

INDEPENDENT SCHOOL DISTRICT NO. 518

FINANCIAL STATEMENTS
AS OF JUNE 30, 2018

INDEPENDENT SCHOOL DISTRICT NO. 518

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INDEPENDENT SCHOOL DISTRICT NO. 518

SCHOOL DISTRICT OFFICIALS

JUNE 30, 2018

Ms. Lori Dudley	December 31, 2018	Chairman
Mr. Scott Rosenberg	December 31, 2018	Vice-Chairman
Mr. Joel Lorenz	December 31, 2020	Clerk
Mr. Bradley Shaffer	December 31, 2020	Treasurer
Mr. Michael Harberts	December 31, 2018	Director
Mr. Linden Olson	December 31, 2020	Director
Mr. Stephen Schneider	December 31, 2020	Director
Mr. John Landgaard		Superintendent
Mr. David Skog		Director of Management Services

DREALAN KVILHAUG HOEFKER & Co., P.A.



Member
Division for CPA Firms AICPA

CERTIFIED PUBLIC ACCOUNTANTS

WAYNE W. DREALAN, CPA
ELLEN K. HOEFKER, MBA, CPA
GREG H. KVILHAUG, CPA, CFP

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

VICKIE L. KUIPERS, EA
CINDY M. PENNING, CPA

INDEPENDENT AUDITOR'S REPORT

To the Members of the School Board
Independent School District No. 518
Worthington, 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. 518 (the District) as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information the District, as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the general fund, food service fund, and the community service fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change of Accounting Principle

As described in Note 11 to the financial statements, in 2018, the District adopted new accounting guidance, *GASBS No. 75 Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Report of Summarized Comparative Information

We have previously audited the District's 2017 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 10, 2017. 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for postemployment benefits plan and the schedules of proportionate share of net pension liability and employer contributions on pages 4-18, 84 and 85 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 uniform financial accounting and reporting standards compliance table and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The uniform financial accounting and reporting standards compliance table, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dreelan Kvilhaug Hoefker & Co., P.A.

Worthington, Minnesota
November 6, 2018

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL HIGHLIGHTS

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

- Overall actual expenses in the Statement of Activities were more than \$53,895,000 and over \$2,070,000 more than revenues. Changes in Other Pension Employment Benefits (OPEB) actuarial assumptions significantly increased the reported expenses.
- The District's General Fund unassigned fund balance (under the governmental fund presentation) increased \$2,446,967 from the prior year. Overall expenditures were less than budgeted combined with increased revenue due to enrollments above projections, especially in the VIBE on-line learning program.
- The District held an election in February 2018 asking the voters for authorization to issue general obligation bonds in the amount of \$68,495,000 to construct a new high school building. That vote failed. The District returned to the voters in August for authorization to construct an intermediate school. That vote also failed.
- Increased enrollment, participation, and formula funding increases allowed the District to maintain operations financial stability while expanding services to students and the community.
- The District authorized the issuance of Certificates of Participation to be repaid by available lease levy funding to construct a new building for the Area Learning Center and gymnastics programs. Those certificates were sold in August 2017 and construction began in the spring of 2018.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are 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.

Government-Wide Statements

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

The two government-wide statements report the District's net position and it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities need to be considered.

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

- 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds - focusing on its most significant or "major" funds - 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.

For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

- Some funds are required by State law and 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 proper utilization of certain revenues (e.g., federal grants).

The District maintains 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. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less 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 financial statements, we provide additional information on separate statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the Nobles County Integration Collaborative. 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. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$9,374,117 on June 30, 2018. (See Table A-1.)

Table A-1
Independent School District No. 518
Net Position-Governmental Activities
As of June 30

	2018	2017	Percentage Change
Current and other assets	\$ 53,101,979	\$ 36,163,813	46.84%
Capital assets	38,736,005	38,328,275	1.06%
Total assets	\$ 91,837,984	\$ 74,492,088	23.29%
Deferred Outflows of Resources	\$ 43,295,976	\$ 52,018,433	(16.77%)
Long-term liabilities	\$ 100,530,951	\$ 101,935,955	(1.38%)
Other liabilities	4,546,745	4,172,882	8.96%
Total liabilities	\$ 105,077,696	\$ 106,108,837	(0.97%)
Deferred Inflows of Resources	\$ 20,682,147	\$ 8,249,846	150.70%
Net Position			
Net investment in capital assets	\$ 18,166,844	\$ 15,943,275	13.95%
Restricted	9,501,632	9,099,573	4.42%
Unrestricted	(18,294,359)	(12,891,010)	41.92%
Total net position	\$ 9,374,117	\$ 12,151,838	(22.86%)

The District's financial position decreased during the year.

- A change in the Pension liability actuarial assumptions increased the District's long-term liabilities and deferred outflows of resources for pensions.

Implementation of GASB No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions resulted in a decrease in net position of \$810,995.

Changes in net position. The District's total revenues were \$51,824,817 for the year ended June 30, 2018. Property taxes and state formula aid accounted for 61.42% of total revenue for the year. (See Figure A-3.) Another 1.15% came from other general revenues combined with investment earnings and the remainder from program revenues.

The total cost of all programs and services was \$53,895,769. The District's expenses are predominantly related to educating and caring for students (80.76%). (See Figure A-4.) The purely administrative activities of the District accounted for just 2.56% of total costs.

Total expenses exceeded revenues, decreasing net position \$1,966,726 from last year.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Changes in net position (continued)

The beginning net position was restated for the implementation of GASB No. 75 Implementation of GASB No. 75 Accounting and Financial Reporting for Postemployment Benefits Other than Pensions resulting in a decrease in beginning net position of \$810,995.

Table A-2 is similar to the fund financial statements except it is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. It also includes depreciation expense and excludes capital asset purchase costs, debt issuance proceeds and the repayment of debt principal.

Table A-2
Independent School District No. 518
Change in Net Position
For the Year Ended June 30

	2018	2017	Percentage Change
Revenues			
Program revenues			
Charges for services	\$ 1,394,959	\$ 1,241,276	12.38%
Operating grants and contributions	16,676,680	17,322,327	(3.73%)
Capital grants and contributions	1,327,269	807,812	64.30%
General revenues			
Property taxes	4,759,710	5,094,031	(6.56%)
State aid - formula grants	27,070,710	24,756,750	9.35%
Other	595,489	405,542	46.84%
Total revenues	<u>\$ 51,824,817</u>	<u>\$ 49,627,738</u>	4.43%
Expenses			
District and school administration	\$ 1,379,744	\$ 1,523,138	(9.41%)
District support services	1,090,355	986,653	10.51%
Regular instruction	24,921,105	24,871,827	0.20%
Exceptional instruction	8,254,728	8,091,725	2.01%
Vocational instruction	660,139	829,793	(20.45%)
Instructional support services	3,197,314	3,155,522	1.32%
Pupil support services	6,493,341	5,666,301	14.60%
Site, buildings and equipment	4,623,396	3,742,314	23.54%
Fiscal and other fixed cost programs	1,023,601	733,797	39.49%
Community education and services	2,252,046	2,234,351	0.79%
Total expenses	<u>\$ 53,895,769</u>	<u>\$ 51,835,421</u>	3.97%
Change in net position before special item	\$ (2,070,952)	\$ (2,207,683)	
Special items	104,226	49,087	
Change in net position	\$ (1,966,726)	\$ (2,158,596)	
Beginning net position (restated)	11,340,843	14,310,434	
Net position - June 30	<u>\$ 9,374,117</u>	<u>\$ 12,151,838</u>	

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Figure A-3 Sources of Independent School District 518's Revenues for Fiscal Year 2018

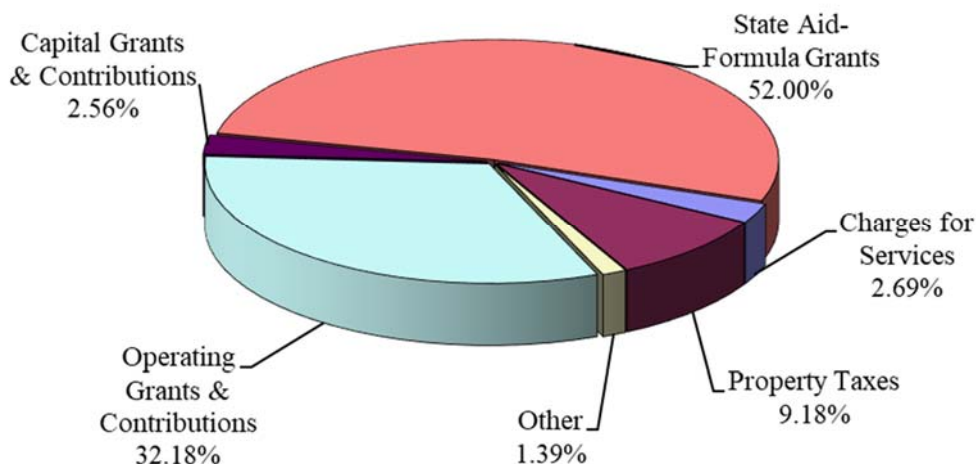
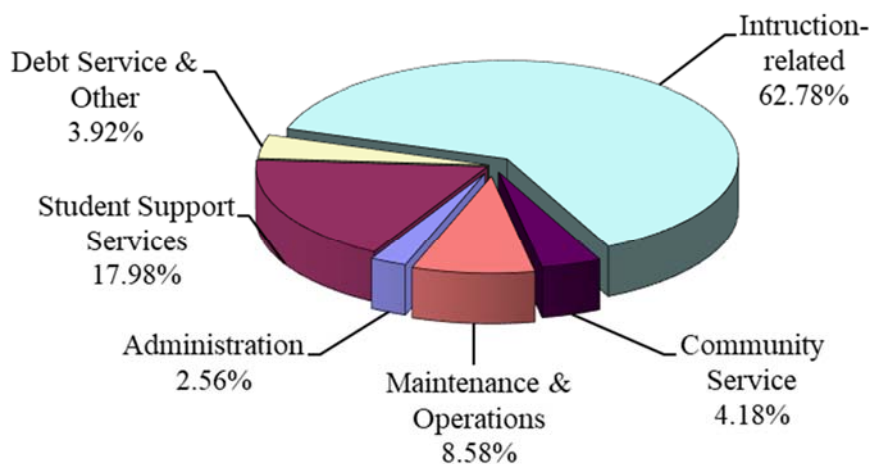


Figure A-4 Independent School District 518's Expenses for Fiscal Year 2018



- The cost of all governmental activities this year was \$53,895,769.
- Some of the cost was paid by the users of the District's programs (\$1,394,959).
- The federal and state governments subsidized certain programs with grants and contributions (\$16,676,680 operating, \$1,327,269 capital).
- Most of the District's costs (\$34,496,861), however, were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$4,759,710 in property taxes, \$27,070,710 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Table A-3
Independent School District No. 518
Net Cost of Governmental Activities
For the Year Ended June 30

	2018		2017
	Total Cost of Services	Net Cost of Services	Net Cost of Services
District and school administration	\$ 1,379,744	\$ 1,375,167	\$ 1,485,099
District support services	1,090,355	1,083,469	968,603
Regular instruction	24,921,105	16,806,006	16,031,626
Exceptional instruction	8,254,728	3,665,268	3,802,570
Vocational instruction	660,139	606,566	774,070
Instructional support services	3,197,314	2,664,139	2,614,986
Pupil support services	6,493,341	3,305,965	2,587,490
Site, buildings and equipment	4,623,396	3,321,127	3,148,329
Fiscal and other fixed cost programs	1,023,601	983,162	468,291
Community education and services	2,252,046	685,992	582,942
Total	<u>\$ 53,895,769</u>	<u>\$ 34,496,861</u>	<u>\$ 32,464,006</u>

The total cost of district services was \$53,895,769 as compared to the prior year total cost of district services of \$51,835,421, an increase of \$2,060,348.

When program specific revenues are considered, the net service cost was \$34,496,861, which represents an increase of \$2,032,855 from the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$44,243,935, an increase of \$16,577,133 from the June 30, 2017 combined fund balance of \$27,666,802, or a 59.92% increase. Most of the increase (\$9,853,139) resulted from the issuance of Construction Certificates of Participation which were partially expended during the year ended June 30, 2018.

Revenues for the District's governmental funds were \$51,818,982, while total expenditures were \$46,274,363.

General Fund

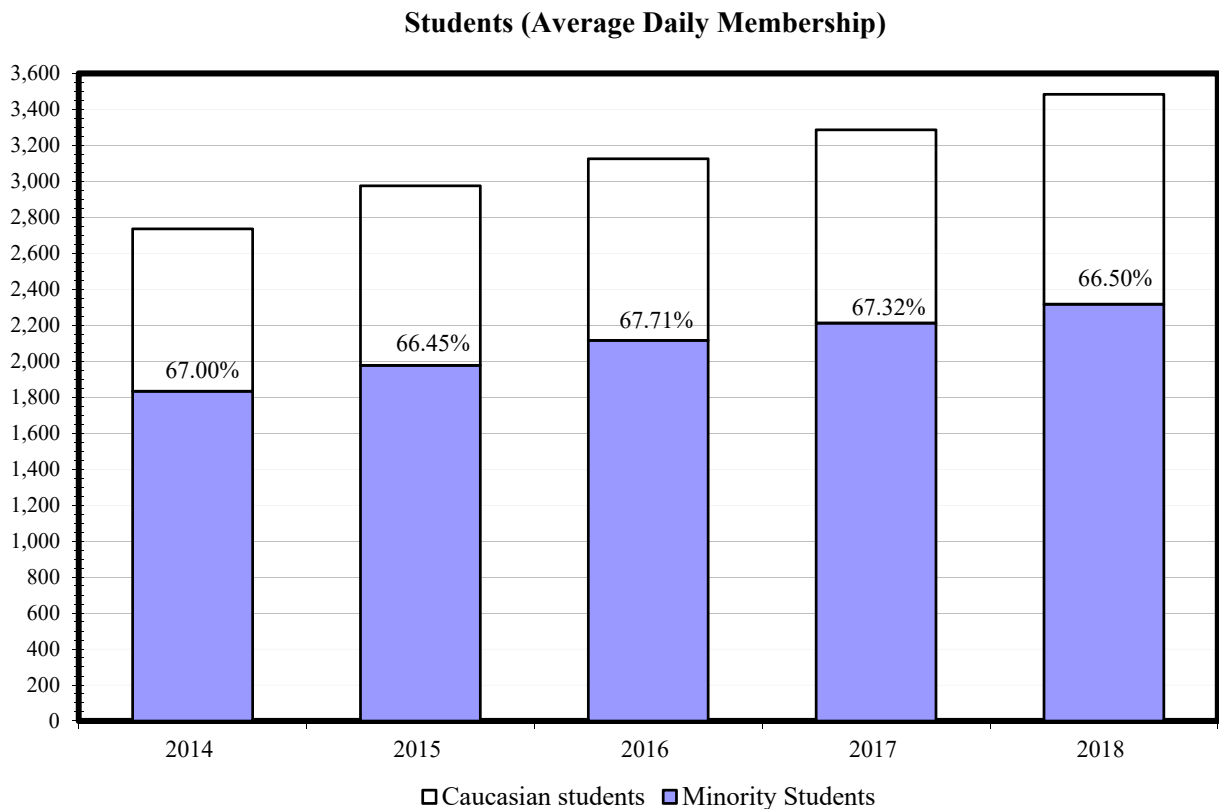
The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following graph shows that the total number of students has increased over the last few years, while the number of minority students has increased.



Over the past few years, the District has seen an increasing enrollment. Based on the District's birth to age 5 census counts and enrollment projections, we anticipate enrollment increases the next few years. New residents along with an increase in the number of students open enrolling in our District are factors in the increase. During the 2017-18 school year the District's on-line education program enrollment increased significantly.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following schedule presents a summary of General Fund revenues (including operating, pupil transportation, and capital expenditure accounts).

	Year Ended June 30, 2017	Year Ended June 30, 2018	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property taxes	\$ 3,129,608	\$ 3,128,824	\$ (784)	(0.03%)
Interest earnings	151,892	348,381	196,489	129.36%
Other	1,136,397	1,107,684	(28,713)	(2.53%)
State sources	36,757,211	40,274,339	3,517,128	9.57%
Federal sources	<u>1,109,998</u>	<u>1,118,871</u>	<u>8,873</u>	0.80%
Total revenues	\$ 42,285,106	\$ 45,978,099	\$ 3,692,993	8.73%
Other financing sources				
Certificates of Participation	-	164,681	164,681	NA
Land and equipment sales	<u>73,459</u>	<u>170,293</u>	<u>96,834</u>	131.82%
Total	<u>\$ 42,358,565</u>	<u>\$ 46,313,073</u>	<u>\$ 3,954,508</u>	9.34%

Total General Fund revenue increased by \$3,954,508 or 9.34% from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue including excess levy referendum and the property tax shift involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following schedule presents a summary of General Fund Expenditures (including operating, pupil transportation, and capital expenditure accounts).

	Year Ended June 30, 2017	Year Ended June 30, 2018	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 21,292,137	\$ 22,322,650	\$ 1,030,513	4.84%
Benefits	6,070,958	6,552,101	481,143	7.93%
Purchased Services	4,935,723	5,646,269	710,546	14.40%
Supplies, Materials and Equipment	4,501,619	3,817,532	(684,087)	(15.20%)
Other	435,676	703,620	267,944	61.50%
Total	<u>\$ 37,236,113</u>	<u>\$ 39,042,172</u>	<u>\$ 1,806,059</u>	4.85%

Total General Fund expenditures increased \$1,806,059 or 4.85% from the previous year.

In fiscal 2018, salaries increased 4.84% with the addition of staff to meet the needs of increased enrollment. Employee benefits increased by 7.93%. The District continues to investigate cost containment measures to minimize the effect rising insurance premiums have on the costs of the District's employee compensation packages. Approximately one-half of the increase in purchased serviced resulted from transportation of special needs students to and from school along with special programming opportunities.

In 2017-2018, General Fund revenues and other financing sources exceeded expenditures by \$7,270,901. Therefore, total fund balance increased to \$27,677,294 at June 30, 2018. After deducting statutory restrictions, the unassigned fund balance increased from \$10,938,156 at June 30, 2017, to \$13,385,123 at June 30, 2018.

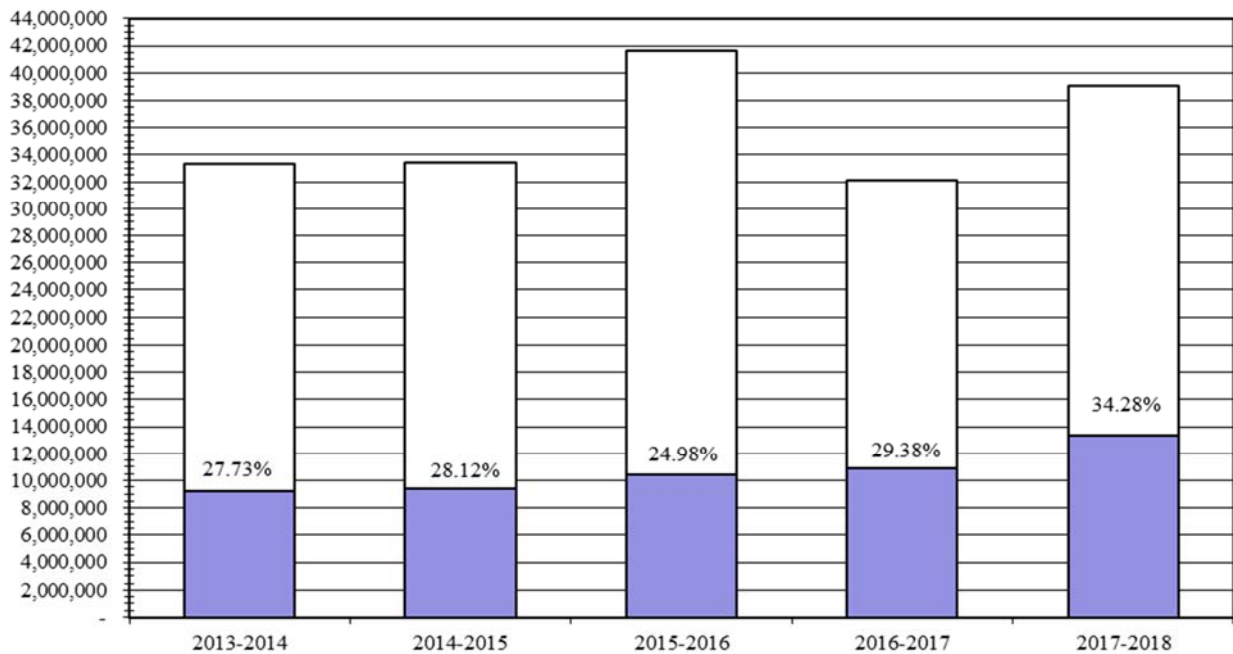
INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following graph shows the General Fund unassigned fund balance as a percentage of expenditures.

**General Fund Unassigned Fund Balance as a
Percent of Expenditures**



The graph above is the single best measure of overall financial health. The unassigned fund balance of \$13,385,123 at June 30, 2018, represents 34.38% of annual expenditures or eighteen weeks of operations. Given the current state funding legislation and other economic conditions, the District will continue to monitor its spending and fund balances closely.

	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>
Unassigned fund balance	\$ 10,411,065	\$ 9,243,373	\$ 9,387,340	\$ 10,403,681	\$ 10,938,156	\$ 13,385,123
% Increase (decrease)	0.69%	(11.22%)	1.56%	10.83%	5.14%	22.37%
Expenditures	\$ 28,551,830	\$ 33,337,874	\$ 33,383,519	\$ 41,642,634	\$ 37,236,113	\$ 39,042,172
% Increase (decrease)	1.52%	16.76%	0.14%	24.74%	(10.58%)	4.85%
	36.46%	27.73%	28.12%	24.98%	29.38%	34.28%

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget. The budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, debt refunding, and budgeting for clearing, resale, and gifts.
- Increases in appropriations for significant unbudgeted costs.

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	\$ 42,171,070	\$ 44,524,937	\$ 2,353,867	5.58%
Expenditure	\$ 39,975,389	\$ 41,419,811	\$ 1,444,422	3.61%
Other financing Sources (Uses)	\$ 5,000	\$ 335,181	\$ 330,181	6603.62%

While the District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by \$3,440,307, the actual results for the year show that revenues and other financing sources exceeded expenditures and other financing uses by \$7,270,901.

- Actual revenues were \$1,453,162 more than expected, a variance of 3.26%, due to higher than estimated basic formula pupil units, special education aid and other local revenues.
- The actual expenditures were \$2,377,639 under budget or a 5.74% variance.

Other Governmental Funds

The Debt Service Fund expenditures and other financing uses exceeded revenues and other financing sources by \$592,173 in 2017-2018 compared to a budgeted decrease of \$592,779. The fund balance decreased to \$5,462,032 at June 30, 2018, and is available for meeting future debt service obligations including the call of the remaining 2010B Alternative Facility Bonds in 2019.

The Food Service Fund revenues and other financing sources exceeded expenditures and other financing uses by \$120,211. The Food Service fund balance increased to \$949,156 or 40.73% of annual operating expenditures. Student lunch and breakfast prices have seen mandated increases in the past couple of years. Increased free and reduced lunch eligibility helps the Food Service fund to continue to operate on a sound financial basis.

The Community Service Fund expenditures exceeded revenues by \$74,946 leaving a year-end fund balance of \$302,313 or 16.52% of annual expenditures. Increased Adult Basic Education spending was the primary cause of the reduced fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of June 2018, the District had invested \$64,826,832 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Table A-4.) (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$2,522,177.

Additional technology equipment, kitchen equipment, custodial equipment, were among the capital asset additions for the year. Disposals included equipment and vehicles no longer usable and land no longer suitable for District purposes.

Table A-4
Independent School District No. 518
Capital Assets

	2018	2017	Increase (Decrease)
Land	\$ 3,504,003	\$ 3,509,122	\$ (5,119)
Land Improvements	3,713,763	3,644,781	68,982
Buildings	43,207,517	42,932,640	274,877
Equipment	12,365,117	11,497,670	867,447
Vehicles	415,260	503,000	(87,740)
Construction in progress	1,621,172	482,654	1,138,518
Less accumulated depreciation	<u>(26,090,827)</u>	<u>(24,241,592)</u>	<u>(1,849,235)</u>
Total	<u>\$ 38,736,005</u>	<u>\$ 38,328,275</u>	<u>\$ 407,730</u>
Depreciation Expense	<u>\$ 2,552,177</u>	<u>\$ 2,410,400</u>	<u>\$ 141,777</u>

Construction - Next Five Years

Together with Nobles County, the City of Worthington and other community entities, the District is investigating the possibility of a collaborative project for a multi-purpose facility housing the Districts' Community Education and Early Childhood programs, the Nobles County library as well as other entities' programs serving the community.

In coordination with the City of Worthington, Nobles County, Minnesota West Community and Technical College, and other partners; the District is assessing community needs for athletic facilities and grounds.

Routine maintenance such as replacement of roofs, parking lots and building repairs will be funded through the General Fund using Long-term facility maintenance revenue when appropriate.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long-Term Liabilities

At year-end, the District had \$30,865,000 in general obligation bonds and certificates of participation payable outstanding.

- The District issued \$10,340,000 of certificates of participation during 2017-2018.
- The District retired \$1,860,000 of outstanding bonds and other long-term debt during 2017-2018.

The District's general obligation bonds carry a rating of Aa1.

Limitations on Debt

The state limits the amount of general obligation debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. Our outstanding debt of \$30,865,000 is significantly below this limit which is currently \$291,965,171.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Board of Education has committed to call the remaining bonds and certificates of participation for the 2010C bonds (\$430,000), call date of February 1, 2019 and the 2010A (\$890,000) and 2010D (\$1,105,000) certificates, call date April 1, 2019. The call will use committed general funds to retire this outstanding debt, reducing the district future interest expenditures by \$353,690.

In light of the failed building referendums the Board of Education is working to find acceptable alternatives to address the increasing need for additional space for classrooms and other educational programs.

Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. Requests for increased programming will need to be closely scrutinized for sustainability.

To meet these financial challenges, the District will continue to utilize the Site Based Budgeting process. This process has been successful in the past and will improve our allocation of resources according to District priorities. The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

The District continues to strive to meet Adequate Yearly Progress (AYP) as required by statute. Between 2017 and 2018, District 518 made gains in meeting AYP in some buildings and student groups while failing to meet AYP in areas such as Special Education, Free and Reduced and Limited English Proficiency in certain buildings. Areas considered to not be meeting AYP will be targeted for additional assistance in an effort to bring all groups and subgroups into compliance.

The District's Community Service fund, early childhood program was awarded a Pathways II continuation grant in the amount of \$139,117 for fiscal year 2019.

The District was awarded a School Readiness Plus grant in the amount of \$226,715 for fiscal year 2019.

Construction continues on the District ALC-gymnastics facility.

Subsequent to June 30, 2018 the District was named in one lawsuit and one Equal Employment Opportunity Council (EEOC) discrimination investigation.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administration Building:

Independent School District No. 518
1117 Marine Avenue
Worthington, Minnesota 56187-1610
(507) 372-2172

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF NET POSITION

JUNE 30, 2018

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2017)

	<u>Governmental Activities</u>	
	<u>2018</u>	<u>2017</u>
ASSETS:		
Cash and investments	\$ 28,969,622	\$ 21,447,334
Cash and investments held by trustee	5,378,018	5,534,868
Receivables-		
Current property taxes	2,120,921	2,196,982
Delinquent property taxes	31,842	26,012
Other school districts and governmental units	426,030	409,050
Department of Education	4,048,108	4,517,684
Federal government	189,038	191,171
Accounts and interest receivable	202,506	60,347
Inventory	145,013	149,828
Prepaid items	364,418	392,526
Restricted assets - temporarily restricted-		
Cash and investments for debt service	930,624	1,238,011
Cash and investments for construction	10,295,839	-
Capital assets (net of accumulated depreciation)-		
Land	3,504,003	3,509,122
Land improvements	2,547,026	2,648,705
Buildings	26,149,239	26,971,069
Equipment	4,699,611	4,454,622
Vehicles	214,954	262,103
Construction in progress	1,621,172	482,654
Total assets	\$ 91,837,984	\$ 74,492,088
DEFERRED OUTFLOWS OF RESOURCES:		
Related to OPEB	42,205	
Related to Pensions	43,253,771	52,018,433
Total assets and deferred outflows of resources	\$ 135,133,960	\$ 126,510,521

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2018

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2017)

	Governmental Activities	
	2018	2017
LIABILITIES:		
Accounts payable	\$ 320,462	\$ 786,307
Salaries payable	1,408,983	1,259,370
Accrued payroll taxes and other payroll deductions	1,832,769	1,819,596
Construction contract payable	442,700	-
Accrued interest payable	411,516	268,293
Due to other school districts and governmental units	109,569	21,166
Unearned revenue	20,746	18,150
Long-term liabilities-		
Due within one year	2,291,337	2,001,103
Due in more than one year	98,239,614	99,934,852
Total liabilities	\$ 105,077,696	\$ 106,108,837
DEFERRED INFLOWS OF RESOURCES:		
Property taxes levied for subsequent year's expenditures	\$ 4,690,973	\$ 4,566,410
Related to OPEB	9,067	
Related to pensions	15,982,107	3,683,436
Total deferred inflows of resources	\$ 20,682,147	\$ 8,249,846
NET POSITION:		
Net investment in capital assets	\$ 18,166,844	\$ 15,943,275
Restricted for-		
Debt service	5,462,033	6,054,205
Food service	949,156	828,945
Community service	302,313	377,259
Medical Assistance	252,167	-
Capital projects	955,315	753,545
Area learning center	125,872	362,885
Health and safety	161,617	192,554
Other purposes	1,293,159	530,180
Unrestricted	(18,294,359)	(12,891,010)
Total net position	\$ 9,374,117	\$ 12,151,838
Total liabilities, deferred inflows of resources, and net position	\$ 135,133,960	\$ 126,510,521

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

<u>Functions/Programs</u>	2018				2018	2017
	Program Revenues				Net (Expense)	Net (Expense)
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Total Governmental Activities
<u>Governmental Activities</u>						
Instruction-						
Regular instruction	\$ 24,921,105	\$ 449,603	\$ 7,665,496	\$ -	\$ (16,806,006)	\$ (16,031,626)
Exceptional instruction	8,254,728	315,021	4,274,439	-	(3,665,268)	(3,802,570)
Vocational instruction	660,139	268	53,305	-	(606,566)	(774,070)
Total instruction	\$ 33,835,972	\$ 764,892	\$ 11,993,240	-	\$ (21,077,840)	\$ (20,608,266)
Support services-						
Instructional support services	\$ 3,197,314	\$ 61,249	\$ 471,926	\$ -	\$ (2,664,139)	\$ (2,614,986)
Pupil support services	6,493,341	415,610	2,771,766	-	(3,305,965)	(2,587,490)
District and school administration	1,379,744	360	4,217	-	(1,375,167)	(1,485,099)
District support services	1,090,355	5,815	\$ 1,071	-	(1,083,469)	(968,603)
Site, buildings and equipment	3,718,368	4,801	10,638	1,286,830	(2,416,099)	(2,282,814)
Community education and services	2,252,046	142,232	1,423,822	-	(685,992)	(582,942)
Fiscal and other fixed cost programs	1,023,601	-	-	40,439	(983,162)	(468,291)
Depreciation expense - unallocated	905,028	-	-	-	(905,028)	(865,515)
Total support services	\$ 20,059,797	\$ 630,067	\$ 4,683,440	\$ 1,327,269	\$ (13,419,021)	\$ (11,855,740)
Total governmental activities	\$ 53,895,769	\$ 1,394,959	\$ 16,676,680	\$ 1,327,269	\$ (34,496,861)	\$ (32,464,006)

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2018

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

<u>General Revenue</u>	<u>2018</u>	<u>2017</u>
Taxes-		
Property taxes, levied for general purposes	\$ 2,081,502	\$ 1,784,177
Property taxes, levied for debt service	1,393,400	1,728,277
Property taxes, levied for specific purpose-		
Integration collaborative	244,312	247,638
Vocational programs	58,794	74,982
Health and Safety projects	(30,938)	47,066
Building Lease	644,517	296,516
Community Service	174,889	752,360
Safe Schools	136,467	118,217
Other local taxes	56,767	44,798
Property tax replacement aid	122,326	131,952
State aid not restricted to specific purpose-		
General Education aid	26,946,696	24,618,622
Other state aids	1,688	6,176
Interest and investment earnings	486,113	203,249
Other local revenue	109,376	202,293
	<u>\$ 32,425,909</u>	<u>\$ 30,256,323</u>
Subtotal, general revenues		
Excess of revenues over expenses before special items	<u>\$ (2,070,952)</u>	<u>\$ (2,207,683)</u>
<u>Special Items</u>		
Sale or disposal of surplus property and equipment	<u>\$ 104,226</u>	<u>\$ 49,087</u>
Subtotal, special items	<u>\$ 104,226</u>	<u>\$ 49,087</u>
Total general revenues and special items	<u>\$ 32,530,135</u>	<u>\$ 30,305,410</u>
Change in net position	<u>\$ (1,966,726)</u>	<u>\$ (2,158,596)</u>
NET POSITION, Beginning of year	\$ 12,151,838	\$ 14,310,434
Change in accounting principle (Note 17)	<u>(810,995)</u>	<u>-</u>
NET POSITION, Beginning of year, restated	<u>\$ 11,340,843</u>	<u>\$ -</u>
NET POSITION, End of year	<u><u>\$ 9,374,117</u></u>	<u><u>\$ 12,151,838</u></u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS

GOVERNMENTAL FUNDS

JUNE 30, 2018

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2017)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2018	2017
ASSETS:							
Cash and investments	\$ 27,883,372	\$ 794,692	\$ 291,558	\$ 10,295,839	\$ 930,624	\$ 40,196,085	\$ 22,685,345
Cash and investments held by trustee	-	-	-	-	5,378,018	5,378,018	5,534,868
Receivables-							
Current property taxes	1,383,871	-	79,304	-	657,746	2,120,921	2,196,982
Delinquent property taxes	23,979	-	825	-	7,038	31,842	26,012
Accounts and interest receivable	196,841	4,258	1,407	-	-	202,506	60,347
Due from Other school districts and governmental units	330,167	-	95,863	-	-	426,030	409,050
Due from Department of Education-							
General education aid	3,389,561	-	-	-	-	3,389,561	3,921,237
Special education aid	398,613	-	-	-	-	398,613	413,390
Other education aid	182,818	-	59,550	-	4,863	247,231	168,835
State school lunch aid	-	470	-	-	-	470	1,125
Market value credit aid	2,199	-	303	-	2,410	4,912	5,777
Disparity aid	3,278	-	451	-	3,592	7,321	7,320
Due from Federal government-							
Federal title programs	109,296	-	-	-	-	109,296	105,215
School lunch program	-	79,742	-	-	-	79,742	85,956
Inventory	54,599	90,414	-	-	-	145,013	149,828
Prepaid items	356,464	7,954	-	-	-	364,418	392,526
Total assets	\$ 34,315,058	\$ 977,530	\$ 529,261	\$ 10,295,839	\$ 6,984,291	\$ 53,101,979	\$ 36,163,813
LIABILITIES:							
Salaries payable	\$ 1,408,983	\$ -	\$ -	\$ -	\$ -	\$ 1,408,983	\$ 1,259,370
Accrued payroll taxes and other payroll deductions	1,832,769	-	-	-	-	1,832,769	1,819,596
Accounts payable	294,966	7,778	17,718	-	-	320,462	786,307
Construction contract payable	-	-	-	442,700	-	442,700	-
Due to other school districts and governmental units	83,853	-	25,716	-	-	109,569	21,166
Unearned revenue	150	20,596	-	-	-	20,746	18,150
Total liabilities	\$ 3,620,721	\$ 28,374	\$ 43,434	\$ 442,700	\$ -	\$ 4,135,229	\$ 3,904,589
DEFERRED INFLOWS OF RESOURCES:							
Property taxes levied for subsequent year's expenditures	\$ 2,993,064	\$ -	\$ 182,689	\$ -	\$ 1,515,220	\$ 4,690,973	\$ 4,566,410
Unavailable revenue - Delinquent taxes	23,979	-	825	-	7,038	31,842	26,012
Total deferred inflows of resources	\$ 3,017,043	\$ -	\$ 183,514	\$ -	\$ 1,522,258	\$ 4,722,815	\$ 4,592,422

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS (CONTINUED)

GOVERNMENTAL FUNDS

JUNE 30, 2018

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2017)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2018	2017
FUND BALANCES:							
Nonspendable for-							
Nonspendable amounts	\$ 411,063	\$ 98,368	\$ -	\$ -	\$ -	\$ 509,431	\$ 542,354
Restricted for-							
Operating capital	\$ 955,315	\$ -	\$ -	\$ -	\$ -	\$ 955,315	\$ 753,545
Health and safety	161,617	-	-	-	-	161,617	192,554
Medical Assistance	252,167	-	-	-	-	252,167	-
Long term facility maintenance	1,055,089	-	-	-	-	1,055,089	385,340
Gifted and talented	98,687	-	-	-	-	98,687	69,950
Area learning center	125,872	-	-	-	-	125,872	362,885
Safe schools	55,516	-	-	-	-	55,516	44,881
Staff development	40,444	-	-	-	-	40,444	30,009
Basic skills extended time	40,827	-	-	-	-	40,827	-
Food service	-	850,788	-	-	-	850,788	729,815
Community education	-	-	58,466	-	-	58,466	47,338
Adult basic education	-	-	161,903	-	-	161,903	247,000
School readiness	-	-	28,068	-	-	28,068	28,068
Early childhood family education	-	-	52,836	-	-	52,836	53,813
Refunding	-	-	-	-	5,491,698	5,491,698	5,538,221
Debt service	-	-	-	-	(29,665)	(29,665)	515,984
Restricted for other purposes	2,596	-	1,040	9,853,139	-	9,856,775	1,040
Total restricted fund balances	\$ 2,788,130	\$ 850,788	\$ 302,313	\$ 9,853,139	\$ 5,462,033	\$ 19,256,403	\$ 9,000,443
Committed for-							
Separation	\$ 167,978	\$ -	\$ -	\$ -	\$ -	\$ 167,978	\$ 185,849
Debt redemption	2,425,000	-	-	-	-	2,425,000	-
Total committed fund balances	\$ 2,592,978	\$ -	\$ -	\$ -	\$ -	\$ 2,592,978	\$ 185,849
Assigned for-							
Projects	\$ 8,500,000	\$ -	\$ -	\$ -	\$ -	\$ 8,500,000	\$ 7,000,000
Total assigned fund balances	\$ 8,500,000	\$ -	\$ -	\$ -	\$ -	\$ 8,500,000	\$ 7,000,000
Unassigned	\$ 13,385,123	-	\$ -	\$ -	\$ -	\$ 13,385,123	\$ 10,938,156
Total fund balances	\$ 27,677,294	\$ 949,156	\$ 302,313	\$ 9,853,139	\$ 5,462,033	\$ 44,243,935	\$ 27,666,802
Total liabilities, deferred inflows of resources							
and fund balances	\$ 34,315,058	\$ 977,530	\$ 529,261	\$ 10,295,839	\$ 6,984,291	\$ 53,101,979	\$ 36,163,813

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION

JUNE 30, 2018

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
Total fund balances - governmental funds	\$ 44,243,935	\$ 27,666,802
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the funds.		
Land	3,504,003	3,509,122
Construction in progress	1,621,172	482,654
Land improvements, net of accumulated depreciation	2,547,026	2,648,705
Buildings, net of accumulated depreciation	26,149,239	26,971,069
Equipment and vehicles, net of accumulated depreciation	4,914,565	4,716,725
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	43,253,771	52,018,433
Deferred Inflows of Resources Related to Pensions	(15,982,107)	(3,683,436)
Deferred Outflows of Resources Related to OPEB	(9,067)	-
Deferred Inflows of Resources Related to OPEB	42,205	-
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.		
Bonds principal payable	(31,231,232)	(22,832,376)
Pension Benefits Payable	(67,755,365)	(78,897,674)
Unamortized premiums	(522,220)	-
Net OPEB Liability	(956,941)	(145,946)
Accrued compensated absences payable	(65,193)	(59,959)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
	31,842	26,012
Governmental funds do not report a liability for accrued interest until due and payable.		
	<u>(411,516)</u>	<u>(268,293)</u>
Total net position - governmental activities	<u>\$ 9,374,117</u>	<u>\$ 12,151,838</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2018	2017
REVENUES:							
Local property tax levies	\$ 3,128,824	\$ -	\$ 174,888	\$ -	\$ 1,411,060	\$ 4,714,772	\$ 5,057,228
Other local and county revenues	1,142,423	9,511	328,008	60,389	63,431	1,603,762	1,392,695
Revenues from state sources	40,274,339	133,741	1,189,784	-	100,461	41,698,325	38,374,513
Revenues from federal sources	1,118,871	1,868,744	62,214	-	-	3,049,829	3,073,855
Sales and other conversion of assets	26,025	438,507	145	-	-	464,677	464,862
Interdistrict revenues	287,617	-	-	-	-	287,617	263,817
Total revenues	\$ 45,978,099	\$ 2,450,503	\$ 1,755,039	\$ 60,389	\$ 1,574,952	\$ 51,818,982	\$ 48,626,970
EXPENDITURES:							
Current expenditures-							
District and school administration	\$ 1,069,179	\$ -	\$ -	\$ -	\$ -	\$ 1,069,179	\$ 1,080,963
District support services	891,503	-	-	-	-	891,503	846,295
Regular instruction	19,071,799	-	-	-	-	19,071,799	18,313,615
Vocational instruction	487,961	-	-	-	-	487,961	537,563
Exceptional instruction	6,397,453	-	-	-	-	6,397,453	6,237,295
Community education and services	-	-	1,802,419	-	-	1,802,419	1,771,075
Instructional support services	2,548,539	-	-	-	-	2,548,539	2,504,444
Pupil support services	3,548,497	2,330,292	27,566	-	-	5,906,355	5,657,395
Site and building services	2,419,877	-	-	-	-	2,419,877	2,284,277
Fiscal and other fixed cost programs	654,397	-	-	-	-	654,397	478,129
Capital outlay	1,952,967	-	-	904,789	-	2,857,756	1,682,058
Debt service-							
Principal	-	-	-	-	1,580,000	1,580,000	1,690,000
Interest and other financing costs	-	-	-	-	587,125	587,125	591,212
Total expenditures	\$ 39,042,172	\$ 2,330,292	\$ 1,829,985	\$ 904,789	\$ 2,167,125	\$ 46,274,363	\$ 43,674,321
Excess (deficiency) of revenues over (under) expenditures	\$ 6,935,927	\$ 120,211	\$ (74,946)	\$ (844,400)	\$ (592,173)	\$ 5,544,619	\$ 4,952,649
OTHER FINANCING SOURCES (USES):							
Sale of capital assets	\$ 170,293	\$ -	\$ -	\$ -	\$ -	\$ 170,293	\$ 73,759
Capital lease proceeds	164,681	-	-	10,697,539	-	10,862,220	-
Total other financing sources (uses)	\$ 334,974	\$ -	\$ -	\$ 10,697,539	\$ -	\$ 11,032,513	\$ 73,759
Net change in fund balances	\$ 7,270,901	\$ 120,211	\$ (74,946)	\$ 9,853,139	\$ (592,173)	\$ 16,577,132	\$ 5,026,408
FUND BALANCE, Beginning of year	20,406,393	828,945	377,259	-	6,054,205	27,666,802	22,640,394
FUND BALANCE, End of year	\$ 27,677,294	\$ 949,156	\$ 302,313	\$ 9,853,139	\$ 5,462,032	\$ 44,243,934	\$ 27,666,802

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
Total net changes in fund balances - governmental funds	\$ 16,577,132	\$ 5,026,408
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.		
Capital outlays	3,025,975	3,079,597
Depreciation expense	(2,552,177)	(2,410,400)
The amount of bond proceeds used to finance school building projects is reported in the governmental funds as an other financing source. Bond proceeds are not revenues in the statements of activities, but rather constitute long-term liabilities. Issuing debt increases long-term liabilities and does not affect the statement of activities.		
	(10,862,220)	-
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long term liabilities in the statement of net assets.		
	1,860,000	1,960,000
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 when it is due, and thus requires the 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.		
	(143,223)	(15,600)

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

	<u>2018</u>	<u>2017</u>
In the Statement of Activities, certain operating expenses - pension, other post-employment benefits and compensated absences-are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Pensions	\$ (9,921,024)	\$ (9,811,200)
Compensated absences	(5,234)	8,688
Other post employment benefits	33,138	-
 In the statement of activities, only the loss on disposal of capital assets is reported. However, in the governmental funds, proceeds from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the disposed assets.	 (66,067)	 (24,673)
 Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	 5,830	 3,667
 Governmental funds report debt premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported net of debt in the Government-wide financial statements.	 81,144	 81,144
Change in net position - governmental activities	<u>\$ (1,966,726)</u>	<u>\$ (2,102,369)</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2018

	General Fund				Food Service Fund				Community Service Fund			
	Budgeted Amounts		Actual	Variance with Final Budget	Budgeted Amounts		Actual	Variance with Final Budget	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final			Original	Final			Original	Final		
REVENUE:												
Local property tax levies	\$ 3,183,809	\$ 3,137,807	\$ 3,128,824	\$ (8,983)	\$ -	\$ -	\$ -	\$ -	\$ 174,482	\$ 174,429	\$ 174,888	\$ 459
Other local and county revenues	577,300	846,828	1,142,423	295,595	5,000	8,500	9,511	1,011	259,103	299,553	328,008	28,455
Revenues from state sources	36,998,961	38,960,550	40,274,339	1,313,789	141,000	133,700	133,741	41	1,140,056	1,184,592	1,189,784	5,192
Revenues from federal sources	1,108,000	1,269,252	1,118,871	(150,381)	1,802,000	1,833,900	1,868,744	34,844	37,750	72,283	62,214	(10,069)
Sales and other conversion of assets	23,000	25,000	26,025	1,025	438,300	438,000	438,507	507	-	-	145	145
Interdistrict revenues	280,000	285,500	287,617	2,117	-	-	-	-	-	-	-	-
Total revenues	\$ 42,171,070	\$ 44,524,937	\$ 45,978,099	\$ 1,453,162	\$ 2,386,300	\$ 2,414,100	\$ 2,450,503	\$ 36,403	\$ 1,611,391	\$ 1,730,857	\$ 1,755,039	\$ 24,182
EXPENDITURES:												
Current expenditures-												
District and school administration	\$ 1,160,599	\$ 1,159,433	\$ 1,069,179	\$ 90,254	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District support services	1,224,533	1,073,461	891,503	181,958	-	-	-	-	-	-	-	-
Regular instruction	18,589,833	19,980,567	19,071,799	908,768	-	-	-	-	-	-	-	-
Vocational instruction	470,822	481,174	487,961	(6,787)	-	-	-	-	-	-	-	-
Exceptional instruction	6,681,801	6,598,476	6,397,453	201,023	-	-	-	-	-	-	-	-
Community education and services	-	-	-	-	-	-	-	-	1,602,050	1,699,744	1,802,419	(102,675)
Instructional support services	2,666,219	2,737,299	2,548,539	188,760	-	-	-	-	-	-	-	-
Pupil support services	3,733,729	3,673,619	3,548,497	125,122	2,386,300	2,448,444	2,330,292	118,152	22,000	28,748	27,566	1,182
Site and building services	2,585,151	2,597,226	2,419,877	177,349	-	-	-	-	-	-	-	-
Fiscal and other fixed cost programs	1,588,710	964,526	654,397	310,129	-	-	-	-	-	-	-	-
Capital outlay	1,273,992	2,154,030	1,952,967	201,063	-	-	-	-	-	-	-	-
Total expenditures	\$ 39,975,389	\$ 41,419,811	\$ 39,042,172	\$ 2,377,639	\$ 2,386,300	\$ 2,448,444	\$ 2,330,292	\$ 118,152	\$ 1,624,050	\$ 1,728,492	\$ 1,829,985	\$ (101,493)
Excess (deficit) of revenues over (under) expenditures	\$ 2,195,681	\$ 3,105,126	\$ 6,935,927	\$ 3,830,801	\$ -	\$ (34,344)	\$ 120,211	\$ 154,555	\$ (12,659)	\$ 2,365	\$ (74,946)	\$ (77,311)
OTHER FINANCING SOURCES (USES):												
Capital lease proceeds	\$ -	\$ 164,681	\$ 164,681	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sale of capital assets	5,000	170,500	170,293	(207)	-	-	-	-	-	-	-	-
Total other financing sources (uses)	\$ 5,000	\$ 335,181	\$ 334,974	\$ (207)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ 2,200,681	\$ 3,440,307	\$ 7,270,901	\$ 3,830,594	\$ -	\$ (34,344)	\$ 120,211	\$ 154,555	\$ (12,659)	\$ 2,365	\$ (74,946)	\$ (77,311)
FUND BALANCE, Beginning of year	20,406,393	20,406,393	20,406,393		828,945	828,945	828,945	-	377,259	377,259	377,259	-
FUND BALANCE, End of year	\$ 22,607,074	\$ 23,846,700	\$ 27,677,294	\$ 3,830,594	\$ 828,945	\$ 794,601	\$ 949,156	\$ 154,555	\$ 364,600	\$ 379,624	\$ 302,313	\$ (77,311)

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

ASSETS

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Cash and investments	\$ 309,073	\$ 36,507
Accounts receivable	-	651
Due from school districts and governmental units	-	31,939
Total assets	\$ 309,073	\$ 69,097

LIABILITIES AND NET POSITION

LIABILITIES:		
Salaries payable	\$ -	\$ 61,832
Accounts payable	1,473	999
Due to other school districts and governmental units	-	6,266
Total liabilities	\$ 1,473	\$ 69,097
NET POSITION:		
Held in trust	\$ 307,600	\$ -

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Other local and county revenues-	
Interest income	\$ 2,367
Other local revenues	<u>28,215</u>
Total additions	<u>\$ 30,582</u>
DEDUCTIONS:	
Pupil support services	\$ <u>46,022</u>
Total deductions	<u>\$ 46,022</u>
Change in net position	\$ (15,440)
NET POSITION, Beginning of year	<u>323,040</u>
NET POSITION, End of year	<u><u>\$ 307,600</u></u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Presentation-

Independent School District No. 518 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a seven-member school board elected by voters of the District to serve four year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

b. Financial Reporting Entity-

Independent School District No. 518 is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the district.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. There are no other entities for which the District is financially accountable.

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

c. Basic Financial Statement Presentation-

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 Statements of Fiduciary Net Position at the Fund Financial Statement level.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Basic Financial Statement Presentation (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 purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the Government-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, investment trust, private-purpose trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third-party and cannot be used for activities or obligations of the District, these funds are excluded from the district-wide statements.

d. 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 statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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:

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (continued)-

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 one year. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month period of availability is generally used for other fund revenue.
2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

The District reports unearned revenue on its statement of net position and balance sheet. Unearned revenues arise when a potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet and revenue is recognized.

Private Purpose Trust Funds are reported using the economic resources measurement focus. All fiduciary funds use the accrual basis of accounting as described earlier in these notes.

Description of Funds-

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

Major Governmental Funds-

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (continued)-

Description of Funds (continued)-

Major Governmental Funds (continued)-

Debt Service Funds – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation bond principal, interest, and related costs.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues recorded in this fund include meal sales to pupils along with state and federal reimbursements for meals.

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, or other similar services. Revenues recorded in this fund include property taxes restricted for Community Service purposes and tuition and fees charged for Community Education.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific bond issues.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service, except for refunding bond issues, for which a separate refunding bond trust account has been established.

Fiduciary Fund Types-

Private Purpose Trust Fund – The Foundation Private Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties.

Agency Fund – Agency Funds are established to account for cash and other assets held by the District as the agent for others. These funds are used to account for the Nobles County Integration Collaborative.

e. Deferred Outflows/Inflows of Resources-

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources from pensions on the government wide statement of net position result from the differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, changes in proportion, and contributions paid to the pension subsequent to the measurement date.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. Deferred Outflows/Inflows of Resources (continued)-

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources consists of property taxes and pensions. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2018, but which were levied to finance fiscal year 2019 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund balance sheet and represents receivables which will not be collected within the available period. Pensions deferred inflows on the government wide statement of net position result from the differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, and changes in proportion. For the District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

f. Budgeting-

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

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to the budgeted amounts must be approved by the School Board. Individual amendments were not material in relation to the original appropriations.

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

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

At the end of each fiscal year, if the General Fund has a net unassigned deficit balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which includes certain restrictions specified in Minnesota statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of Education.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

g. Cash and Investments-

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Earnings from the investments of the Private Purpose Trust Funds are allocated directly to those funds/accounts.

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools operated in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940 are valued at the pool's share price.

h. Accounts Receivable-

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

i. Inventories-

Inventories are recorded using the purchase method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

j. Prepaid Items-

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

k. Property Taxes-

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

k. Property Taxes (continued)-

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

During the 2015 fiscal year the State of Minnesota enacted legislation reducing the tax shift to 31% of the Pay 2001 operating referendum (frozen at \$75,873) plus 100% of the levies for vocational programs and unemployment costs.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2018 are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

l. Capital Assets-

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Capital assets not being depreciated include land and any 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. Long-Term Obligations-

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

n. Vacation Pay-

Under the terms of contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation upon termination. Vacation pay is accrued when incurred in the district-wide and all fiduciary fund financial statements. Vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances.

o. Sick Pay-

Substantially all District employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of retirement incentive payments for some employees upon termination.

p. Other Postemployment Health Care Benefits-

In addition to retirement benefits, the District provides post-retirement medical insurance benefits to teachers, administrators, principals, food service workers, custodians and clerical employees, in accordance with their respective master employment agreements. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement.

q. Restricted Assets-

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

r. Fund Balance-

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have purpose constraints placed upon them by laws, regulations, creditors, grantors, or other external parties and are considered available only for the purpose for which they were received.

Committed – resources that are constrained for specific purposes that are internally imposed by the District at its highest level of decision making authority, the Board of Education. With an affirmative vote of its members, the Board of Education may create, modify, or rescind funds for which resources are committed to the established purpose of that fund.

Assigned – resources that are intended to be used for specific purposes as approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for the intended purpose.

Unassigned – residual fund balance within the general fund that is in spendable form and is not restricted, committed, or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

The school district will strive to maintain a minimum unassigned general fund balance of 10% percent of the annual budget at the end of the fiscal year.

s. 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 workers' compensation for which it carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2018.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

t. Net Position-

Net position represents the difference between assets and liabilities in the Government-wide and fiduciary fund financial statements. Net investment in capital assets, consists of capital assets, net of accumulation 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 statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

u. Comparative Financial Information-

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

v. Use of Estimates-

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

w. Functional Allocation of Expenses-

The costs of various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

x. 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 Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA) and additions to/deductions from TRA's and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and PERA. 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

a. Excess of Expenditures Over Budget-

Expenditures exceeded the budget in the following funds at June 30, 2018:

	<u>Budget</u>	<u>Expenditures</u>	<u>Amount</u>
Community Service Fund	\$ 1,728,492	\$ 1,829,985	\$ 101,493

No remedial action is deemed necessary for the Community Service fund as the excess expenditures were in relation to revenues over budget as well.

b. Revenues Under Budget-

No funds had revenues that were below budgeted amounts

3. DEPOSITS AND INVESTMENTS:

a. Deposits-

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

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

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2018, none of the District's bank balance of \$14,042,443 was exposed to custodial credit risk. No amounts were uninsured or under collateralized.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments-

The District may also invest idle funds as authorized by Minnesota Statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States’ banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States’ corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The District’s investments are potentially subject to various risks including the following:

- **Custodial credit risk** – The risk that in the event of a failure of the counterparty to an investment transaction (typically a broker) the government would not be able to recover the value of the investment or collateral securities.
- **Credit risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- **Concentration risk** – Investing 5 percent or more of the District’s portfolio in the securities of a single issuer.
- **Interest rate risk** – The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

Cash and Investments held by trustee are held by an escrow agent in accordance with escrow agreements established with the sale of refunding bonds totaling \$5,708,495. The following shows the breakdown of investments held with the trustee and their maturities:

<u>Type</u>	<u>Total</u>	<u>Maturity Duration in Years</u>	
		<u>Less than 1</u>	<u>1 to 2</u>
Government Agencies	\$ <u>5,534,868</u>	\$ <u>156,851</u>	\$ <u>5,378,017</u>

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments (continued)-

The following table presents the District's investment balances at June 30, 2018 and information relating to potential investment risks:

	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	
Governmental Agencies	N/A	N/A	64.6%	N/A	\$ 15,478,913
Investment pools/mutual funds					
Minnesota School District					
Liquid Asset Fund Plus	AAAm	S & P	0.0%	N/A	450
Minnesota School District					
Liquid Asset Fund Plus					
MAX Series	AAAm	S & P	35.4%	N/A	8,482,972
Total investments					\$ 23,962,335
Nonparticipating certificates of deposits and MSDLAF term investments					21,909,000
Deposits					48,348
Total cash and investments					\$ 45,919,683

N/A - Not applicable

Cash and investments are included on the basic financial statements as follows:

Cash and temporary investments-statements of net position	\$ 28,969,622
Cash and investments for debt service-restricted-statements of net position	930,624
Cash and investments held by trustee-statements of net position	5,378,018
Cash and investments for construction-restricted-statements of net position	10,295,839
Cash and temporary investments-statement of fiduciary net position	345,580
	\$ 45,919,683

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL ASSETS:

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

Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 3,509,122	\$ -	\$ (5,119)	\$ 3,504,003
Construction in progress	<u>482,654</u>	<u>1,523,856</u>	<u>(385,338)</u>	<u>1,621,172</u>
Total capital assets, not depreciated	<u>\$ 3,991,776</u>	<u>\$ 1,523,856</u>	<u>\$ (390,457)</u>	<u>\$ 5,125,175</u>
Capital Assets, depreciated:				
Land improvements	\$ 3,644,781	\$ 68,982	\$ -	\$ 3,713,763
Buildings	42,932,640	274,877	-	43,207,517
Equipment and vehicles	<u>12,000,670</u>	<u>1,543,598</u>	<u>(763,891)</u>	<u>12,780,377</u>
Total capital assets, depreciated	<u>\$ 58,578,091</u>	<u>\$ 1,887,457</u>	<u>\$ (763,891)</u>	<u>\$ 59,701,657</u>
Less accumulated depreciation for:				
Land improvements	\$ (996,076)	\$ (170,661)	\$ -	\$ (1,166,737)
Buildings	(15,961,571)	(1,096,707)	-	(17,058,278)
Equipment and vehicles	<u>(7,283,945)</u>	<u>(1,284,809)</u>	<u>702,942</u>	<u>(7,865,812)</u>
Total accumulated depreciation	<u>\$ (24,241,592)</u>	<u>\$ (2,552,177)</u>	<u>\$ 702,942</u>	<u>\$ (26,090,827)</u>
Net capital assets, depreciated	<u>34,336,499</u>	<u>(664,720)</u>	<u>(60,949)</u>	<u>33,610,830</u>
Total capital assets, net	<u>\$ 38,328,275</u>	<u>\$ 859,136</u>	<u>\$ (451,406)</u>	<u>\$ 38,736,005</u>

Depreciation expense of \$2,552,177 for the year ended June 30, 2018, was charged to the following governmental functions:

Governmental Activities:

Administration	\$ 2,568
District support services	26,063
Regular instruction	953,248
Vocational instruction	10,100
Exceptional instruction	18,906
Community Service	16,951
Instructional support services	105,796
Pupil support services	54,151
Food service	20,995
Site, buildings and equipment	438,371
Unallocated	<u>905,028</u>
	<u>\$ 2,552,177</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES:

a. General Obligation School Building Bonds and Certificates of Participation-

The District currently has the following general obligation school building bonds and Certificates of Participation outstanding:

<u>Issue</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General Obligation Alternative Facilities Building Bonds	1/7/2010	3.50%	2/1/2019	\$ 5,595,000
General Obligation Capital Facilities Building Bonds	1/7/2010	3.10%-3.75%	2/1/2024	510,000
General Obligation Refunding School Building Bonds	11/14/2013	2.50%-3.00%	2/1/2024	7,470,000
General Obligation Refunding Alternative Facilities Bonds	6/2/2016	2.00%-2.25%	2/1/2030	4,665,000
Certificates of Participation	1/7/2010	3.65%-4.40%	4/1/2025	2,285,000
Certificates of Participation	8/30/2017	3.00%-4.00%	2/1/2045	<u>10,340,000</u>
Total general obligation bonds				<u>\$ 30,865,000</u>

Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105% of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Certificates of Participation are repaid through funds from the Leased Facility Levy and general operations energy savings.

The General Obligation School Building Bonds require semiannual payments of principal and/or interest from the date the bonds were issued.

The Certificates of Participation require semiannual payments of principal and or interest from the date the bonds were issued. The portion of these certificates related to the energy savings improvements require monthly transfers to a separate debt service account.

In June 2016, the District issued \$4,805,000 of General Obligation Refunding Bonds, Series 2016A. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, a portion of the interest for the 2017 through 2019 maturities and the full amount of the 2020 through 2030 maturities of the 2010B General Obligation Alternative facilities Building Bonds totaling \$5,220,000. The proceeds of the 2016A issue were placed in an escrow account until the 2010B bonds call date of February 1, 2019. This refunding reduces the District's total future debt service payments by approximately \$1,400,000.

In August 2017, the District issued \$10,340,000 of Certificates of Participation, Series 2017A. The proceeds of this issue and interest earned thereon will be used to construct a new building housing the Area Learning Center and provide a permanent facility for Gymnastics participation.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES (Continued):

b. Bond Premiums-

Bond premiums are amortized using the straight line method over the life of the bonds.

<u>Issue</u>	<u>Issue Date</u>	<u>Bond Premium</u>	<u>Final Maturity</u>	<u>2018 Amortization</u>
General Obligation Alternative Facilities Building Bonds	1/7/2010	\$ 147,343	2/1/2019	\$ 29,806
General Obligation Capital Facilities Building Bonds	1/7/2010	6,582	2/1/2024	468
General Obligation Refunding School Building Bonds	11/1/2013	424,863	2/1/2024	41,116
General Obligation Refunding Alternative Facilities Bonds	6/2/2016	133,309	2/1/2030	<u>9,754</u>
Total current year amortization				<u>\$ 81,144</u>

c. Minimum Debt Payments-

Minimum annual principal and interest payments to maturity for general obligation school building bonds, capital leases and special assessments payable are as follows:

<u>Year Ending June 30 ,</u>	<u>General Obligation School Building Bonds, Including Refunding Bonds</u>		<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,620,000	\$ 549,113	\$ 525,000	\$ 480,710
2020	2,045,000	504,382	540,000	463,075
2021	2,100,000	450,803	565,000	444,475
2022	2,160,000	389,277	580,000	424,375
2023	2,225,000	323,828	600,000	403,400
2024-2028	6,045,000	831,812	2,190,000	1,695,860
2029-2033	2,045,000	103,395	1,780,000	1,342,750
2034-2038	-	-	2,110,000	1,006,800
2039-2043	-	-	2,560,000	550,200
2044-2045	-	-	1,175,000	71,000
	<u>\$ 18,240,000</u>	<u>\$ 3,152,610</u>	<u>\$ 12,625,000</u>	<u>\$ 6,882,645</u>

d. Special Assessments Payable-

Special Assessments payable represents the outstanding liability relating to various improvements made to district property financed through municipalities. The annual assessment levies consisting of principal and interest at various rates will be paid for by the General Fund. As of June 30, 2018 there were no assessments payable.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES (Continued):

e. Changes in Long-Term Liabilities-

	June 30, 2017	Additions	Retirements	June 30, 2018	Due Within One Year
General obligation					
school building					
bonds	\$ 19,820,000	\$ -	\$ 1,580,000	\$ 18,240,000	\$ 1,620,000
Bond premium	447,376	-	81,144	366,232	81,144
Certificates of					
Participation	2,565,000	10,340,000	280,000	12,625,000	525,000
Compensated					
Absences	59,959	65,193	59,959	65,193	65,193
	<u>\$ 22,892,335</u>	<u>\$ 10,405,193</u>	<u>\$ 2,001,103</u>	<u>\$ 31,296,425</u>	<u>\$ 2,291,337</u>

6. OPERATING LEASES:

The District leases the facilities of the Armory Business Center, Worthington Hockey Arena, and Memorial Auditorium. The lease for the Armory Business Center was renewed through December 31, 2018, with additional monthly renewal options, ending when the new gymnastics facility is occupied. The renewal option allows the lessor to incorporate into the monthly rental cost increases related to utility rates, cost of snow removal, real estate taxes, or assessments for governmental projects. The lease for the Worthington Hockey Arena was renewed with a remaining term of six year through June 30, 2024. The lease for the Memorial Auditorium was renewed for a term of three years, expiring on June 30, 2020. Rental expense for the year ended June 30, 2018, was \$44,937.

Future minimum lease payments at June 30, 2018, are as follows:

2019	\$ 56,212
2020	56,836
2021	25,000
2022	25,000
2023	25,000
Thereafter	25,000
	<u>\$ 213,048</u>

7. INTERFUND TRANSFERS:

Transfers are used to move unrestricted revenues to finance various programs in accordance with budgetary authorizations. No transfers were made during the year ended June 30, 2018.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED 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. A description of deficit balance restrictions is included herein since the District has specific statutory authority to levy taxes for such deficits.

Restricted, Committed, and Assigned fund balances at June 30, 2018 are as follows:

Restricted for Area Learning Center-

Represents available resources to be used for students attending the area learning center. The fund balance as of June 30, 2018 is \$125,872.

Restricted for Health and Safety-

Represents available resources from the levy to be used for health and safety. The fund balance as of June 30, 2018 is \$161,617. The 2016 Minnesota Legislature reassigned eligible health & safety expenditures to the long term facilities fund balance account effective July 1, 2016 with an adjustment balancing prior health & safety revenues to eligible expenditures to be made on the 2018 levy. After those adjustments any remaining balance is to be transferred to the general fund unassigned fund balance.

Restricted for Operating Capital-

The district levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund. The fund balance as of June 30, 2018 is \$955,315.

Restricted for Gifted and Talented-

Represents available resources from state aid to be used for gifted and talented programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2018 is \$98,687.

Restricted for Safe Schools-

Represents available resources from the levy to be used for safe schools. The fund balance as of June 30, 2018 is \$55,516.

Restricted for Long-Term Facility Maintenance (formerly Deferred Maintenance)-

Represents available resources from the levy or aid to be used for future long-term facility maintenance projects. The fund balance as of June 30, 2018 is \$1,055,089.

Restricted for Medical Assistance-

Represents available resources from medical assistance funding to be used for programming in accordance with that funding. The fund balance as of June 30, 2018 is \$252,167.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Staff Development-

Represents available resources from the levy or aid to be used for future staff development activities. The fund balance as of June 30, 2018 is \$40,444.

Restricted for Basic Skills Extended Time-

Represents available resources designated to be used for extended time student instruction. The fund balance as of June 30, 2018 is \$40,827.

Restricted for Food Service-

Represents available resources to be used in providing food services to students. The fund balance as of June 30, 2018 is \$850,788.

Restricted for Community Education-

Represents accumulated resources available to provide general community education programming. The fund balance as of June 30, 2018 is \$58,466.

Restricted for Adult Basic Education-

Represents accumulated resources available to provide adult basic education services. The fund balance as of June 30, 2018 is \$161,903.

Restricted for School Readiness-

Represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2018 is \$28,068.

Restricted for Early Childhood Family Education-

Represents accumulated resources available to provide early childhood family education programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2018 is \$52,836.

Restricted for Other Programs-

Represents that amount that can be spent only for specific purposes stipulated by constitutional, external resource providers, or through enabling legislation. The fund balance as of June 30, 2018 is \$9,856,775.

Restricted for Debt Service-

Represents available resources from the debt service levy available only for payment of outstanding debt and related expenses. The fund balance as of June 30, 2018 is \$(29,665).

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Bond Refunding-

Represents available resources to be used for bond refunding. The fund balance as of June 30, 2018 is \$5,491,698.

Committed for Separation-

Represents amounts committed for severance, but not restricted. The fund balance as of June 30, 2018 is \$167,978.

Committed for Debt Redemption-

Represents amounts committed for debt redemption, but not restricted. The fund balance as of June 30, 2018 is \$2,425,000.

Assigned for Projects-

Represents amounts assigned for projects, but are not restricted or committed. The fund balance as of June 30, 2018, is \$8,500,000.

9. EARLY RETIREMENT INCENTIVE:

a. Teachers-

Full-time teachers who have not less than 30 years of full time teaching service or who are at least fifty-five years of age and have 15 total years of full time teaching service are eligible for severance pay pursuant to the provisions of the master contract upon submission of a written resignation accepted by the Board.

Each full-time teacher will be paid up to a maximum of 100 days of any unused and accrued sick leave earned by that teacher while an employee of the District. The daily rate of pay is the basic daily rate at the time of retirement, as provided in the basic salary schedule (including career increment) for the basic school year, and does not include any additional compensation for extracurricular activities, extended employment or other extra compensation.

Payment will be contributed to a post-retirement health care savings plan sponsored by the District with half of the amount paid prior to September 1 of the year of separation and the remaining half will be paid prior to September 1 of the year following separation.

As of June 30, 2018, five teachers met the requirements representing a potential commitment of approximately \$82,978 in severance pay if all would resign pursuant to the provisions of the master contract.

Severance pay is recorded as an expenditure when eligible employees retire. There was one retirement and an expenditure of \$20,005 in the year ended June 30, 2018.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. EARLY RETIREMENT INCENTIVE (Continued):

b. Superintendent-

The Superintendent is eligible for severance pay after the Board receives a resignation. The amount of severance will be equal to the dollar amount per day of the existing contract times the number of accumulated sick leave days. The severance pay will be paid to the Superintendent according to timelines set by the Board.

As of June 30, 2018, there is a potential commitment of \$85,000 in severance pay if the Superintendent would resign pursuant to the provisions in the contract.

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN:

At June 30, 2018, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of June 30, 2018.

a. Plan Description-

The District provides a single-employer defined benefit healthcare plan which allows retirees and their spouses to participate in that plan through contractual arrangement. The plan offers medical coverage that is administered through the Minnesota Public Employees Insurance Plan. (PEIP) It is the District's policy to periodically review those medical coverages and obtain requests for proposals in order to provide the most favorable benefits and premiums for the District employees and retirees. No assets are accumulated in a trust.

Post-Employment Medical Plan – All eligible retirees of the District have the option to continue their medical coverage into retirement. Retirees pay the full district premium rate for the coverage and dependent coverage if elected. When the retiree is eligible for coverage under Medicare, the District plan allows continued participation as a healthcare plan secondary to that Medicare coverage.

There are 509 active participants and 15 retired participants. The plan does not issue a publicly available financial report.

b. Contributions-

Retirees and their spouses contribute to the health care plan at the same rate as active District employees. This results in the retirees receiving an implicit rate subsidy. The required contributions are based on projected pay-as-you-go financing requirements. For the year ended June 30, 2018 the District contributed \$73,494 to the plan.

c. Actuarial Methods and Assumptions-

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

c. Actuarial Methods and Assumptions (continued)-

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Salary increases	3.25%
Inflation	2.75%
Healthcare cost trend increases	8.00% As of July 1, 2017, decreasing to an ultimate rate of 4.50% over 7 years.
Mortality Assumptions	Healthy Retirees: RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 Disabled retirees: RPH-2017 Disabled Mortality Table fully generational using scale MP-2017

d. Total OPEB Liability-

As of June 30, 2018, the actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$956,941.

	Total OPEB Liability
Balance at July 1, 2017	\$ 961,432
Changes for the year	
Service cost	\$ 70,195
Interest cost	35,628
Changes of assumptions	10,075
Employer contributions	(73,494)
Differences between expected and actual experience	(46,895)
Net changes	\$ (4,491)
Balance at July 1, 2018	\$ 956,941

e. OPEB Liability Sensitivity-

The following presents the District's total OPEB liability calculated using the discount rate of 3.87% as well as the liability measured using 1% higher and 1% lower than the current discount rate.

Net OPEB Liability (Asset)		
1% decrease (2.87%)	Current (3.87%)	1% increase (4.87%)
\$ 1,006,668	\$ 956,941	\$ 907,454

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

e. OPEB Liability Sensitivity (continued)–

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

Net OPEB Liability (Asset)			
	1% decrease	Current	1% increase
	(7.00%)	(8.00%)	(9.00%)
	decreasing to	decreasing to	decreasing to
	(3.50%)	(4.50%)	(5.50%)
Total OPEB Liability (Asset)	\$ 865,081	\$ 956,941	\$ 1,063,690

f. 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 \$102,141. At June 30, 2018, the district reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ (42,205)
Changes in actuarial assumptions	9,067	-
	<u>\$ 9,067</u>	<u>\$ (42,205)</u>

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

Year Ended June 30:	
2019	\$ (3,682)
2020	(3,682)
2021	(3,682)
2022	(3,682)
2023	(3,682)
Thereafter	(14,728)

11. DEFINED BENEFIT PENSION PLANS:

Substantially all employees of the District are required by state law to belong to cost sharing, multiple employer, defined benefit pension plans administered by Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA), all of which are established and administered in accordance with Minnesota Statutes. TRA's and PERA's defined benefit pension plans are tax qualified plans under section 40(a) of the Internal Revenue Code.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS (Continued):

a. Plan Descriptions-

1. Teachers Retirement Association (TRA)-

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

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, or 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 University (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.

All full time and certain part-time employees of the District other than teachers are covered by the General Employees retirement Fund (GERF) Coordinated Plan.

2. General Employees Retirement Fund (GERF)-

GERF's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

All full time and certain part-time employees of the District other than teachers are covered by the General Employees retirement Fund (GERF) Coordinated Plan.

b. Benefits Provided-

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

TRA: Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%.

GERF: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS Continued):

b. Benefits Provided (continued)-

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

1. TRA benefits-

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statutes 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. 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.

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

With these provisions-

- a. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b. 3.0 percent per year early retirement reduction factors for all years under normal retirement age.
- c. Unreduced benefits for early retirement under a Rule of 90 provision (age plus allowable service equals 90 or more).

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS (Continued):

b. Benefits Provided (continued)-

1. TRA benefits (continued)-

or

Tier II	Step Rate Formula	Percentage
Basic	Service years prior to July 1, 2006	2.7 percent per year
	All years after July 1, 2006	2.7 percent per year
Coordinated	Service years prior to July 1, 2006	1.7 percent per year
	All years after July 1, 2006	1.9 percent per year

Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. 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 the individuals who reach age 62 and have 30 or more years of service credit.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) 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 which 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.

2. GERS benefits-

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2).

Method 1	Step Rate Formula	Percentage
Coordinated	First ten years of service	1.2 percent per year
	All service years over ten	1.7 percent per year
Method 2	Step Rate Formula	Percentage
Coordinated	All years of service	1.7 percent per year

For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

c. Contributions-

1. TRA contributions-

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. Rates for each fiscal year were:

	Ending June 30, 2017		Ending June 30, 2018	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

The District contributions for the plan's year ended June 30, 2018 was \$1,310,538, equal to the required contributions as set by State Statute.

2. GERS contributions-

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar year 2017 and 2018. In calendar year 2017 and 2018, the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERS for the plan's fiscal year ended June 30, 2018, were \$503,541. The District's contributions were equal to the required contributions for each year as set by state statute.

d. Pension Costs-

1. TRA pension costs-

At June 30, 2018 the District reported a liability of \$61,422,502 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to the total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.3077% at the end of the measurement period and 0.2983% 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 the total portion of the net pension liability that was associated with the district were as follows:

District's proportionate share of the net pension liability	\$ 61,422,502
State's proportionate share of the net pension liability associated with the district	5,936,735

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

1. TRA pension costs (continued)-

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. Postretirement benefit adjustments are now assumed to be 2.0 percent annually with no increase to 2.5 percent projected.

For the year ended June 30, 2018, the District recognized pension expense of \$1,196,676. It also recognized \$113,862 as pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 429,682
Changes in actuarial assumptions	-	8,604,323
Difference between projected and actual investment earnings	-	3,301,843
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	1,868,437	-
Prior year Contributions	(1,242,259)	-
Current Year Amortization of prior year amount	(10,072,495)	(1,136,083)
Contributions paid to TRA subsequent to the measurement date	<u>1,310,538</u>	<u>-</u>
Change in Deferred Outflows and Inflows for the year ended June 30, 2018	\$ (8,135,779)	\$ 11,199,765
Balance at June 30, 2017	<u>48,350,345</u>	<u>2,306,609</u>
Balance at June 30, 2018	<u><u>\$ 40,214,566</u></u>	<u><u>\$ 13,506,374</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

1. TRA pension costs (continued)-

The \$1,310,538 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2019	\$8,936,412
2020	\$9,996,782
2021	\$8,958,208
2022	\$7,991,593
2023	\$1,433,112

2. GERS pension costs-

At June 30, 2018, the District reported a liability of \$6,332,863 for its proportionate share of the GERS'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 \$79,626. 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 share was 0.0992 percent which was an increase of 0.038 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$259,761 for its proportionate share of GERS's pension expense. In addition, the District recognized an additional \$79,435 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

2. GERP pension costs-

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 208,712	\$ 1,075,271
Changes in actuarial assumptions	-	634,870
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	231,406	-
Prior year Contributions	(479,275)	-
Current Year Amortization of prior year amount	(1,093,267)	(611,235)
Contributions paid to GERP subsequent to the measurement date	<u>503,541</u>	<u>-</u>
Change in Deferred Outflows and Inflows for the year ended June 30, 2018		
June 30, 2018	\$ (628,883)	\$ 1,098,906
Balance at June 30, 2017	<u>3,668,088</u>	<u>1,376,827</u>
Balance at June 30, 2018	<u><u>\$ 3,039,205</u></u>	<u><u>\$ 2,475,733</u></u>

The \$503,541 reported as deferred outflows of resources related to pensions resulting from District contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2019	(\$126,344)
2020	\$330,534
2021	(\$143,541)

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

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 using the following actuarial assumptions.

<u>Assumptions</u>	<u>GERF</u>	<u>TRA</u>
Inflation	2.50% per year	2.50%
Active Member Payroll Growth	3.25% per year	3.5% based on years of service
Investment Rate of Return	7.50%	5.12%

Actuarial 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 and females, as appropriate, with slight adjustment.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The experience study in the GERP was for the period July 1, 2011, through June 30, 2015, with an update of economic assumptions in 2015 for inflation and long-term rate of return.

The following changes in actuarial assumptions for TRA that affects the measurement of total liability for TRA since the prior measurement date. Postretirement benefit increase is now assumed to be 2.0 percent for all future years.

The following changes in actuarial assumptions for GERP occurred in 2017: As of July 1, 2016, the postretirement benefit increase rate was assumed to remain at 1.0% for all future years. As of July 1, 2017, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2045.

The long-term expected rate of return on pension plan investments is 7.5% for GERP and 7.5% for TRA. The State Board of Investment, which manages the investments of PERA and TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<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	<u>2%</u>	0.00%
Total	<u>100%</u>	

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

f. Discount Rate-

The discount rate used to measure the total pension liability was 5.12% for TRA and 7.5% for GERP. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

g. Pension Liability Sensitivity-

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

	1% Decrease in <u>Discount Rate</u>	<u>Discount Rate</u>	1% Increase in <u>Discount Rate</u>
TRA Discount Rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	\$ 81,065,867	\$ 61,422,502	\$ 44,860,755
GERP Discount Rate	6.5%	7.5%	8.5%
District's proportionate share of the GERP net pension liability	\$ 9,822,740	\$ 6,332,863	\$ 3,475,764

h. Pension Plan Fiduciary Net Position-

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-4000
(651) 296-2409 or (800) 657-3669

Detailed information about GERP's defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org. Alternatively, a copy of the report may be obtained by writing or calling PERA:

Public Employees Retirement Association
60 Empire Drive #200
St. Paul, Minnesota, 55103-2088
(651) 296-7460 or 1-800-652-9026

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. DEFINED CONTRIBUTION PENSION PLAN STATEWIDE:

School board members of the District are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2018 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$1,132	\$1,132	5.0%	5.0%	5.0%

13. JOINT VENTURES:

a. Cable Channel 3 Television-

The District and the City of Worthington, Minnesota, entered into a joint powers agreement for the purposes of operating Worthington Cable 3 Television Public Access Channel on January 1, 1998, updated in October 2016. The agreement provides that the District shall provide the Board with studio space for the operation of Cable Channel 3, shall contribute equipment that was located in the studio at the time of the agreement and an annual sum of no less than \$8,800. The City of Worthington, Minnesota, shall remit to the Board all franchise fees and subscriber payments which are collected by two local cable companies pursuant to the Franchise Agreement between the City, and the respective cable companies, except that the City will retain an amount equal to the amount expended by the City during the prior calendar year for cable franchise expenses, including attorney fees. In addition, the City will contribute to the Board all of the equipment owned by the City and currently located at the Senior High School television studio. The fiscal year of Cable Channel 3 is January 1st to December 31st. Audited financial statements were not available for the year ended December 31, 2017. However, internal statements were issued and reflected a positive financial position at year end. There were no related party transactions during the year.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. JOINT VENTURES (Continued):

b. Nobles County Integration Collaborative (NCIC)-

Independent School District No. 518-Worthington, Independent School District No. 511-Adrian, Independent School District No. 514-Ellsworth, Independent School District No. 505-Fulda, Independent School District No. 330 Heron Lake-Okabena and Independent School District No. 2907-Round Lake-Brewster, entered into a joint powers agreement for the purpose of implementing the Nobles County Multi-District Integration Plan which was drafted by the Nobles County Multi-District Integration Council and submitted to the State of Minnesota in January, 2001. The member Districts' shall transfer to the Board the initial and subsequent integration and achievement funds as established at the conception of the agreement. Grants received from private foundations, corporate donations, regional, state and federal grants relating to the implementation of the plan will be used in addition to the member districts' transfers to finance the program. Any surplus is returned to member districts' at the end of the fiscal year; therefore, no material surplus or deficit exists or is anticipated. Independent School District No. 518-Worthington was named the fiscal agent for the Collaborative and the audited financial information appears as an agency fund in these financial statements.

The Collaborative is required to issue a separate audited financial statement detailing their revenues, expenditures and financial position.

14. RELATED PARTY TRANSACTIONS:

During the normal course of business, the District purchases goods and services from employees of the District and sells goods and services to employees of the District. The amounts of such transactions are not material to the financial statements.

15. COMMITMENTS AND CONTINGENCIES:

a. Grants and Aids-

The District receives significant financial assistance from numerous federal, state and local government agencies in the form of grants and aid. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

b. Legal Claims-

The District has the usual and customary types of miscellaneous legal claims pending at year end, mostly of a minor nature and usually covered by insurance carried for that purpose.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

15. COMMITMENTS AND CONTINGENCIES (Continued):

c. Construction-

The District has entered a contract for the construction of a new building to house a gymnastic facility and instruction space for an area learning center.

d. Debt Redemption-

The Board of Education committed \$2,425,000 of general fund fund balance to redeem the outstanding debt of the 2010C General Obligation Capital Facilities Bonds, 2010A and 2010D Certificates of Participation at their call dates of February 1, 2019 and April 1, 2019.

16. TAX ABATEMENTS:

The District has entered into tax abatement agreements which meet the criteria for disclosure under Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures. The District's authority to enter into these agreements comes from Minnesota Statute 469.1813 Subd.2.b.2 that limits the abatement amount to the amount of tax increase resulting from valuation increases. The District entered into these agreements for the purpose of economic development.

Under each agreement, the District and developer agree on an amount of the development cost to be reimbursed to the developer by the District through tax revenues levied as a result of the additional taxable value of the property generated by the development (tax abatement). A "pay-a-you-go" note is established for this amount, on which the District makes payments for a fixed period of time from the tax revenues generated.

One agreement coordinated by the City of Worthington was awarded by the City of Worthington on May 24, 2010 for a property located at 511 10th Street in compliance with the guidelines. The abatement of all combined governmental units is \$80,000 or 15 years, whichever occurs first. As of June 30, 2018, the District had rebated \$1,742 of which \$352 was paid during the fiscal year then ended.

The District has entered into a tax abatement agreement titled the Nobles Home Initiative (NHI), with the City of Worthington and Nobles County under Minnesota State Statute 469.1813 Subdivision 8. This program is intended to encourage the construction of new owner occupied and rental residential housing units. Eligible projects may receive up to 100% tax abatement of the District's share of increased real estate taxes resulting from the newly constructed housing unit, for a period of five years. During the fiscal year ended June 30, 2018, taxes were abated for twenty eligible properties within the District's corporate limits in the amount of \$4,825.

17. 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 \$810,995 to add the beginning total OPEB liability and related deferred outflow of resources.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 3,137,807	\$ 3,128,824	\$ (8,983)	\$ 3,129,608
Total local property tax levies	\$ 3,137,807	\$ 3,128,824	\$ (8,983)	\$ 3,129,608
Other local and county revenues-				
County apportionment	\$ 21,000	\$ 20,738	\$ (262)	\$ 21,932
Tuition and fees from patrons	149,550	178,120	28,570	178,186
Interest income	275,000	348,381	73,381	151,892
Litigation & insurance settlements	-	10,563	10,563	125,687
Other local revenue	401,278	584,621	183,343	519,185
Total other local and county revenues	\$ 846,828	\$ 1,142,423	\$ 295,595	\$ 996,882
Revenues from state sources-				
Endowment fund apportionment	\$ 124,760	\$ 124,761	\$ 1	\$ 110,339
Department of Education aids-				
General education aid	33,867,976	34,822,561	954,585	32,490,621
Special education	3,600,000	3,789,148	189,148	3,458,638
Vocational and other education	1,313,045	1,371,356	58,311	640,619
Other appropriations by the state for replacement of local taxes-				
Market value aid	21,992	21,992	-	24,725
Disparity reduction aid and other	32,777	32,777	-	32,269
State special funding for pensions	-	111,744	111,744	-
Total revenues from state sources	\$ 38,960,550	\$ 40,274,339	\$ 1,313,789	\$ 36,757,211
Revenues from federal sources-				
Federal aids through Minnesota				
Department of Education	\$ 806,152	\$ 652,724	\$ (153,428)	\$ 666,282
Federal aids through SWWC cooperative	463,100	466,147	3,047	443,716
Total revenues from federal sources	\$ 1,269,252	\$ 1,118,871	\$ (150,381)	\$ 1,109,998
Sales and other conversion of assets-				
Sales of materials and supplies	\$ 25,000	\$ 26,025	\$ 1,025	\$ 27,590
Tuition revenue from other school districts	\$ 285,500	\$ 287,617	\$ 2,117	\$ 263,817
Total revenues	\$ 44,524,937	\$ 45,978,099	\$ 1,453,162	\$ 42,285,106

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
District and school administration-				
School board expenses-				
Per diem	\$ 32,400	\$ 29,261	\$ 3,139	\$ 29,853
Employee benefits	7,379	7,614	(235)	6,549
Travel	6,500	4,172	2,328	4,515
Other	56,350	42,020	14,330	49,697
General administration-				
Superintendent salary	168,000	159,500	8,500	164,942
Administrative support salaries	41,300	41,784	(484)	40,682
Employee benefits	58,496	58,206	290	55,125
Travel and other	7,600	3,669	3,931	4,376
Building administration-				
Salaries	477,914	470,215	7,699	472,780
Employee benefits	172,357	167,001	5,356	154,247
Travel	1,650	146	1,504	1,360
Purchased services	80,215	57,639	22,576	59,296
Supplies and materials	35,972	16,051	19,921	25,205
Other	13,300	11,901	1,399	12,336
Capital outlay	2,300	2,456	(156)	-
Total district and school administration	\$ 1,161,733	\$ 1,071,635	\$ 90,098	\$ 1,080,963
District support services-				
District business services-				
Director of finance and personnel salary	\$ 87,800	\$ 86,800	\$ 1,000	\$ 83,658
Administrative support salaries	202,800	199,905	2,895	188,770
Employee benefits	249,654	106,655	142,999	85,262
Travel	8,700	2,116	6,584	2,733
Purchased services	73,818	38,631	35,187	96,960
Supplies and materials	7,500	2,476	5,024	4,826
Other	31,269	2,485	28,784	14,165
Capital outlay	-	-	-	3,664

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
District support services (continued)-				
Other support services-				
Salaries	\$ 168,760	\$ 172,621	\$ (3,861)	\$ 160,430
Employee benefits	55,010	55,040	(30)	53,001
Travel	1,600	352	1,248	588
Contracted services-				
Printing and publishing	24,550	80,105	(55,555)	10,736
Legal	30,000	17,909	12,091	21,634
Data processing	122,500	119,745	2,755	120,662
Other	5,850	4,131	1,719	2,323
Supplies and materials	3,650	2,532	1,118	547
Total district support services	\$ 1,073,461	\$ 891,503	\$ 181,958	\$ 849,959
Regular instruction-				
Salaries-				
Secondary teachers	\$ 5,910,200	\$ 5,947,820	\$ (37,620)	\$ 5,096,185
Elementary teachers	4,455,790	4,401,612	54,178	4,593,923
Kindergarten teachers	755,245	768,309	(13,064)	792,128
Education aides	1,163,853	1,068,446	95,407	1,051,121
Other	195,565	185,610	9,955	172,241
Employee benefits	3,643,066	3,585,482	57,584	3,285,995
Travel	68,775	38,450	30,325	24,525
Purchased services	200,277	151,737	48,540	150,582
Tuition to other schools	60,700	42,266	18,434	60,368
Pupil transportation	96,655	66,385	30,270	66,909
General supplies and materials	168,670	116,719	51,951	163,832
Instructional supplies and materials	1,790,552	1,441,577	348,975	933,201
Textbooks	22,500	7,613	14,887	8,827
Other	507,358	329,623	177,735	1,036,168
Capital outlay	347,101	305,500	41,601	246,326
Student activities-				
Salaries	502,862	497,356	5,506	469,381
Employee benefits	93,041	93,132	(91)	85,850
Travel	9,875	7,712	2,163	11,523
Utilities	7,050	6,989	61	6,654

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Regular instruction (continued)-				
Student activities (continued)-				
Purchased services	\$ 119,838	\$ 110,196	\$ 9,642	\$ 101,230
Pupil transportation	123,360	133,393	(10,033)	124,021
General supplies and materials	62,485	59,167	3,318	56,720
Equipment purchased	16,430	9,722	6,708	17,306
Other	6,420	2,483	3,937	4,925
Capital outlay	19,665	65,317	(45,652)	71,711
Total regular instruction	\$ 20,347,333	\$ 19,442,616	\$ 904,717	\$ 18,631,652
Vocational instruction-				
Salaries	\$ 347,355	\$ 347,235	\$ 120	\$ 385,635
Employee benefits	101,769	101,937	(168)	113,044
Travel	1,700	910	790	1,906
Purchased services	800	1,325	(525)	2,331
Pupil transportation	7,800	10,755	(2,955)	14,056
General supplies and materials	1,400	966	434	975
Instructional supplies and materials	20,350	20,782	(432)	19,616
Other	-	4,051	(4,051)	-
Capital outlay	17,397	13,100	4,297	46,157
Total vocational instruction	\$ 498,571	\$ 501,061	\$ (2,490)	\$ 583,720
Exceptional instruction-				
Salaries-				
Teachers	\$ 2,849,371	\$ 2,813,816	\$ 35,555	\$ 2,640,111
Psychologists	154,810	154,808	2	144,024
Aides	1,644,118	1,576,830	67,288	1,498,363
Office	167,180	146,631	20,549	140,965
Employee benefits	1,448,907	1,391,511	57,396	1,294,091
Travel	26,450	22,559	3,891	26,101
Professional services	67,290	62,387	4,903	61,630

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Exceptional instruction (continued)-				
Tuition to other schools	\$ 92,670	\$ 84,524	\$ 8,146	\$ 85,068
Other purchased services	35,550	32,025	3,525	44,278
General supplies and materials	37,460	32,658	4,802	26,797
Instructional supplies and materials	10,200	6,907	3,293	9,505
Other	64,470	72,797	(8,327)	266,362
Capital outlay	-	-	-	2,548
Total exceptional instruction	\$ 6,598,476	\$ 6,397,453	\$ 201,023	\$ 6,239,843
Community education and services-				
Capital outlay	\$ -	\$ -	\$ -	\$ 25,446
Instructional support services-				
Salaries-				
Assistant principal	\$ 320,990	\$ 322,579	\$ (1,589)	\$ 311,360
Media	273,430	262,710	10,720	255,633
Technology	233,200	225,780	7,420	230,045
Curriculum development	225,722	154,382	71,340	211,962
Staff development	177,925	174,581	3,344	188,208
Secretarial and other	467,910	471,427	(3,517)	455,230
Employee benefits	548,942	518,636	30,306	512,004
Travel	65,935	40,108	25,827	56,918
Professional services	46,632	30,167	16,465	68,969
Other purchased services	115,076	93,761	21,315	49,217
General supplies and materials	95,295	102,824	(7,529)	42,002
Instructional supplies and materials	15,700	6,830	8,870	12,150
Other	150,542	144,754	5,788	110,746
Capital outlay	197,498	200,516	(3,018)	134,054
Total instructional support services	\$ 2,934,797	\$ 2,749,055	\$ 185,742	\$ 2,638,498
Pupil support services-				
Guidance and counseling-				
Salaries	\$ 398,760	\$ 390,518	\$ 8,242	\$ 377,402
Employee benefits	117,210	115,967	1,243	108,879
Supplies and materials	5,115	1,964	3,151	2,578

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Pupil support services (continued)-				
Health services-				
Salaries	\$ 34,200	\$ 31,873	\$ 2,327	\$ 31,660
Employee benefits	13,130	11,083	2,047	11,393
Travel	400	71	329	379
Purchased services	151,800	129,944	21,856	137,079
General supplies and materials	4,400	2,960	1,440	3,573
Capital outlay	400	399	1	1,160
Social & Psychological services-				
Salaries	86,208	92,454	(6,246)	12,830
Employee benefits	27,495	29,482	(1,987)	3,756
Violence prevention-				
Salaries	37,000	37,569	(569)	37,086
Employee benefits	9,817	9,875	(58)	5,899
Purchased services	50,500	46,573	3,927	42,757
Supplies and materials	5,855	7,728	(1,873)	-
Transportation-				
Salaries	172,400	188,442	(16,042)	182,224
Employee benefits	70,251	60,413	9,838	62,245
Supplies and materials	2,400	179	2,221	535
Contracted services and				
public carriers	1,570,890	1,471,529	99,361	1,369,940
Other	23,200	28,066	(4,866)	40,503
Nobles County integration collaborative	887,588	887,588	-	836,378
Other support services-				
Supplies and materials	5,000	4,219	781	4,378
Total pupil support services	\$ 3,674,019	\$ 3,548,896	\$ 125,123	\$ 3,272,634

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018		2017	
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Site, buildings and equipment-				
Plant operations and maintenance-				
Salaries	\$ 964,939	\$ 901,778	\$ 63,161	\$ 873,305
Employee benefits	263,487	237,139	26,348	231,730
Travel	550	229	321	-
Repairs and maintenance service	276,700	316,909	(40,209)	219,708
Fuel for buildings	219,500	151,692	67,808	151,337
Utilities, except for fuel for buildings	688,800	619,570	69,230	619,766
Custodial supplies and materials	160,500	187,461	(26,961)	182,328
Other	22,750	5,099	17,651	6,103
Capital outlay-				
Operating capital	187,517	255,062	(67,545)	176,131
Long-term facility maintenance	340,314	356,773	(16,459)	628,762
Projects using committed or unrestricted funds	1,041,838	753,844	287,994	346,099
Total site, buildings and equipment	\$ 4,166,895	\$ 3,785,556	\$ 381,339	\$ 3,435,269
Fiscal and other fixed cost programs-				
Fixed charges-				
Insurance and judgments	\$ 414,723	\$ 106,594	\$ 308,129	\$ 94,044
Debt redemption-				
Certificate of participation principal	280,000	280,000	-	270,000
Certificate of participation interest	265,603	265,603	-	111,885
Certificate of participation other expense	4,200	2,200	2,000	2,200
Total fiscal and other fixed cost programs	\$ 964,526	\$ 654,397	\$ 310,129	\$ 478,129
Total expenditures	\$ 41,419,811	\$ 39,042,172	\$ 2,377,639	\$ 37,236,113
Excess (deficit) of revenues over expenditures	\$ 3,105,126	\$ 6,935,927	\$ 3,830,801	\$ 5,048,993

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
OTHER FINANCING SOURCES:				
Sale of capital assets	\$ 170,500	\$ 170,293	\$ (207)	\$ 73,459
Capital lease proceeds	164,681	164,681	-	-
	<u>\$ 335,181</u>	<u>\$ 334,974</u>	<u>\$ (207)</u>	<u>\$ 73,459</u>
Total other financing sources				
	<u>\$ 3,440,307</u>	<u>\$ 7,270,901</u>	<u>\$ 3,830,594</u>	<u>\$ 5,122,452</u>
FUND BALANCE, Beginning of year		<u>20,406,393</u>		<u>15,283,941</u>
FUND BALANCE, End of year		<u>\$ 27,677,294</u>		<u>\$ 20,406,393</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOOD SERVICE SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local sales and other revenues-				
Meals sold	\$ 438,000	\$ 438,507	\$ 507	\$ 437,229
Other local revenues	8,500	9,511	1,011	16,765
Total local sales and other revenues	\$ 446,500	\$ 448,018	\$ 1,518	\$ 453,994
State sources-				
State lunch and breakfast program aid	\$ 133,700	\$ 133,741	\$ 41	\$ 132,156
Total state sources	\$ 133,700	\$ 133,741	\$ 41	\$ 132,156
Federal sources-				
Regular lunch and breakfast	\$ 640,700	\$ 687,885	\$ 47,185	\$ 638,647
Free and reduced	925,000	928,610	3,610	918,081
Summer food program	90,000	93,966	3,966	92,172
Commodity rebates	1,400	2,565	1,165	1,399
Commodities used	176,800	155,718	(21,082)	175,312
Total federal sources	\$ 1,833,900	\$ 1,868,744	\$ 34,844	\$ 1,825,611
Total revenues	\$ 2,414,100	\$ 2,450,503	\$ 36,403	\$ 2,411,761
EXPENDITURES:				
Pupil support services-				
Salaries	\$ 732,211	\$ 776,532	\$ (44,321)	\$ 730,786
Employee benefits	247,373	246,780	593	216,212
Repairs and maintenance	21,000	20,230	770	18,752
Utilities	19,100	1,600	17,500	18,625
Other purchased services	75,000	64,566	10,434	63,713
General supplies and materials	67,750	53,193	14,557	53,912
Food	1,225,790	1,119,669	106,121	1,141,231
Equipment purchased	57,020	46,191	10,829	127,370
Other	3,200	1,531	1,669	3,032
Total pupil support services	\$ 2,448,444	\$ 2,330,292	\$ 118,152	\$ 2,373,633
Total expenditures	\$ 2,448,444	\$ 2,330,292	\$ 118,152	\$ 2,373,633
Excess (deficit) of revenues over expenditures	\$ (34,344)	\$ 120,211	\$ 154,555	\$ 38,128
OTHER FINANCING SOURCES (USES):				
Sale of equipment	\$ -	\$ -	\$ -	\$ 300
Total other financing sources	\$ -	\$ -	\$ -	\$ 300
Net change in fund balances	\$ (34,344)	\$ 120,211	\$ 154,555	\$ 38,428
FUND BALANCE, Beginning of year		828,945		790,517
FUND BALANCE, End of year		\$ 949,156		\$ 828,945

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 174,429	\$ 174,888	\$ 459	\$ 187,682
Total local property tax levies	\$ 174,429	\$ 174,888	\$ 459	\$ 187,682
Other local and county revenues-				
Tuition and fees from patrons	\$ 208,867	\$ 225,206	\$ 16,339	\$ 223,329
Other local revenues	90,686	102,802	12,116	111,397
Total other local and county revenues	\$ 299,553	\$ 328,008	\$ 28,455	\$ 334,726
Revenues from state sources-				
State aids from Department of Education-				
Vocational and other education	\$ 1,177,029	\$ 1,177,830	\$ 801	\$ 1,144,683
Other appropriations by the state for replacement of local taxes-				
Disparity and other	7,563	7,536	(27)	7,391
State special funding for pensions	-	4,418	4,418	-
Total revenues from state sources	\$ 1,184,592	\$ 1,189,784	\$ 5,192	\$ 1,152,074
Revenues from federal sources-				
Federal aids through Minnesota				
Department of Education	\$ 72,283	\$ 62,214	\$ (10,069)	\$ 138,246
Total revenues from federal sources	\$ 72,283	\$ 62,214	\$ (10,069)	\$ 138,246
Sales and other conversion of assets-				
Sales of materials and supplies	\$ -	\$ 145	\$ 145	\$ 43
Total revenues	\$ 1,730,857	\$ 1,755,039	\$ 24,182	\$ 1,812,771

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
Community education and services-				
Civic activities and general	\$ 184,011	\$ 174,073	\$ 9,938	\$ 201,245
Early Childhood Family Education	223,493	225,383	(1,890)	203,096
Pathways Early Learning	139,117	139,118	(1)	139,118
School readiness	198,113	198,429	(316)	195,090
Preschool screening	18,991	16,745	2,246	18,597
Parent involvement	34,961	34,961	-	34,908
Youth programs	39,206	53,388	(14,182)	59,432
Adult education programs	861,486	959,972	(98,486)	907,615
Non-public school assistance-				
Textbooks and standardized tests	366	350	16	11,974
Total community education and services	<u>\$ 1,699,744</u>	<u>\$ 1,802,419</u>	<u>\$ (102,675)</u>	<u>\$ 1,771,075</u>
Pupil support services-				
Non-public school health services-				
Salaries	\$ 1,386	\$ 1,329	\$ 57	\$ 8,314
Employee benefits	27,264	26,168	1,096	1,349
Other	98	69	29	2,625
Total pupil support services	<u>\$ 28,748</u>	<u>\$ 27,566</u>	<u>\$ 1,182</u>	<u>\$ 12,288</u>
Total expenditures	<u>\$ 1,728,492</u>	<u>\$ 1,829,985</u>	<u>\$ (101,493)</u>	<u>\$ 1,783,363</u>
Net change in fund balances	<u>\$ 2,365</u>	<u>\$ (74,946)</u>	<u>\$ (77,311)</u>	<u>\$ 29,408</u>
FUND BALANCE, Beginning of year		377,259		347,851
FUND BALANCE, End of year		<u>\$ 302,313</u>		<u>\$ 377,259</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

CAPITAL PROJECTS FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Other local and county revenues-				
Interest income	\$ 42,500	\$ 60,389	\$ 17,889	\$ -
Total revenues	\$ 42,500	\$ 60,389	\$ 17,889	\$ -
EXPENDITURES:				
Site, buildings and equipment-				
Buildings	\$ 1,500,000	\$ 904,789	\$ 595,211	\$ -
Total site, buildings and equipment	\$ 1,500,000	\$ 904,789	\$ 595,211	\$ -
Total expenditures	\$ 1,500,000	\$ 904,789	\$ 595,211	\$ -
Excess (deficit) of revenues over expenditures	\$ (1,457,500)	\$ (844,400)	\$ 613,100	\$ -
OTHER FINANCING SOURCES (USES):				
Sale of certificates of participation	\$ 10,697,539	\$ 10,697,539	\$ -	\$ -
Net change in fund balances	\$ 9,240,039	\$ 9,853,139	\$ 613,100	\$ -
FUND BALANCE, Beginning of year		-		-
FUND BALANCE, End of year		\$ 9,853,139		\$ -

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018		2017	
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies	\$ 1,405,703	\$ 1,411,060	\$ 5,357	\$ 1,739,938
Other local and county revenues-				
Interest income	\$ 60,000	\$ 63,431	\$ 3,431	\$ 44,322
Revenues from state sources-				
Department of Education aids-				
Long term facility maintenance aid	\$ 48,623	\$ 40,439	\$ (8,184)	\$ 265,506
Other appropriations by the state for replacement of local taxes-				
Homestead and agricultural credit aid	24,101	24,101	-	29,802
Disparity and other	35,920	35,921	1	37,764
Total revenues from state sources	\$ 108,644	\$ 100,461	\$ (8,183)	\$ 333,072
Total revenues	\$ 1,574,347	\$ 1,574,952	\$ 605	\$ 2,117,332
EXPENDITURES:				
Debt redemption-				
Principal payment on bonds	\$ 1,580,000	\$ 1,580,000	\$ -	\$ 1,690,000
Interest expense	584,926	584,925	1	589,012
Other expense	2,200	2,200	-	2,200
Total debt redemption	\$ 2,167,126	\$ 2,167,125	\$ 1	\$ 2,281,212
Total expenditures	\$ 2,167,126	\$ 2,167,125	\$ 1	\$ 2,281,212
Excess (deficit) of revenues over expenditures	\$ (592,779)	\$ (592,173)	\$ 606	\$ (163,880)
Net change in fund balances	\$ (592,779)	\$ (592,173)	\$ 606	\$ (163,880)
FUND BALANCE, Beginning of year		6,054,205		6,218,085
FUND BALANCE, End of year		\$ 5,462,032		\$ 6,054,205

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF FIDUCIARY NET POSITION

TRUST AND AGENCY FUNDS

JUNE 30, 2018

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2017)

	Trust Fund	Agency Funds	Totals	
	Private Purpose	Interdistrict		
	Trust Fund	Integration	2018	2017
ASSETS:				
Cash and investments	\$ 309,073	\$ 36,507	\$ 345,580	\$ 430,869
Accounts receivable	-	651	651	-
Due from school districts and governmental units	-	31,939	31,939	-
Total assets	<u>\$ 309,073</u>	<u>\$ 69,097</u>	<u>\$ 378,170</u>	<u>\$ 430,869</u>
LIABILITIES:				
Salaries payable	\$ -	\$ 61,832	\$ 61,832	\$ 41,659
Accounts payable	1,473	999	2,472	66,170
Due to other school districts and governmental units	-	6,266	6,266	-
Total liabilities	<u>\$ 1,473</u>	<u>\$ 69,097</u>	<u>\$ 70,570</u>	<u>\$ 107,829</u>
NET POSITION:				
Held in trust	<u>307,600</u>	<u>-</u>	<u>307,600</u>	<u>323,040</u>
Total liabilities and net position	<u>\$ 309,073</u>	<u>\$ 69,097</u>	<u>\$ 378,170</u>	<u>\$ 430,869</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY NET POSITION

BUDGET AND ACTUAL

TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2018

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2017)

	2018			2017
	Final Budget	Actual	Variance with Final Budget	Actual
ADDITIONS:				
Other local and county revenues-				
Interest income	\$ 2,000	\$ 2,367	\$ 367	\$ 914
Other local revenues	<u>28,000</u>	<u>28,215</u>	<u>215</u>	<u>8,713</u>
Total other local and county revenues	<u>\$ 30,000</u>	<u>\$ 30,582</u>	<u>\$ 582</u>	<u>\$ 9,627</u>
Total revenues	<u>\$ 30,000</u>	<u>\$ 30,582</u>	<u>\$ 582</u>	<u>\$ 9,627</u>
DEDUCTIONS:				
Other pupil support	<u>\$ 62,500</u>	<u>\$ 46,022</u>	<u>\$ 16,478</u>	<u>\$ 42,685</u>
Total expenditures	<u>\$ 62,500</u>	<u>\$ 46,022</u>	<u>\$ 16,478</u>	<u>\$ 42,685</u>
Change in net position	<u><u>\$ (32,500)</u></u>	<u><u>\$ (15,440)</u></u>	<u><u>\$ 17,060</u></u>	<u><u>\$ (33,058)</u></u>
NET POSITION, Beginning of year		<u>323,040</u>		<u>356,098</u>
NET POSITION, End of year		<u><u>\$ 307,600</u></u>		<u><u>\$ 323,040</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2018

	<u>Balance</u> <u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2018</u>
INTERDISTRICT INTEGRATION:				
Assets-				
Cash	\$ 107,709	\$ 1,083,433	\$ 1,154,635	\$ 36,507
Accounts receivable	-	651	-	651
Due from governmental units	-	31,939	-	31,939
Total assets	<u>\$ 107,709</u>	<u>\$ 1,116,023</u>	<u>\$ 1,154,635</u>	<u>\$ 69,097</u>
Liabilities-				
Salaries and employee benefits payable	\$ 41,659	\$ 61,832	\$ 41,659	\$ 61,832
Accounts payable	66,050	309,809	374,860	999
Due to other school districts and governmental units	-	6,266	-	6,266
Total liabilities	<u>\$ 107,709</u>	<u>\$ 377,907</u>	<u>\$ 416,519</u>	<u>\$ 69,097</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULES OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

	Balance June 30, 2017	Additions	Transfers	Retirements	Balance June 30, 2018
CAPITAL ASSETS:					
Land	\$ 3,509,122	\$ -	\$ -	\$ (5,119)	\$ 3,504,003
Land improvements	3,644,781	68,982	-	-	3,713,763
Buildings	42,932,640	274,877	-	-	43,207,517
Equipment	11,497,670	1,158,260	385,338	(676,151)	12,365,117
Vehicles	503,000	-	-	(87,740)	415,260
Construction in progress	482,654	1,523,856	(385,338)	-	1,621,172
Total capital assets	<u>\$ 62,569,867</u>	<u>\$ 3,025,975</u>	<u>\$ -</u>	<u>\$ (769,010)</u>	<u>\$ 64,826,832</u>
CAPITAL ASSETS BY SOURCE:					
General and special revenue funds	\$ 25,019,075	\$ 2,121,186	\$ -	\$ (769,010)	\$ 26,371,251
General obligation bonds	36,330,306	-	-	-	36,330,306
Capital leases	508,370	904,789	-	-	1,413,159
Federal grants	712,116	-	-	-	712,116
Total capital assets by source	<u>\$ 62,569,867</u>	<u>\$ 3,025,975</u>	<u>\$ -</u>	<u>\$ (769,010)</u>	<u>\$ 64,826,832</u>
CAPITAL ASSETS BY FUNCTION AND ACTIVITY:					
Administration	\$ 265,368	\$ -	\$ -	\$ (975)	\$ 264,393
Instruction	8,490,594	929,079	(357,296)	(228,264)	8,834,113
Instructional support services	1,213,370	328,681	(1)	(403,653)	1,138,397
Pupil support services	590,718	4,235	(13,186)	(89,083)	492,684
Food service	608,179	41,711	-	(28,017)	621,873
Community education and services	187,641	6,599	-	(9,732)	184,508
Site, buildings and equipment	51,213,997	1,715,670	370,483	(9,286)	53,290,864
Total capital assets by function and activity	<u>\$ 62,569,867</u>	<u>\$ 3,025,975</u>	<u>\$ -</u>	<u>\$ (769,010)</u>	<u>\$ 64,826,832</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POSTEMPLOYMENT BENEFITS PLAN

JUNE 30, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010 AND 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/2009	\$ -	\$ 644,836	\$ (644,836)	0.0%	\$ 11,124,473	5.8%
06/30/2010	\$ -	\$ 644,836	\$ (644,836)	0.0%	\$ 12,074,815	5.3%
06/30/2011	\$ -	\$ 529,053	\$ (529,053)	0.0%	\$ 12,955,001	4.1%
06/30/2012	\$ -	\$ 529,053	\$ (529,053)	0.0%	\$ 13,762,583	3.8%
06/30/2013	\$ -	\$ 750,522	\$ (750,522)	0.0%	\$ 14,144,577	5.3%
06/30/2014	\$ -	\$ 750,522	\$ (750,522)	0.0%	\$ 14,882,409	5.0%
06/30/2015	\$ -	\$ 818,958	\$ (818,958)	0.0%	\$ 16,785,140	4.9%
06/30/2016	\$ -	\$ 818,958	\$ (818,958)	0.0%	\$ 17,815,124	4.6%
06/30/2017	\$ -	\$ 1,039,901	\$ (1,039,901)	0.0%	\$ 20,189,269	5.2%
06/30/2018	\$ -	\$ 956,941	\$ (956,941)	0.0%	\$ 21,196,900	4.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percentage <u>Contributed</u>
2009	\$ -	0.00%
2010	-	0.00%
2011	-	0.00%
2012	-	0.00%
2013	-	0.00%
2014	-	0.00%
2015	-	0.00%
2016	-	0.00%
2017	-	0.00%
2018	-	0.00%

INDEPENDENT SCHOOL DISTRICT NO. 518
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND EMPLOYER CONTRIBUTIONS

Schedule of Proportionate Share of Net Pension Liability

Actuarial Valuation Date June 30,	Plan	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	TRA	0.3033%	\$ 13,975,846	\$ 14,002,116	99.81%	81.50%
	PERA	0.0998%	4,688,104	5,266,617	89.02%	78.70%
2015	TRA	0.2885%	\$ 17,846,578	\$ 15,031,466	118.73%	76.80%
	PERA	0.0949%	4,918,211	5,716,654	86.03%	78.20%
2016	TRA	0.2983%	\$ 71,151,667	\$ 15,874,765	448.21%	44.88%
	PERA	0.0954%	7,746,007	6,082,483	127.35%	68.90%
2017	TRA	0.3077%	\$ 61,422,502	\$ 16,563,453	370.83%	51.57%
	PERA	0.0992%	6,332,863	6,920,561	91.51%	75.90%

Schedule of Employer Contributions

Fiscal Year Ending June 30,	Plan	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
2015	TRA	\$ 1,112,088	\$ 1,112,088	\$ -	\$ 15,031,466	7.40%
	PERA	415,104	415,104	-	5,716,654	7.26%
2016	TRA	\$ 1,176,217	\$ 1,176,217	\$ -	\$ 15,874,765	7.41%
	PERA	447,914	447,914	-	6,082,483	7.36%
2017	TRA	\$ 1,251,475	\$ 1,251,475	\$ -	\$ 16,686,333	7.50%
	PERA	479,931	479,931	-	6,540,992	7.34%
2018	TRA	\$ 1,310,538	\$ 1,310,538	\$ -	\$ 17,473,840	7.50%
	PERA	503,541	503,541	-	6,920,561	7.28%

INDEPENDENT SCHOOL DISTRICT NO. 518
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CHANGES IN THE TOTAL OPEB LIABILITY
FOR PENSION PLANS NOT ADMINISTERED THROUGH A TRUST

	<u>2018</u>
TOTAL OPEB LIABILITY	
Service Cost	\$ 70,195
Interest	35,628
Differences between expected and actual experience	(46,895)
Changes in assumption or other inputs	10,075
Benefit payments	<u>(73,494)</u>
Net change in total OPEB liability	\$ (4,491)
Total OPEB Liability-beginning	<u>961,432</u>
Total OPEB Liability-ending	<u><u>\$ 956,941</u></u>
 Covered-employee payroll	 \$ 21,196,900
 Total OPEB liability as a percentage of covered- employee payroll	 4.5%

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

To the Members of the School Board
Independent School District No. 518
Worthington, 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. 518 (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 6, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. The finding is indicated as items 2018-1 and 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* and which are described in the accompanying schedule of findings and questioned costs as items 2018-001.

District's Response to Findings

Independent School District No. 518's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended solely for the information and use of the School Board, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

DeeLan Kvithaug Hoefler & Co., P.A.

Worthington, Minnesota
November 6, 2018

DREALAN KVILHAUG HOEFKER & Co., P.A.



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

To the Members of the School Board
Independent School District No. 518
Worthington, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 518's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items, 2018-001. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2018-001, that we consider to be significant deficiencies.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Dwight Kuhlberg Hoeffke & Co., P.A.

Worthington, Minnesota
November 6, 2018

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:		
Pass-through program from Minnesota Department of Education-		
Nutrition Cluster:		
School Breakfast	10.553*	\$ 417,927
School Lunch	10.555*	1,105,544
After School Snack	10.555*	18,713
Commodities Distribution (Note B)	10.555*	155,718
Special Milk Program	10.556	694
Summer Food Service program	10.559*	<u>93,966</u>
Total Nutrition Cluster		\$ <u>1,792,562</u>
Fresh Fruits and Vegetables	10.582	\$ 73,617
Commodity Cash Rebate Program	10.S6209	<u>2,565</u>
Total U.S. Department of Agriculture		\$ <u>1,868,744</u>
U.S. Department of Education:		
Pass-through programs from Minnesota Department of Education-		
Adult Basic Education	84.002	\$ <u>35,342</u>
English Language Acquisition	84.365	\$ <u>93,437</u>
Teacher and Principal Training and Recruiting	84.367	\$ <u>90,064</u>
Special Education Cluster:		
Special Education	84.027*	\$ 382,252
Special Education Coordinated Early Intervening Services	84.027*	79,751
Special Education Preschool Grants	84.173*	<u>4,144</u>
Total Special Education Cluster		\$ <u>466,147</u>
Title I:		
Title I Grants to LEA's	84.010*	\$ <u>469,224</u>
Total Title I		\$ <u>469,224</u>
Total U.S. Department of Education		\$ <u>1,154,214</u>
U.S. Department of Health & Human Services:		
Pass-through programs from Minnesota Department of Health & Human Services-		
Refugee Social Services ABE	93.566	\$ 16,805
Refugee Social Services Youth Development	93.566	<u>2,495</u>
Total U.S. Department of Health & Human Services		\$ <u>19,300</u>
Total expenditures of Federal Awards		\$ <u>3,042,258</u>

*Denotes major program

The notes to the schedule of expenditures of federal awards are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A-BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Independent School District No. 518 under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Independent School District No. 518, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Independent School District No. 518.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Independent School District No. 518 has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C-OTHER UNIFORM GUIDANCE INFORMATION:

For the year ended June 30, 2018, Independent School District No. 518 had no expenditures in the form of no sub-recipients, no federally provided insurance in effect, and no loans or loan guarantees outstanding.

NOTE D-COMMODITY DISTRIBUTION:

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE E-PROGRAM NUMBERS

The individual grant identification numbers assigned by the pass-through agencies are unknown.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018

A. SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of Independent School District No. 518.
2. Significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. There were no instances of noncompliance material to the financial statements of Independent School District No. 518, which would be required to be reported in accordance with *Government Auditing Standards*, that were disclosed during the audit.
4. Significant deficiencies relating to the audit of the major federal awards programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report on compliance for the major federal award programs for Independent School District No. 518 expresses an unmodified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for Independent School District No. 518 are reported in Part C of this Schedule.
7. The programs tested as major programs include:

Child Nutrition Cluster-	
School Breakfast	CFDA No. 10.553
National School Lunch	CFDA No. 10.555
Commodity Distribution Program	CFDA No. 10.555
Summer Food Service Program for Children	CFDA No. 10.559
Title I	CFDA No. 84.010
Special Education Cluster-	
Special Education	CFDA No. 84.027
Coordinated Early Intervening Services	CFDA No. 84.027
Preschool Grants	CFDA No. 84.173

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Independent School District No. 518 was determined to be a low-risk auditee.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

B. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2018-1.	Condition:	The District has a lack of segregation of duties in the financial department.
	Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
	Effect:	As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
	Cause:	The District has limited personnel available to perform accounting duties.
	Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2019
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

SIGNIFICANT DEFICIENCIES

2018-001. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559
Title I, CFDA No. 84.010
Special Education Cluster, CFDA No.'s 84.027 and 84.173

Condition:	The District has limited personnel available to perform accounting duties.
Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2018

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS
AUDIT (Continued):

SIGNIFICANT DEFICIENCIES (continued)

2018-001. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559 (continued)

Effect:	As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
Cause:	The District has limited personnel available to perform accounting duties.
Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2019
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

INDEPENDENT SCHOOL DISTRICT NO. 518
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

A. FINDINGS – FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2017-1.	Condition:	The District has a lack of segregation of duties in the financial department.
	Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
	Effect:	As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
	Cause:	The District has limited personnel available to perform accounting duties.
	Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2017
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT:

2017-001.	Title I, CFDA No. 84.010, 84.398 Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559 Special Education Cluster, CFDA No.'s 84.027 and 84.173	
	Condition:	The District has limited personnel available to perform accounting duties.
	Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

INDEPENDENT SCHOOL DISTRICT NO. 518
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
AUDIT (Continued):

2017-001. Title I, CFDA No. 84.010, 84.398
Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559
Special Education Cluster, CFDA No.'s 84.027 and 84.173 (continued)

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.

Cause: The District has limited personnel available to perform accounting duties.

Recommendation: This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent
4. *Planned Completion Date for the Corrective Action:* June 30, 2018
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

2017-002. Title I, CFDA No. 84.010
Teacher and Principal Training and Recruiting, CFDA No. 84.367

Condition: There were two instances where the District issued payments to non public school staff using coding for district staff payroll processing.

Criteria: Internal controls should be in place that provide reasonable assurance that invoice coding complies with program requirements.

Effect: As a result program expenditures were recorded improperly and year end payroll balances were incorrect.

Cause: The District financial manager manually entered the expenditures.

Recommendation: The District should follow the Minnesota Department of Education recording and reporting requirements.

INDEPENDENT SCHOOL DISTRICT NO. 518
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2017

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT
(Continued):

2017-002. Title I, CFDA No. 84.010
Teacher and Principal Training and Recruiting, CFDA No. 84.367 (continued)

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District financial manager reclassified these expenditures to the general fund fees for services.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2018
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

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DREALAN KVILHAUG HOEFKER & Co., P.A.



Member
Division for CPA Firms AICPA

CERTIFIED PUBLIC ACCOUNTANTS

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

VICKIE L. KUIPERS, EA
CINDY M. PENNING, CPA

INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of the School Board
Independent School District No. 518
Worthington, 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 Independent School District No. 518, as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2018.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for miscellaneous provisions because the district did not have any miscellaneous provisions activity during the current reporting period.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 518 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 Independent School District No. 518'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.

Drealan Kvilhaug Hoefker & Co., P.A.

Worthington, Minnesota
November 6, 2018

INDEPENDENT SCHOOL DISTRICT NO. 518

LEGAL COMPLIANCE

SCHEDULE OF FINDINGS AND RESPONSES ON COMPLIANCE WITH MINNESOTA

STATUTES

FOR THE YEAR ENDED JUNE 30, 2018

CURRENT AUDIT

FINDINGS:

No findings

INDEPENDENT SCHOOL DISTRICT NO. 518

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2018

INDEPENDENT SCHOOL DISTRICT NO. 518

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

				June 30, 2018			
				AUDIT	UFARS	Difference	
<u>01 GENERAL FUND</u>							
Total Revenue	\$ 45,978,099	\$ 45,978,099	\$ -				
Total Expenditures	39,042,172	39,042,172	-				
Nonspendable:							
460 Nonspendable Fund Balance	411,063	411,063	-				
Restricted/Reserve:							
403 Staff Development	40,444	40,444	-				
406 Health & Safety	161,617	161,617	-				
407 Capital Projects Levy	-	-	-				
413 Project Funded by Cop	-	-	-				
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-				
417 Taconite Building Maint	-	-	-				
423 Certain Teacher Programs	-	-	-				
424 Operating Capital	955,315	955,315	-				
426 \$25 Taconite	-	-	-				
428 Learning & Development	-	-	-				
434 Area Learning Center	125,872	125,872	-				
435 Contracted Alt. Programs	-	-	-				
436 State Approved Alt. Program	-	-	-				
438 Gifted & Talented	98,687	98,687	-				
440 Teacher Development & Eval	-	-	-				
441 Basic Skills Programs	-	-	-				
445 Career and Tech Programs	-	-	-				
448 Achievement & Integration	-	-	-				
449 Safe Schools Levy	55,516	55,516	-				
450 Prekindergarten	-	-	-				
451 QZAB Payments	-	-	-				
452 OPEB Liab not in Trust	-	-	-				
453 Unfnded Sev & Retirement Levy	-	-	-				
459 Basic Skills Ext Time	40827	40827	-				
467 LTFM	1,055,089	1,055,089	-				
472 Medical Assistance	252,167	252,167	-				
Restricted:							
464 Restricted Fund Balance	2,596	2,596	-				
Committed:							
418 Committed For Separation	167,978	167,978	-				
461 Committed Fund Balance	2,425,000	2,425,000	-				
Assigned:							
462 Assigned Fund Balance	8,500,000	8,500,000	-				
Unassigned:							
422 Unassigned Fund Balance	13,385,123	13,385,122	1				
<u>02 FOOD SERVICE</u>							
Total Revenue	2,450,503	2,450,503	-				
Total Expenditures	2,330,292	2,330,292	-				
Nonspendable:							
460 Nonspendable Fund Balance	98,368	98,368	-				
Restricted/Reserved:							
452 OPEB Liab not in Trust	-	-	-				
Reserve:							
464 Restricted Fund Balance	850,788	850,788	-				
Unassigned:							
463 Unassigned Fund Balance	-	-	-				
<u>04 COMMUNITY SERVICE</u>							
Total Revenue	1,755,039	1,755,039	-				
Total Expenditures	1,829,985	1,829,985	-				
Nonspendable:							
460 Nonspendable Fund Balance	-	-	-				
Restricted/Reserve:							
426 \$25 Taconite	-	-	-				
431 Community Education	58,466	58,466	-				
432 E.C.F.E.	52,836	52,836	-				
444 School Readiness	28,068	28,068	-				
447 Adult Basic Education	161,903	161,904	(1)				
452 OPEB Liab not in Trust	-	-	-				
Restricted:							
464 Restricted Fund Balance	1,040	1,040	-				
Unassigned:							
463 Unassigned Fund Balance	-	-	-				
				<u>06 BUILDING</u>			
				Total Revenue	\$ 60,389	\$ 60,389	\$ -
				Total Expenditures	904,789	904,789	-
				Nonspendable:			
				460 Nonspendable Fund	-	-	-
				Restricted/Reserve:			
				407 Capital Projects Levy	-	-	-
				413 Projects Funded by Cop	-	-	-
				467 LTFM	-	-	-
				Restricted:			
				464 Restricted Fund Balance	9,853,139	9,853,139	-
				Unassigned:			
				463 Unassigned Fund Balance	-	-	-
				<u>07 DEBT SERVICE</u>			
				Total Revenue	1,574,952	1,574,952	-
				Total Expenditures	2,167,125	2,167,125	-
				Nonspendable:			
				460 Nonspendable Fund	-	-	-
				Restricted/Reserve:			
				425 Bond Refundings	5,491,698	5,491,698	-
				451 QZAB Payments	-	-	-
				Restricted:			
				464 Restricted Fund Balance	(29,665)	(29,665)	-
				Unassigned:			
				463 Unassigned Fund Balance	-	-	-
				<u>08 TRUST</u>			
				Total Revenue	30,582	30,582	-
				Total Expenditures	46,022	46,022	-
				422 Net Assets	307,600	307,600	-
				<u>20 INTERNAL SERVICE</u>			
				Total Revenue	-	-	-
				Total Expenditures	-	-	-
				422 Net Assets	-	-	-
				<u>25 OPEB Revocable Turst Fund</u>			
				Total Revenue	-	-	-
				Total Expenditures	-	-	-
				422 Net Assets	-	-	-
				<u>45 OPEB Irrevocable Turst Fund</u>			
				Total Revenue	-	-	-
				Total Expenditures	-	-	-
				422 Net Assets	-	-	-
				<u>47 OPEB Debt Service Fund</u>			
				Total Revenue	-	-	-
				Total Expenditures	-	-	-
				Nonspendable:			
				460 Nonspendable Fund	-	-	-
				Restricted:			
				464 Restricted Fund Balance	-	-	-
				Unassigned:			
				463 Unassigned Fund Balance	-	-	-