ 27,801	\$ 250,771
Contracts payable	-	-	3,888,982	-	3,888,982
Salaries and benefits payable	1,983,402	-	-	99,832	2,083,234
Due to other Minnesota school districts	67,511	-	-	-	67,511
Due to other governmental units	42,251	-	-	2,351	44,602
Unearned revenue	-	-	-	70,248	70,248
<b>Total liabilities</b>	<b><u>2,228,440</u></b>	<b><u>-</u></b>	<b><u>3,976,676</u></b>	<b><u>200,232</u></b>	<b><u>6,405,348</u></b>
<b>Deferred Inflows of Resources</b>					
Property taxes levied for subsequent year's expenditures	4,443,981	4,963,018	-	297,389	9,704,388
Unavailable revenue - delinquent property taxes	28,971	32,010	-	2,330	63,311
<b>Total deferred inflows of resources</b>	<b><u>4,472,952</u></b>	<b><u>4,995,028</u></b>	<b><u>-</u></b>	<b><u>299,719</u></b>	<b><u>9,767,699</u></b>
<b>Fund Balances</b>					
Nonspendable	45,017	-	-	28,286	73,303
Restricted	2,076,373	1,147,737	6,929,759	370,153	10,524,022
Committed	152,680	-	-	-	152,680
Assigned	678,385	-	-	-	678,385
Unassigned	6,737,345	-	-	-	6,737,345
<b>Total fund balances</b>	<b><u>9,689,800</u></b>	<b><u>1,147,737</u></b>	<b><u>6,929,759</u></b>	<b><u>398,439</u></b>	<b><u>18,165,735</u></b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b><u>\$ 16,391,192</u></b>	<b><u>\$ 6,142,765</u></b>	<b><u>\$ 10,906,435</u></b>	<b><u>\$ 898,390</u></b>	<b><u>\$ 34,338,782</u></b>

**Independent School District No. 879**  
**Reconciliation of the Balance Sheet to**  
**the Statement of Net Position - Governmental Funds**  
**June 30, 2018**

Total fund balance - governmental funds	\$ 18,165,735
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current assets.	
Equity interest in joint venture - Wright Technical Center	68,037
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	100,471,358
Less accumulated depreciation	(21,118,230)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bond principal payable	(73,775,000)
Capital lease payable	(1,214,071)
Net premium on bonds payable	(3,422,078)
Vacation payable	(49,500)
Total OPEB liability	(3,939,555)
Net pension liability	(44,768,897)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(7,296,458)
Deferred outflows of resources related to pensions	25,168,523
Deferred outflows of resources related to OPEB	310,313
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	63,311
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	
	<u>(1,010,829)</u>
Total net position - governmental activities	<u><u>\$ (12,347,341)</u></u>



**Independent School District No. 879**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2018**

	General	Debt Service	Capital Project	Other Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>					
Local property taxes	\$ 4,051,011	\$ 5,085,898	\$ -	\$ 241,930	\$ 9,378,839
Other local and county revenues	1,274,873	42,011	196,048	1,862,998	3,375,930
Revenue from state sources	22,295,466	529,930	-	201,225	23,026,621
Revenue from federal sources	211,252	-	-	259,196	470,448
Sales and other conversion of assets	7,361	-	-	831,880	839,241
Total revenues	<u>27,839,963</u>	<u>5,657,839</u>	<u>196,048</u>	<u>3,397,229</u>	<u>37,091,079</u>
<b>Expenditures</b>					
<b>Current</b>					
Administration	1,187,811	-	-	-	1,187,811
District support services	864,496	-	-	-	864,496
Elementary and secondary regular instruction	12,511,794	-	-	-	12,511,794
Vocational education instruction	300,370	-	-	-	300,370
Special education instruction	4,188,518	-	-	-	4,188,518
Instructional support services	1,311,818	-	-	-	1,311,818
Pupil support services	2,244,691	-	-	-	2,244,691
Sites and buildings	2,435,290	-	1,825,375	-	4,260,665
Fiscal and other fixed cost programs	109,373	-	-	-	109,373
Food service	-	-	-	1,016,064	1,016,064
Community education and services	-	-	-	2,300,333	2,300,333
<b>Capital outlay</b>					
Administration	648	-	-	-	648
District support services	352,950	-	-	-	352,950
Elementary and secondary regular instruction	174,257	-	-	-	174,257
Special education instruction	10,257	-	-	-	10,257
Instructional support services	8,376	-	-	-	8,376
Pupil support services	300	-	-	-	300
Sites and buildings	802,815	-	30,790,196	-	31,593,011
Food service	-	-	-	544	544
Community education and services	-	-	-	7,643	7,643
<b>Debt service</b>					
Principal	244,167	2,835,000	-	-	3,079,167
Interest and fiscal charges	49,867	2,664,107	-	-	2,713,974
Total expenditures	<u>26,797,798</u>	<u>5,499,107</u>	<u>32,615,571</u>	<u>3,324,584</u>	<u>68,237,060</u>
Excess of revenues over (under) expenditures	1,042,165	158,732	(32,419,523)	72,645	(31,145,981)
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	1,250	-	-	-	1,250
Bond issuance	-	3,390,000	-	-	3,390,000
Bond premium	-	197,979	-	-	197,979
Payments on refunding bonds	-	(3,535,741)	-	-	(3,535,741)
Total other financing sources (uses)	<u>1,250</u>	<u>52,238</u>	<u>-</u>	<u>-</u>	<u>53,488</u>
Net change in fund balances	1,043,415	210,970	(32,419,523)	72,645	(31,092,493)
<b>Fund Balances</b>					
Beginning of year	8,646,385	936,767	39,349,282	325,794	49,258,228
End of year	<u>\$ 9,689,800</u>	<u>\$ 1,147,737</u>	<u>\$ 6,929,759</u>	<u>\$ 398,439</u>	<u>\$ 18,165,735</u>

**Independent School District No. 879**  
**Reconciliation of the Statement of Revenues, Expenditures,**  
**and Changes in Fund Balances to the Statement of Activities -**  
**Governmental Funds**  
**Year Ended June 30, 2018**

Net change in fund balances - total governmental funds	\$ (31,092,493)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Net income from the equity interest in a joint venture does not provide current financial resources and its not reported as revenue in the funds.	(84,191)
Capital outlays are 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 outlays	30,817,101
Depreciation expense	(1,298,859)
Vacation and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(13,265)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	
Bonds payable	2,835,000
Refunded bonds payable	3,460,000
Capital lease payable	244,167
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	74,526
Proceeds from the issuance of debt is recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net assets in the Statement of Activities.	
Bonds payable	(3,390,000)
Government funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized adjustment to total debt in the government-wide financial statements.	(197,979)
Premiums and discounts are amortized over the life of the bond on the statement of net position.	290,216
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(62,639)
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(6,564,115)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(20,827)
	(20,827)
Change in net position - governmental activities	\$ (5,003,358)

**Independent School District No. 879**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 4,045,370	\$ 4,048,230	\$ 4,051,011	\$ 2,781
Other local and county revenues	512,056	1,208,381	1,274,873	66,492
Revenue from state sources	21,839,093	22,246,497	22,295,466	48,969
Revenue from federal sources	209,879	211,253	211,252	(1)
Sales and other conversion of assets	-	7,360	7,361	1
Total revenues	<u>26,606,398</u>	<u>27,721,721</u>	<u>27,839,963</u>	<u>118,242</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	1,170,037	1,245,507	1,187,811	(57,696)
District support services	817,750	886,794	864,496	(22,298)
Elementary and secondary regular instruction	12,383,750	12,772,274	12,511,794	(260,480)
Vocational education instruction	379,628	309,250	300,370	(8,880)
Special education instruction	4,275,507	4,358,965	4,188,518	(170,447)
Instructional support services	1,467,335	1,394,286	1,311,818	(82,468)
Pupil support services	2,341,744	2,298,980	2,244,691	(54,289)
Sites and buildings	3,031,629	2,514,274	2,435,290	(78,984)
Fiscal and other fixed cost programs	110,000	109,375	109,373	(2)
<b>Capital outlay</b>				
Administration	7,500	1,613	648	(965)
District support services	311,000	379,560	352,950	(26,610)
Elementary and secondary regular instruction	19,834	195,549	174,257	(21,292)
Special education instruction	800	10,553	10,257	(296)
Instructional support services	15,870	13,807	8,376	(5,431)
Pupil support services	1,100	1,100	300	(800)
Sites and buildings	19,369	816,423	802,815	(13,608)
<b>Debt service</b>				
Principal	243,122	245,541	244,167	(1,374)
Interest and fiscal charges	56,746	50,691	49,867	(824)
Total expenditures	<u>26,652,721</u>	<u>27,604,542</u>	<u>26,797,798</u>	<u>(806,744)</u>
Excess of revenues over (under) expenditures	<u>(46,323)</u>	<u>117,179</u>	<u>1,042,165</u>	<u>924,986</u>
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	-	1,250	1,250	-
Net change in fund balance	<u>\$ (46,323)</u>	<u>\$ 118,429</u>	<u>1,043,415</u>	<u>\$ 924,986</u>
<b>Fund Balance</b>				
Beginning of year			<u>8,646,385</u>	
End of year			<u>\$ 9,689,800</u>	

**Independent School District No. 879  
Statement of Fiduciary Net Position  
June 30, 2018**

	Private Purpose Trust Fund
<b>Assets</b>	
Current	
Cash and investments	\$ 33,286
 <b>Liabilities</b>	
Unearned revenue	\$ 2,416
 <b>Net Position</b>	
Held in trust for scholarships	\$ 30,870

**Statement of Changes in Fiduciary Net Position  
Year Ended June 30, 2018**

	Private Purpose Trust Fund
<b>Additions</b>	
Other local revenues	\$ 69,671
 <b>Deductions</b>	
Pupil support services	76,059
Change in net position	(6,388)
 <b>Net Position</b>	
Beginning of year	37,258
End of year	\$ 30,870

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**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**A. Reporting Entity**

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 organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization 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.

The student activity accounts of the District are under the School Board's control and are included within the General Fund activity. Separate audited financial statements have not been issued.

**Joint Venture**

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 8.

**B. Basic Financial Statement Information**

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 the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statement Information (Continued)**

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

The Trust Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these Funds are not incorporated into the government-wide statements.

**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 is the fiduciary fund financial statement. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

**Description of Funds:**

**Major Funds:**

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs.

Building Construction Fund – Capital Projects – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

**Nonmajor Funds:**

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services.

**Fiduciary Fund:**

Private Purpose Trust Fund – The Scholarship Trust Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

**D. Deposits and Investments**

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.



**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Deposits and Investments (Continued)**

Cash and investments at June 30, 2018, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF) including certificates of deposit and government securities and shares in MNTrust. MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value.

*Minnesota Statutes* requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

*Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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. Investments held by investment pools are measured at amortized cost.

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

**E. Property Tax Receivable**

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years, and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2017, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2018. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventories**

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

**I. Property Taxes**

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Hennepin and Wright Counties are the collecting agency for the levy and remit the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

**J. Capital Assets**

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such 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 its acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Capital Assets (Continued)**

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 purpose. Useful lives vary from 5 to 50 years for land improvements, buildings, machinery and equipment, and vehicles.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

**K. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows of resources related to pensions and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. Deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. 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 Statement of Net Position. 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 or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**M. Compensated Absences**

Certain District employees earn vacation days based on the number of completed years of service. Vacation is accumulated at various rates and maximum hours are capped at different amounts. Certain employees are compensated for unused vacation upon termination of employment.

Employees are entitled to paid sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment (sick pay is recorded as an expenditure when payment is made).

**N. Pensions**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

**O. Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2018.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**P. Fund Equity**

In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include prepaids and inventory.
- Restricted Fund Balances – These amounts are subject to externally enforceable legal restrictions.
- Committed Fund Balances – The government's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment must be made by the School Board.
- Assigned Fund Balances – The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The School Board also delegates the power to assign fund balances to the Superintendent or Business Manager.
- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of 12% of operating expenditures.

**Q. Net Position**

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources in the government-wide 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 financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**R. 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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**S. Comparative Data**

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. This data has been restated where necessary for comparable classifications.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**T. Budgetary Information**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Debt Service Funds.
4. Budgets for the General, Special Revenue, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. The District has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

**1. District Governmental Funds Pooled**

As of June 30, 2018, the District had the following pooled deposits:

Checking	\$ 16,773
Certificates of deposit	<u>2,207,900</u>
Total deposits	<u><u>\$ 2,224,673</u></u>

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**2. District Governmental Funds Not Pooled**

As of June 30, 2018, the District had the following deposits for the G.O. School Building Bonds, Series 2016A:

Certificates of deposit	\$ 5,695,900
Savings deposit account	<u>15</u>
Total deposits	<u><u>\$ 5,695,915</u></u>

**B. Investments**

**1. District Governmental Funds Pooled**

As of June 30, 2018, the District had the following pooled investments:

	Fair Value	Less Than One Year	1-2 Years	Moody's/S&P Ratings
MSDLAF - Liquid Class	\$ 4,539,312	\$ 4,539,312	\$ -	AAAm
MSDLAF - Max Class	8,950,231	8,950,231	-	AAAm
IS Account Balance	74,691	74,691	-	AAAm
Brokered Certificates of Deposit	<u>739,387</u>	<u>739,387</u>	<u>-</u>	<u>N/A</u>
Total investments	<u><u>\$ 14,303,621</u></u>	<u><u>\$ 14,303,621</u></u>	<u><u>\$ -</u></u>	

The District has the following recurring fair value measurements as of June 30, 2018:

- \$739,387 of investments are valued using a matrix pricing model (Level 2 inputs)

**2. District Governmental Funds Not Pooled**

As of June 30, 2018, the District had the following pooled investments for the G.O. School Building Bonds, Series 2016A:

	Fair Value	Less Than One Year	1-2 Years	Moody's/S&P Ratings
IS Account Balance	\$ 96,401	\$ 96,401	\$ -	AAAm
MN Trust Term Series	4,800,000	4,800,000	-	AAAm
Government Securities	<u>249,334</u>	<u>249,334</u>	<u>-</u>	<u>N/A</u>
Total investments	<u><u>\$ 5,145,735</u></u>	<u><u>\$ 5,145,735</u></u>	<u><u>\$ -</u></u>	

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

**2. District Governmental Funds Not Pooled (Continued)**

**Interest Rate Risk:** This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states the District shall manage its investments in a manner to attain a market yield rate of return through various economics and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

**Credit Risk:** This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District will follow state law. The District's investments were rated in the table above by Standards and Poor's (S&P) and Moody's Investor Services. These investments were in the top two rating categories.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments.

**Custodial Credit Risk – Investments:** For investments, 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 collateralized securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as a custodial agent.

The District has the following recurring fair value measurements as of June 30, 2018:

- \$249,334 of investments are valued using a matrix pricing model (Level 2 inputs)

**C. Summary of Deposits and Investments**

Summary of deposits and investments as of June 30, 2018:

Deposits (Note 3.A.)	\$ 7,920,588
Petty cash	650
Investments (Note 3.B.)	<u>19,449,356</u>
Total deposits and investments	<u><u>\$ 27,370,594</u></u>



**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Summary of Deposits and Investments (Continued)**

Deposits and investments are presented in the June 30, 2018, basic financial statements as follows:

Statement of Net Position		
Cash and investments	\$	27,337,308
Statement of Fiduciary Net Position		
Cash and investments - private purpose trust fund		33,286
Total deposits and investments	\$	27,370,594

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Reclass	Increases	Decreases	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land	\$ 1,022,151	\$ -	\$ -	\$ -	\$ 1,022,151
Construction in progress	24,124,208		29,095,926	6,154,025	\$ 47,066,109
Total capital assets not being depreciated	25,146,359	-	29,095,926	6,154,025	48,088,260
Capital assets being depreciated					
Improvements	1,574,775	-	4,244,594	-	5,819,369
Buildings	40,652,232	-	3,245,682	-	43,897,914
Equipment	2,340,624	-	384,924	59,733	2,665,815
Total capital assets being depreciated	44,567,631	-	7,875,200	59,733	52,383,098
Less accumulated depreciation for					
Improvements	865,781	321,665	257,985	-	1,445,431
Buildings	17,243,987	(103,747)	870,037	-	18,010,277
Equipment	1,769,336	(217,918)	170,837	59,733	1,662,522
Total accumulated depreciation	19,879,104	-	1,298,859	59,733	21,118,230
Total capital assets being depreciated, net	24,688,527	-	6,576,341	-	31,264,868
Governmental activities, capital assets, net	\$ 49,834,886	\$ -	\$ 35,672,267	\$ 6,154,025	\$ 79,353,128

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense for the year ended June 30, 2018, was charged to the following functions:

Administration	\$ 48,289
Elementary and secondary regular instruction	20,365
Special education instruction	570
Pupil support services	6,066
Sites and buildings	399,917
Community service	11,473
Unallocated	812,179
Total depreciation expense	\$ 1,298,859

**NOTE 4 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds, including						
Refunding bonds						
G.O. Bonds,						
series 2008C	07/01/08	3.10%-4.10%	\$ 980,000	02/01/24	\$ 460,000	\$ 70,000
G.O. School Refunding Bonds,						
series 2015A	04/08/15	3.00%-5.00%	13,140,000	02/01/25	9,600,000	1,190,000
G.O. School Building Bonds,						
series 2016A	02/18/16	2.75%-4.00%	62,900,000	02/01/36	60,365,000	1,215,000
G.O. Alternative Facilities						
Bonds, series 2017A	09/21/17	2.00%-3.00%	3,390,000	02/01/28	3,350,000	290,000
Total G.O. bonds					73,775,000	2,765,000
Premium on bonds payable					3,422,078	-
Capital leases					1,214,071	238,307
Vacation payable					49,500	49,500
Total all long-term liabilities					\$ 78,460,649	\$ 3,052,807

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**A. Components of Long-Term Liabilities (Continued)**

On September 21, 2017, the District issued \$3,390,000 G.O. Alternative Facilities Refunding Bonds, Series 2017A for the advance refunding of the 2019 through 2028 maturities of the G.O. Alternative Facilities Bonds, Series 2008A. Proceeds of the 2017A Bonds were placed in escrow to redeem the 2008A Bonds with maturities of 2019 through 2028 on the call date of February 1, 2018. The 2019 through 2028 maturities are considered defeased. The net present value savings was \$464,481 and the refunding lowered debt service payments by \$508,442.

The bond obligations are paid from the Debt Service Fund. Vacation and capital leases are paid from the General Fund.

**B. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 76,680,000	\$ 3,390,000	\$ 6,295,000	\$ 73,775,000
Premium on bonds payable	3,514,315	197,979	290,216	3,422,078
Capital leases	1,458,238	-	244,167	1,214,071
Vacation payable	36,235	96,909	83,644	49,500
	<u>36,235</u>	<u>96,909</u>	<u>83,644</u>	<u>49,500</u>
 Total long-term liabilities	 <u>\$ 81,688,788</u>	 <u>\$ 3,684,888</u>	 <u>\$ 6,913,027</u>	 <u>\$ 78,460,649</u>

**C. Debt Payment Schedule**

Minimum annual principal and interest payments required to retire bonds:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2019	\$ 2,765,000	\$ 2,455,853	\$ 5,220,853
2020	3,015,000	2,336,253	5,351,253
2021	3,145,000	2,206,203	5,351,203
2022	3,285,000	2,070,503	5,355,503
2023	3,395,000	1,956,103	5,351,103
2024-2028	19,085,000	7,698,523	26,783,523
2029-2033	23,330,000	4,492,068	27,822,068
2034-2036	15,755,000	954,750	16,709,750
	<u>15,755,000</u>	<u>954,750</u>	<u>16,709,750</u>
 Total	 <u>\$ 73,775,000</u>	 <u>\$ 24,170,256</u>	 <u>\$ 97,945,256</u>

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**D. Capital Lease**

On May 4, 2007, the District entered into a lease purchase agreement with CitiCapital for the acquisition of building improvements. The capital lease agreement includes monthly principal and interest payments of \$23,950 for each of the 15 years of the agreement.

The future minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,		
2019	\$	283,082
2020		283,082
2021		283,082
2022		283,082
2023		212,312
Total lease payments		1,344,640
Less amount representing interest		(130,569)
Present value of capital lease	\$	1,214,071

The assets acquired with the capital leases have a cost of \$3,178,525 and accumulated depreciation of \$651,598 for a net value of \$2,526,927.

**NOTE 5 – FUND BALANCES**

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 5 – FUND BALANCES (CONTINUED)**

**Fund Equity**

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service Fund	Capital Project Fund	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	\$ 9,066	\$ -	\$ -	\$ 28,286	\$ 37,352
Prepays items	35,951	-	-	-	35,951
Total nonspendable	<u>45,017</u>	<u>-</u>	<u>-</u>	<u>28,286</u>	<u>73,303</u>
Restricted/reserved for					
Staff Development	230,610	-	-	-	230,610
Operating Capital	1,179,132	-	-	-	1,179,132
Area Learning Center	14,334	-	-	-	14,334
Long-Term Facilities Maintenance	645,200	-	-	-	645,200
Medical Assistance	7,097	-	-	-	7,097
Debt Service	-	1,147,737	-	-	1,147,737
Capital Projects	-	-	6,929,759	-	6,929,759
Food Service	-	-	-	274,883	274,883
Community Service	-	-	-	1,146	1,146
Community Education	-	-	-	93,158	93,158
Adult Basic Education	-	-	-	966	966
Total restricted/reserved	<u>2,076,373</u>	<u>1,147,737</u>	<u>6,929,759</u>	<u>370,153</u>	<u>10,524,022</u>
Committed for					
Separation/retirement benefits	152,680	-	-	-	152,680
Assigned for					
Donated funds	298,130	-	-	-	298,130
Student activities	39,792	-	-	-	39,792
Q comp	340,463	-	-	-	340,463
Total assigned	<u>678,385</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>678,385</u>
Unassigned	<u>6,737,345</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,737,345</u>
Total reserved fund balance	<u>\$ 9,689,800</u>	<u>\$ 1,147,737</u>	<u>\$ 6,929,759</u>	<u>\$ 398,439</u>	<u>\$ 18,165,735</u>

Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 5 –FUND BALANCES (CONTINUED)**

**Fund Equity (Continued)**

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subd. 1).

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

Restricted for Debt Service – This balance represents the resources available for the payment of G.O. bond principal, interest, and related costs.

Restricted for Capital Projects – This balance represents resources available for the acquisition or construction of major capital projects.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 5 – FUND BALANCES (CONTINUED)**

**Fund Equity (Continued)**

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education. This would include all state aid and any grants or local funding used in support of ABE.

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, pensions, other post employment benefits (OPEB), and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

Assigned for Donated Funds – This balance represents resources segregated from unassigned fund balance for different groups (athletics, media center, principals, etc.) who have done fundraising or receive donations for specific purposes.

Assigned for Student Activities – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or receive donations for specific purposes.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balances for unspent Q Comp dollars.

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive General Fund restricted fund balances and the total net position restricted for food service and community service.

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans, total pension expense for the year ended June 30, 2018, was \$7,710,113. The components of pension expense are noted in the following plan summaries.

**Teachers' Retirement Association**

**A. Plan Description**

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

**Independent School District No. 879  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**A. Plan Description (Continued)**

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by 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**

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

With these provisions:

- Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- 3% per year early retirement reduction factor for all years under normal retirement age.
- Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).



**Independent School District No. 879  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

*Tier II Benefits*

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

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

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

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

**C. Contribution Rate**

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

	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 367,791
Deduct Employer contributions not related to future contribution efforts	810
Deduct TRA's contributions not included in allocation	<u>(456)</u>
Total employer contributions	368,145
Total non-employer contributions	<u>35,588</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 403,733</u></u>

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

**Independent School District No. 879  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Valuation date	July 1, 2017
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	5.12%, from the single equivalent interest rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	2.00%

**Mortality Assumption**

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

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic stocks	39 %	5.10 %
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Unallocated cash	2	0.00
Total	<u>100 %</u>	

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

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**E. Discount Rate**

The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.5%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

**F. Net Pension Liability**

On June 30, 2018, the District reported a liability of \$41,021,528 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.2055% at the end of the measurement period and 0.2037% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 41,021,528
State's proportionate share of the net pension liability associated with the District	3,966,035

For the year ended June 30, 2018, the District recognized pension expense of \$7,222,029. It recognized \$76,066 as an increase to this pension expense for the support provided by direct aid.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

On June 30, 2018, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 312,605	\$ 288,050
Net difference between projected and actual earnings on plan investments	-	372,947
Changes of assumptions	22,096,303	5,746,468
Changes in proportion	770,738	59,522
Contributions to TRA subsequent to the measurement date	863,235	-
Total	\$ 24,042,881	\$ 6,466,987

\$863,235 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

2019	\$ 4,406,154
2020	5,105,367
2021	4,571,578
2022	3,764,688
2023	(1,135,128)
Total	\$ 16,712,659

**Independent School District No. 879  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower and 1 percent higher than the current rate.

District proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
\$ 54,140,512	\$ 41,021,528	\$ 29,960,628

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

**H. Pension Plan Fiduciary Net Position**

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

**Public Employees' Retirement Association**

**A. Plan Description**

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**B. Benefits Provided**

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

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

**B. Benefits Provided (Continued)**

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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 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 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.

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

**C. Contributions**

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2018. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were \$295,427. The District's contributions were equal to the required contributions as set by state statute.



**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

**D. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of \$3,747,369 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$47,113. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0587%, which was a decrease of 0.0004% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$488,084 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$1,361 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2018, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 123,502	\$ 240,020
Changes in actuarial assumptions	626,383	375,674
Difference between projected and actual investments earnings	-	163,581
Change in proportion	80,330	50,196
Contributions paid to PERA subsequent to the measurement date	295,427	-
Total	\$ 1,125,642	\$ 829,471

**Independent School District No. 879  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

\$295,427 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2019		\$ (10,781)
2020		248,506
2021		(77,912)
2022		<u>(159,069)</u>
 Total		 <u><u>\$ 744</u></u>

**E. Actuarial Assumptions**

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

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and then 2.5% thereafter.

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

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**Independent School District No. 879  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

**E. Actuarial Assumptions (Continued)**

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	39%	5.10 %
International stocks	19%	5.30
Bonds	20%	0.75
Alternative assets	20%	5.90
Cash	2%	0.00
Total	<u>100%</u>	

**F. Discount Rates**

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

The following table 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:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
District's proportionate share of the PERA net pension liability	\$ 5,812,448	\$ 3,747,369	\$ 2,056,727

**Independent School District No. 879  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

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

**H. Pension Plan Fiduciary Net Position**

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by PIEP. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

**B. Benefit Provided**

Teachers who apply for early retirement shall remain eligible to receive certain health insurance benefits until the end of the school year in which the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age.

**C. Members**

As of June 30, 2018, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	20
Active employees	<u>275</u>
Total	<u><u>295</u></u>

**D. Contributions**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with PIEP. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2018, the District contributed \$310,313 to the plan.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

---

Salary increases	3.00%
Inflation	2.50%
Healthcare cost trend increases	6.50% in 2017 grading to 5.00% over six years
Mortality Assumption	RP 2014 white collar mortality tables with MP 2015 generational improvement scale

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2017.

The discount rate used to measure the total OPEB liability was 3.4% based on the 20-year municipal bond yield.

**F. Total OPEB Liability**

The District's total OPEB liability of \$3,939,555 was measured as of July 1, 2017 and was determined by an actuarial valuation as of that date.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**F. Total OPEB Liability (Continued)**

Changes in the total OPEB liability are as follows:

	Total OPEB Liability (a)
	<u>\$ 3,898,370</u>
Balances at July 1, 2017	
Changes for the year	
Service cost	237,911
Interest	135,041
Assumption changes	-
Employer contributions	-
Projected investment income	-
Differences between expected and actual economic experience	-
Benefit payments	(331,767)
Administrative expense	-
Other charges	-
	<u>41,185</u>
Net changes	
Balances at July 1, 2018	<u>\$ 3,939,555</u>

**H. OPEB Liability Sensitivity**

The following presents the District's total OPEB liability calculated using the discount rate of 3.4% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.4%)	Current (3.4%)	1% increase (4.4%)
Total OPEB liability	\$ 4,208,405	\$ 3,939,555	\$ 3,684,742

**Independent School District No. 879  
Notes to Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**H. OPEB Liability Sensitivity (Continued)**

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates. The decrease in healthcare cost trend rates is over six years.

	1% decrease (5.50% decreasing to 4.0%)	Current (6.50% decreasing to 5.0%)	1% increase (7.50% decreasing to 6.0%)
Total OPEB liability	\$ 3,732,380	\$ 3,939,555	\$ 4,187,939

**I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the District recognized OPEB expense of \$62,639. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Subsequent Contributions	\$ 310,313	\$ -

\$310,313 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

**NOTE 8 – COMMITMENTS**

**A. Joint Powers**

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost. Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

**Independent School District No. 879**  
**Notes to Financial Statements**

**NOTE 8 – COMMITMENTS (CONTINUED)**

**B. Construction**

Contractor	Revised Contract Amount	Work Completed as of 6/30/18	Amount Remaining on Contract
Jorgenson Construction	\$ 18,676,734	\$ 18,572,960	\$ 103,774
Breitbach Construction	30,166,737	25,660,969	4,505,768
ICS Consulting	1,398,340	1,250,200	148,140
ICS Consulting - Commissioning	180,000	53,000	127,000
WOLD Architects	3,745,036	3,579,027	166,009

**NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$3,414,925 to add the beginning total OPEB liability.

**NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending June 30, 2020.

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2021.



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**REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 879**  
**Schedule of Changes in Total OPEB Liability**  
**and Related Ratios**

	June 30, 2018
Total OPEB Liability	
Service cost	\$ 237,911
Interest	135,041
Benefit payments	(331,767)
Net change in total OPEB liability	41,185
Beginning of year	3,898,370
End of year	\$ 3,939,555
Covered payroll	\$ 13,280,316
Total OPEB liability as a percentage of covered-employee payroll	29.66%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 879**  
**Schedule of District's and Non-Employer Proportionate Share**  
**(if Applicable) of Net Pension Liability**  
**General Employees Retirement Fund**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0582%	\$ 2,733,944	\$ -	\$ 2,733,944	\$ 3,057,131	89.4%	78.7%
2015	0.0560%	2,902,211	-	2,902,211	3,237,587	89.6%	78.2%
2016	0.0591%	4,798,627	62,701	4,861,328	3,669,560	130.8%	68.9%
2017	0.0587%	3,747,369	47,113	3,794,482	3,781,053	99.1%	75.9%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District's and Non-Employer Proportionate Share**  
**(if Applicable) of Net Pension Liability**  
**TRA Retirement Fund**

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.2082%	\$ 9,593,706	\$ 674,763	\$ 10,268,469	\$ 9,502,729	101.0%	81.5%
2015	0.1976%	12,223,514	1,499,077	13,722,591	10,030,187	121.9%	76.8%
2016	0.2037%	48,587,310	4,875,894	53,463,204	10,593,453	458.7%	44.9%
2017	0.2055%	41,021,528	3,966,035	44,987,563	11,061,400	370.9%	51.6%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 879  
Schedule of District Contributions  
General Employees Retirement Fund**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 221,642	\$ 221,642	\$ -	\$ 3,057,131	7.25%
2015	242,819	242,819	-	3,237,587	7.50%
2016	275,217	275,217	-	3,669,560	7.50%
2017	283,579	283,579	-	3,781,053	7.50%
2018	295,427	295,427	-	3,939,027	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District Contributions  
TRA Retirement Fund**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 665,191	\$ 665,191	\$ -	\$ 9,502,729	7.00%
2015	752,264	752,264	-	10,030,187	7.50%
2016	794,509	794,509	-	10,593,453	7.50%
2017	829,605	829,605	-	11,061,400	7.50%
2018	863,235	863,235	-	11,509,800	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 879**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund**

**2017 Changes**

Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

**2016 Changes**

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

**Independent School District No. 879**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2015 Changes**

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

**General Employees Fund**

**2017 Changes**

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

**2016 Changes**

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

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

**2015 Changes**

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

**Independent School District No. 879**  
**Notes to the Required Supplementary Information**

**Post Employment Health Care Plan**

No assets are acclimated in a trust.

**2017 Changes**

Changes in Actuarial Assumptions

- Changes of assumptions and other inputs reflect a change in the discount rate from 3.0% in 2016 to 3.4% in 2017.



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**SUPPLEMENTARY INFORMATION**

**Independent School District No. 879**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
**June 30, 2018**

	Special Revenue Funds		
	Food Service	Community Service	Total
<b>Assets</b>			
Cash and investments	\$ 330,417	\$ 368,827	\$ 699,244
Current property taxes receivable	-	134,555	134,555
Delinquent property taxes receivable	-	2,759	2,759
Accounts receivable	1,285	5,658	6,943
Due from Department of Education	-	17,384	17,384
Due from other Minnesota school districts	-	8,469	8,469
Due from other governmental units	-	750	750
Inventory	17,850	9,841	27,691
Prepaid items	595	-	595
	<u>350,147</u>	<u>548,243</u>	<u>898,390</u>
Total assets	<u>\$ 350,147</u>	<u>\$ 548,243</u>	<u>\$ 898,390</u>
<b>Liabilities</b>			
Accounts payable	\$ 315	\$ 27,486	\$ 27,801
Salaries and benefits payable	20,455	79,377	99,832
Due to other governmental units	-	2,351	2,351
Unearned revenue	36,049	34,199	70,248
	<u>56,819</u>	<u>143,413</u>	<u>200,232</u>
Total liabilities	<u>\$ 56,819</u>	<u>\$ 143,413</u>	<u>\$ 200,232</u>
<b>Deferred Inflows of Resources</b>			
Property taxes levied for subsequent year's expenditures	-	297,389	297,389
Unavailable revenue - delinquent property taxes	-	2,330	2,330
	<u>-</u>	<u>299,719</u>	<u>299,719</u>
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ 299,719</u>	<u>\$ 299,719</u>
<b>Fund Balances</b>			
Nonspendable	18,445	9,841	28,286
Restricted	274,883	95,270	370,153
	<u>293,328</u>	<u>105,111</u>	<u>398,439</u>
Total fund balances	<u>\$ 293,328</u>	<u>\$ 105,111</u>	<u>\$ 398,439</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 350,147</u>	<u>\$ 548,243</u>	<u>\$ 898,390</u>

**Independent School District No. 879**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2018**

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Funds</u>
	<u>Food Service</u>	<u>Community Service</u>	
<b>Revenues</b>			
Local property taxes	\$ -	\$ 241,930	\$ 241,930
Other local and county revenues	7,868	1,855,130	1,862,998
Revenue from state sources	45,211	156,014	201,225
Revenue from federal sources	259,196	-	259,196
Sales and other conversion of assets	739,571	92,309	831,880
Total revenues	<u>1,051,846</u>	<u>2,345,383</u>	<u>3,397,229</u>
<b>Expenditures</b>			
Current			
Food service	1,016,064	-	1,016,064
Community education and services	-	2,300,333	2,300,333
Capital outlay			
Food service	544	-	544
Community education and services	-	7,643	7,643
Total expenditures	<u>1,016,608</u>	<u>2,307,976</u>	<u>3,324,584</u>
Excess of revenues over expenditures	35,238	37,407	72,645
<b>Fund Balances</b>			
Beginning of year	<u>258,090</u>	<u>67,704</u>	<u>325,794</u>
End of year	<u>\$ 293,328</u>	<u>\$ 105,111</u>	<u>\$ 398,439</u>

**Independent School District No. 879**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - Detail General Fund**  
**Year Ended June 30, 2018**

	2018			Variance with Final Budget - Over (Under)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>Revenues</b>					
Local property taxes					
Property tax levy	\$ 3,970,370	\$ 3,983,230	\$ 3,983,097	\$ (133)	\$ 3,672,105
County apportionment	50,000	38,500	38,449	(51)	31,427
Miscellaneous taxes	25,000	26,500	29,465	2,965	74,404
Total local property taxes	<u>4,045,370</u>	<u>4,048,230</u>	<u>4,051,011</u>	<u>2,781</u>	<u>3,777,936</u>
Other local and county revenues					
Tuition and fees	339,050	395,947	400,843	4,896	319,615
Interest	40,000	107,748	133,201	25,453	67,938
Other local revenues	133,006	704,686	740,829	36,143	669,060
Total other local and county revenues	<u>512,056</u>	<u>1,208,381</u>	<u>1,274,873</u>	<u>66,492</u>	<u>1,056,613</u>
Revenue from state sources					
General education aid	18,372,440	18,251,416	18,280,467	29,051	18,172,427
Endowment fund	86,000	96,500	96,492	(8)	85,919
Special education aid	2,500,000	2,903,706	2,907,199	3,493	2,525,954
Educational agricultural and homestead credit	7,100	8,000	7,974	(26)	7,097
Other aids	873,553	986,875	1,003,334	16,459	848,135
Total revenue from state sources	<u>21,839,093</u>	<u>22,246,497</u>	<u>22,295,466</u>	<u>48,969</u>	<u>21,639,532</u>
Revenue from federal sources					
Title I	46,379	52,578	52,577	(1)	51,022
Special education	121,000	130,753	130,753	-	109,384
Other	42,500	27,922	27,922	-	47,182
Total revenue from federal source	<u>209,879</u>	<u>211,253</u>	<u>211,252</u>	<u>(1)</u>	<u>207,588</u>
Sales and other conversion of assets					
Local sales and other conversion of assets	-	7,360	7,361	1	15,894
Total revenues	<u>26,606,398</u>	<u>27,721,721</u>	<u>27,839,963</u>	<u>118,242</u>	<u>26,697,563</u>
<b>Expenditures</b>					
Current					
Administration					
Salaries and wages	772,789	809,243	803,401	(5,842)	742,881
Employee benefits	324,900	327,283	318,621	(8,662)	293,375
Purchased services	10,400	17,703	13,970	(3,733)	9,180
Supplies and materials	6,800	35,989	26,864	(9,125)	22,093
Capital expenditures	7,500	1,613	648	(965)	500
Other expenditures	55,148	55,289	24,955	(30,334)	24,003
Total administration	<u>1,177,537</u>	<u>1,247,120</u>	<u>1,188,459</u>	<u>(58,661)</u>	<u>1,092,032</u>
District support services					
Salaries and wages	358,728	363,111	360,968	(2,143)	353,090
Employee benefits	175,203	188,278	179,512	(8,766)	172,867
Purchased services	221,426	270,249	261,981	(8,268)	207,218
Supplies and materials	26,500	57,423	55,277	(2,146)	51,527
Capital expenditures	311,000	379,560	352,950	(26,610)	259,127
Other expenditures	35,893	7,733	6,758	(975)	20,882
Total district support services	<u>1,128,750</u>	<u>1,266,354</u>	<u>1,217,446</u>	<u>(48,908)</u>	<u>1,064,711</u>

**Independent School District No. 879**  
**Schedule of Revenues, Expenditures, and**  
**Changes In Fund Balance -**  
**Budget and Actual - Detail General Fund**  
**Year Ended June 30, 2018**

	2018			Variance with Final Budget - Over (Under)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>Expenditures</b>					
Elementary and secondary regular instruction					
Salaries and wages	\$ 8,183,933	\$ 8,146,849	\$ 8,099,342	\$ (47,507)	\$ 7,884,762
Employee benefits	3,319,143	3,128,777	3,056,679	(72,098)	3,070,773
Purchased services	595,964	786,725	716,643	(70,082)	728,920
Supplies and materials	268,815	632,499	562,209	(70,290)	603,436
Capital expenditures	19,834	195,549	174,257	(21,292)	133,609
Other expenditures	15,895	77,424	76,921	(503)	72,232
Total elementary and secondary regular instruction	<u>12,403,584</u>	<u>12,967,823</u>	<u>12,686,051</u>	<u>(281,772)</u>	<u>12,493,732</u>
Vocational education instruction					
Salaries and wages	108,226	110,636	110,421	(215)	105,187
Employee benefits	54,302	51,524	50,984	(540)	50,075
Purchased services	214,100	142,100	135,645	(6,455)	206,600
Supplies and materials	3,000	3,990	2,537	(1,453)	3,760
Other expenditures	-	1,000	783	(217)	764
Total vocational education instruction	<u>379,628</u>	<u>309,250</u>	<u>300,370</u>	<u>(8,880)</u>	<u>366,386</u>
Special education instruction					
Salaries and wages	2,694,759	2,738,349	2,700,952	(37,397)	2,513,723
Employee benefits	1,129,330	1,189,696	1,087,163	(102,533)	1,004,137
Purchased services	320,015	328,464	317,156	(11,308)	296,240
Supplies and materials	102,978	70,831	55,016	(15,815)	53,072
Capital expenditures	800	10,553	10,257	(296)	23,198
Other expenditures	28,425	31,625	28,231	(3,394)	43,342
Total special education instruction	<u>4,276,307</u>	<u>4,369,518</u>	<u>4,198,775</u>	<u>(170,743)</u>	<u>3,933,712</u>
Instructional support services					
Salaries and wages	796,473	864,251	841,363	(22,888)	822,305
Employee benefits	310,193	315,656	301,724	(13,932)	300,706
Purchased services	151,501	120,456	87,326	(33,130)	74,287
Supplies and materials	206,217	85,765	73,438	(12,327)	60,716
Capital expenditures	15,870	13,807	8,376	(5,431)	22,222
Other expenditures	2,951	8,158	7,967	(191)	7,781
Total instructional support services	<u>1,483,205</u>	<u>1,408,093</u>	<u>1,320,194</u>	<u>(87,899)</u>	<u>1,288,017</u>
Pupil support services					
Salaries and wages	312,896	314,225	306,304	(7,921)	264,525
Employee benefits	307,903	274,117	251,511	(22,606)	293,160
Purchased services	1,715,450	1,699,512	1,676,594	(22,918)	1,699,718
Supplies and materials	5,345	9,376	8,542	(834)	21,119
Capital expenditures	1,100	1,100	300	(800)	470
Other expenditures	150	1,750	1,740	(10)	1,800
Total pupil support services	<u>2,342,844</u>	<u>2,300,080</u>	<u>2,244,991</u>	<u>(55,089)</u>	<u>2,280,792</u>

**Independent School District No. 879**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - Detail General Fund**  
**Year Ended June 30, 2018**

	2018			Variance with Final Budget - Over (Under)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>Expenditures</b>					
<b>Sites and buildings</b>					
Salaries and wages	\$ 777,616	\$ 788,188	\$ 778,719	\$ (9,469)	\$ 642,594
Employee benefits	428,592	443,740	401,207	(42,533)	343,993
Purchased services	1,519,901	948,426	926,260	(22,166)	771,303
Supplies and materials	292,300	320,070	316,036	(4,034)	268,803
Capital expenditures	19,369	816,423	802,815	(13,608)	25,497
Other expenditures	13,220	13,850	13,068	(782)	13,500
Total sites and buildings	<u>3,050,998</u>	<u>3,330,697</u>	<u>3,238,105</u>	<u>(92,592)</u>	<u>2,065,690</u>
<b>Fiscal and other fixed cost programs</b>					
Purchased services	<u>110,000</u>	<u>109,375</u>	<u>109,373</u>	<u>(2)</u>	<u>103,182</u>
<b>Debt service</b>					
Principal	243,122	245,541	244,167	(1,374)	233,901
Interest and fiscal charges	<u>56,746</u>	<u>50,691</u>	<u>49,867</u>	<u>(824)</u>	<u>64,577</u>
Total debt service	<u>299,868</u>	<u>296,232</u>	<u>294,034</u>	<u>(2,198)</u>	<u>298,478</u>
Total expenditures	<u>26,652,721</u>	<u>27,604,542</u>	<u>26,797,798</u>	<u>(806,744)</u>	<u>24,986,732</u>
Excess of revenues over (under) expenditures	(46,323)	117,179	1,042,165	924,986	1,710,831
<b>Other Financing Sources</b>					
Proceeds from sale of capital assets	-	1,250	1,250	-	624
Transfers out	-	-	-	-	(2,406)
Total other financing sources	<u>-</u>	<u>1,250</u>	<u>1,250</u>	<u>-</u>	<u>(1,782)</u>
Net change in fund balance	<u>\$ (46,323)</u>	<u>\$ 118,429</u>	1,043,415	<u>\$ 924,986</u>	1,709,049
<b>Fund Balance</b>					
Beginning of year			<u>8,646,385</u>		<u>6,937,336</u>
End of year			<u>\$ 9,689,800</u>		<u>\$ 8,646,385</u>

**Independent School District No. 879**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - Detail Food Service Fund**  
**Year Ended June 30, 2018**

	2018			Variance with Final Budget - Over (Under)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>Revenues</b>					
Other local and county revenues					
Interest	\$ 3,300	\$ 4,075	\$ 4,075	\$ -	\$ 2,138
Other local revenues	2,000	3,830	3,793	(37)	2,940
Total other local and county revenues	<u>5,300</u>	<u>7,905</u>	<u>7,868</u>	<u>(37)</u>	<u>5,078</u>
Revenue from state sources					
Other aids	-	215	211	(4)	-
Lunch program aid	46,200	45,105	45,000	(105)	46,103
Total revenue from state sources	<u>46,200</u>	<u>45,320</u>	<u>45,211</u>	<u>(109)</u>	<u>46,103</u>
Revenue from federal sources					
Lunch aid program	192,832	193,853	191,778	(2,075)	192,901
Food distribution program	85,000	68,005	67,418	(587)	83,694
Total revenue from federal sources	<u>277,832</u>	<u>261,858</u>	<u>259,196</u>	<u>(2,662)</u>	<u>276,595</u>
Sales and other conversion of assets					
Sale of food	738,981	742,539	739,571	(2,968)	748,410
Total revenues	<u>1,068,313</u>	<u>1,057,622</u>	<u>1,051,846</u>	<u>(5,776)</u>	<u>1,076,186</u>
<b>Expenditures</b>					
Current					
Food service					
Salaries and wages	389,666	382,002	381,151	(851)	372,150
Employee benefits	174,733	160,949	157,605	(3,344)	154,915
Purchased services	40,900	41,950	41,515	(435)	37,166
Supplies and materials	455,150	435,955	432,805	(3,150)	451,582
Capital expenditures	-	600	544	(56)	-
Other expenditures	7,100	3,015	2,988	(27)	1,984
Total expenditures	<u>1,067,549</u>	<u>1,024,471</u>	<u>1,016,608</u>	<u>(7,863)</u>	<u>1,017,797</u>
Net change in fund balance	<u>\$ 764</u>	<u>\$ 33,151</u>	35,238	<u>\$ 2,087</u>	58,389
<b>Fund Balance</b>					
Beginning of year			258,090		199,701
Ending of year			<u>\$ 293,328</u>		<u>\$ 258,090</u>



**Independent School District No. 879**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance -**  
**Budget and Actual - Detail Community Service Fund**  
**Year Ended June 30, 2018**

	2018			Variance with Final Budget - Over (Under)	2017
	Budgeted Amounts		Actual Amounts		Actual Amounts
	Original	Final			
<b>Revenues</b>					
Local property taxes					
Property tax levy	\$ 243,430	\$ 243,853	\$ 241,930	\$ (1,923)	\$ 191,021
Miscellaneous taxes	1,000	577	-	(577)	231
Total local property taxes	<u>244,430</u>	<u>244,430</u>	<u>241,930</u>	<u>(2,500)</u>	<u>191,252</u>
Other local and county revenues					
Tuition and fees	1,736,981	1,740,281	1,731,838	(8,443)	1,804,260
Interest	1,500	1,500	3,555	2,055	1,963
Other local revenues	60,100	99,835	119,737	19,902	98,211
Total other local and county revenues	<u>1,798,581</u>	<u>1,841,616</u>	<u>1,855,130</u>	<u>13,514</u>	<u>1,904,434</u>
Revenue from state sources					
Educational agricultural and homestead credit	1,400	1,400	1,599	199	1,339
Other aids	150,643	153,845	154,415	570	151,575
Total revenue from state sources	<u>152,043</u>	<u>155,245</u>	<u>156,014</u>	<u>769</u>	<u>152,914</u>
Sales and other conversion of assets					
Local sales and other conversion of assets	-	3,497	3,497	-	-
Sale of food	107,392	107,392	88,812	(18,580)	97,382
Total sales and other conversion of assets	<u>107,392</u>	<u>110,889</u>	<u>92,309</u>	<u>(18,580)</u>	<u>97,382</u>
Total revenues	<u>2,302,446</u>	<u>2,352,180</u>	<u>2,345,383</u>	<u>(6,797)</u>	<u>2,345,982</u>
<b>Expenditures</b>					
Community education and services					
Salaries and wages	1,410,263	1,415,528	1,470,840	55,312	1,515,524
Employee benefits	372,683	383,095	371,757	(11,338)	373,728
Purchased services	300,400	273,610	272,635	(975)	320,360
Supplies and materials	161,767	199,636	160,682	(38,954)	162,812
Capital expenditures	13,300	13,010	7,643	(5,367)	10,393
Other expenditures	8,892	11,045	24,419	13,374	21,974
Total expenditures	<u>2,267,305</u>	<u>2,295,924</u>	<u>2,307,976</u>	<u>12,052</u>	<u>2,404,791</u>
Excess of revenues over (under) expenditures	35,141	56,256	37,407	(18,849)	(58,809)
<b>Other financing sources (uses)</b>					
Transfers in	-	-	-	-	2,406
Net change in fund balance	<u>\$ 35,141</u>	<u>\$ 56,256</u>	37,407	<u>\$ (18,849)</u>	(56,403)
<b>Fund Balance</b>					
Beginning of year			67,704		124,107
End of year			<u>\$ 105,111</u>		<u>\$ 67,704</u>

**Independent School District No. 875**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2018**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 General Fund</b>				<b>06 Building Construction Fund</b>			
Total revenue	\$ 27,839,963	\$ 27,839,962	\$ 1	Total revenue	\$ 196,048	\$ 196,048	\$ -
Total expenditures	26,797,798	26,797,798	-	Total expenditures	32,615,571	32,615,571	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	45,017	45,017	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	230,610	230,610	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	-	-	-	413 Building Projects Funded by COP	-	-	-
407 Capital Projects Levy	-	-	-	467 Long-term Facilities Maintenance	-	-	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
409 Alternative Facility Program	-	-	-	464 Restricted fund balance	6,929,759	6,929,759	-
413 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned fund balance	-	-	-
416 Levy Reduction	-	-	-	<b>07 Debt Service Fund</b>			
417 Taconite Building Maintenance	-	-	-	Total revenue	\$ 5,657,839	\$ 5,657,839	\$ -
424 Operating Capital	1,179,132	1,179,132	-	Total expenditures	5,499,107	5,499,107	-
426 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable fund balance	-	-	-
428 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
434 Area Learning Center	14,334	14,334	-	425 Bond refunding	-	-	-
435 Contracted Alternative Programs	-	-	-	433 Maximum effort loan aid	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
440 Teacher Development and Evaluation	-	-	-	464 Restricted fund balance	1,147,737	1,147,736	1
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned fund balance	-	-	-
446 First Grade Preparedness	-	-	-	<b>08 Trust Fund</b>			
448 Achievement and Integration	-	-	-	Total revenue	\$ 69,671	\$ 69,671	\$ -
449 Safe School Crime	-	-	-	Total expenditures	76,059	76,059	-
450 Transition for Pre-kindergarten	-	-	-	<i>Unassigned:</i>			
451 QZAB Payments	-	-	-	422 Net position	30,870	30,870	-
452 OPEB Liabilities not Held in Trust	-	-	-	<b>20 Internal Service Fund</b>			
453 Unfunded Severance and Retirement Levy	-	-	-	Total revenue	\$ -	\$ -	\$ -
459 Basic Skills Extended Time	-	-	-	Total expenditures	-	-	-
467 Long-term Facilities Maintenance	645,200	645,200	-	<i>Unassigned:</i>			
472 Medical Assistance	7,097	7,097	-	422 Net position	-	-	-
475 Title VII - Impact Aid	-	-	-	<b>25 OPEB Revocable Trust</b>			
476 Payments in Lieu of Taxes	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted:</i>				Total expenditures	-	-	-
464 Restricted fund balance	-	-	-	<i>Unassigned:</i>			
<i>Committed:</i>				422 Net position	-	-	-
418 Committed for separation	152,680	152,680	-	<b>45 OPEB Irrevocable Trust</b>			
461 Committed	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Assigned:</i>				Total expenditures	-	-	-
462 Assigned fund balance	678,385	678,385	-	<i>Unassigned:</i>			
<i>Unassigned:</i>				422 Net position	-	-	-
422 Unassigned fund balance	6,737,345	6,737,346	(1)	<b>47 OPEB Debt Service</b>			
<b>02 Food Services Fund</b>				Total revenue	\$ -	\$ -	\$ -
Total revenue	\$ 1,051,846	\$ 1,051,845	\$ 1	Total expenditures	-	-	-
Total expenditures	1,016,608	1,016,606	2	<i>Nonspendable:</i>			
<i>Nonspendable:</i>				460 Nonspendable fund balance	-	-	-
460 Nonspendable fund balance	18,445	18,445	-	<i>Restricted:</i>			
<i>Restricted/reserved:</i>				464 Restricted fund balance	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				463 Unassigned fund balance	-	-	-
464 Restricted fund balance	274,883	274,883	-	<b>04 Community Service Fund</b>			
<i>Unassigned:</i>				Total revenue	\$ 2,345,383	\$ 2,345,383	\$ -
463 Unassigned fund balance	-	-	-	Total expenditures	2,307,976	2,307,974	2
<b>04 Community Service Fund</b>				<i>Nonspendable:</i>			
Total revenue	\$ 2,345,383	\$ 2,345,383	\$ -	460 Nonspendable fund balance	9,841	9,841	-
Total expenditures	2,307,976	2,307,974	2	<i>Restricted/reserved:</i>			
<i>Nonspendable:</i>				426 \$25 Taconite	-	-	-
460 Nonspendable fund balance	9,841	9,841	-	431 Community Education	93,158	93,158	-
<i>Restricted/reserved:</i>				432 ECFE	-	-	-
426 \$25 Taconite	-	-	-	440 Teacher Development and Evaluation	-	-	-
431 Community Education	93,158	93,158	-	444 School Readiness	-	-	-
432 ECFE	-	-	-	447 Adult Basic Education	966	966	-
440 Teacher Development and Evaluation	-	-	-	452 OPEB Liabilities not Held in Trust	-	-	-
444 School Readiness	-	-	-	<i>Restricted:</i>			
447 Adult Basic Education	966	966	-	464 Restricted fund balance	1,146	1,148	(2)
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				463 Unassigned fund balance	-	-	-
464 Restricted fund balance	1,146	1,148	(2)				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

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**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***

**Independent Auditor's Report**

To the School Board  
Independent School District No. 879  
Delano, Minnesota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ending June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 26, 2018.

**Internal Control over Financial Reporting**

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

### **Internal Control over Financial Reporting (Continued)**

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control to be a material weakness, Audit Finding 2018-002.

A significant 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. We consider the deficiency described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control to be significant deficiency, Audit Finding 2018-001.

### **Compliance and Other Matters**

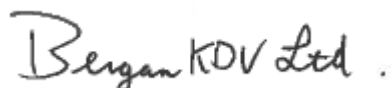
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

### **District's Response to the Findings**

The District's responses to the findings identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Minneapolis, Minnesota  
November 26, 2018



## Report on Legal Compliance

### Independent Auditor's Report

To the School Board  
Independent School District No. 879  
Delano, 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 No. 879, Delano, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, and have issued our report thereon dated November 26, 2018.

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

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

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

*BerganKDV Ltd.*

Minneapolis, Minnesota  
November 26, 2018

**(Independent School District No. 879  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:**

**Audit Finding 2018-001 – Lack of Segregation of Accounting Duties**

During the year ended June 30, 2018, the District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The District Accountant enters bank deposit amounts in Skyward, along with preparing the monthly bank reconciliations.
- The District Accountant stuffs and mails checks to vendors, along with preparing the monthly bank reconciliations.
- The Business Manager and District Accountant have access to all areas of the accounting system, while performing some initiation and reconciliation duties.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
Administration will examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named, as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.
3. Official Responsible for Ensuring CAP  
Matthew Schoen, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**Independent School District No. 879  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT YEAR INTERNAL CONTROL FINDING:**

**Audit Finding 2018-002 – Material Audit Adjustment**

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, audit adjustments were required to properly adjust contracts payable and capital outlay expenditures.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will develop a process for ensuring that all standard year-end entries and reconciliations are completed and reviewed before the auditors begin their fieldwork.
3. Official Responsible for Ensuring CAP  
Matthew Schoen, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
Ongoing review and monitoring will take place throughout the year and at fiscal year-end.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.