Independent School District No. 271
Bloomington, Minnesota

Financial Statements

June 30, 2018

bergan KDV
CPAS | ADVISORS

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Independent School District No. 271
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Independent School District No. 271
Board of Education and Administration
June 30, 2018

Board of Education	Position	Term Expires
Dawn Steigauf	Chair	January 3, 2022
Nelly Korman	Vice Chair	January 6, 2020
Maureen Bartolotta	Clerk	January 6, 2020
Dick Bergstrom	Treasurer	January 6, 2020
Tom Bennett	Director	January 3, 2022
Jim Sorum	Director	January 3, 2022
Beth Beebe	Director	January 3, 2022

Administration	
Les Fujitake	Superintendent
Rod Zivkovich	Executive Director of Finance and Support Services
Kim Agate	Controller

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Independent Auditor's Report

To the School Board
Independent School District No. 271
Bloomington, 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. 271, Bloomington, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

BerganKDV, Ltd.
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Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 75
As discussed in Note 12 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying 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 financial statements.

Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
October 24, 2018

Independent School District No. 271
Management's Discussion and Analysis

This section of the Independent School District No. 271, Bloomington Public Schools' (the "District") annual financial report presents the Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The MD&A is required supplementary information specified in the GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999*. Certain comparative information is required to be presented in the MD&A between the current year (2017-2018) and the prior year (2016-2017).

FINANCIAL HIGHLIGHTS

- Total net position at June 30, 2018 was a negative $117.6 million, $50.8 million less than the prior year's balance.
- Overall program and general revenues were $180.3 million, $43.7 million less than related expenses of $224.0 million. The decline was mainly due to GASB 68 reporting requirements for booking future retirement benefits.
- Total General Fund balance (under the governmental fund presentation) decreased $3.7 million from the prior year. This was a budgeted decline which actual results were $1.2 better than expected.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts:

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic financial statements
- Required supplementary information

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

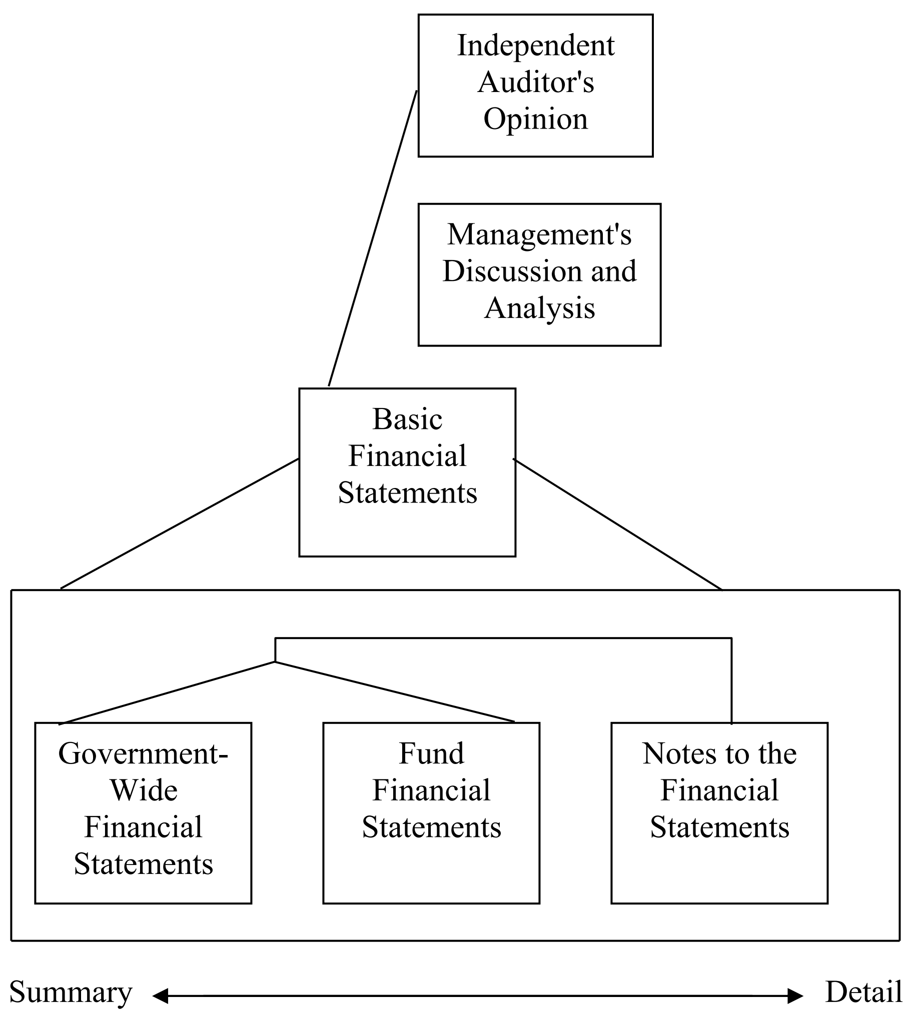
1. The government-wide financial statements provide both short-term and long-term information about the District's overall financial status. These include:
   - The Statement of Net Position
   - The Statement of Activities
2. The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
   - The governmental funds statements examine how basic services, such as regular and special education were financed in the short-term, as well as what remains for future spending.
   - Proprietary funds statements present short-term and long-term financial information about the activities the District operates like businesses, such as dental and medical self insurance, retiree severance and vacation funds.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- 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. The District is the Agent for the Bloomington Education Cable Television Fund. The District is also holding funds to be paid to Bloomington Kennedy graduates for college scholarships.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 on the following page shows how the various parts of this annual report are arranged and how they relate to one another.

Figure A-1
Organization of the District's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities which they cover and the types of information that they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements
Fund Financial Statements

	Government-Wide Financial Statements	Government Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except Fiduciary Funds)	The activities of the District that are not proprietary or fiduciary, such as special education, food service, community education and building maintenance	Activities the District operates similar to private businesses, such as self-insured medical and dental funds	Instances in which the District administers resources on behalf of someone else, such as Bloomington Educational Cable and student activities accounts
Required Financial Statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

In the government-wide financial statements, the District's activities are presented 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 and administration. State formula aid and property taxes finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. "Non-major" funds such as, food service and community service do not meet the threshold to be classified as "major" funds.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

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

FUND FINANCIAL STATEMENTS (CONTINUED)

The District has three 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 the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information following the governmental funds statements explains the relationship (or differences) between them.

- **Proprietary Funds***:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District uses internal service funds to report activities that provide supplies and services for its other programs and activities. The District currently has four internal service funds; the Self-Insured Dental Fund, Self-Insured Medical Benefits Fund, Other Post Employment Benefits (OPEB) Fund, and the Retiree Benefits Fund.

- **Fiduciary Funds***:* The District is the trustee, or fiduciary*,* for assets that belong to others, such as the Bloomington Educational Cable Television Fund or the Bloomington Kennedy Trust Fund for scholarships. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

FUND FINANCIAL STATEMENTS (CONTINUED)

Net Position: The District's combined net position on June 30, 2018 was negative $117.6 million, $50.8 million less than the prior year's balance. (See Figure A-3.) The decline was due to second year of GASB 68 reporting requirements for booking retirement benefits.

Figure A-3
Net Position - Governmental Activities

	Year Ended 2018	Year Ended 2017	Percentage Change
Assets			
Current and other assets	$ 156,553,891	$ 162,026,393	-3.38%
Capital assets	119,663,325	118,601,726	0.90%
Total assets	276,217,216	280,628,119	-1.57%
Deferred Outflows of Resources	154,033,063	207,209,372	-25.66%
Total assets and deferred outflows of resources	$ 430,250,279	$ 487,837,491	-11.80%
Liabilities			
Other liabilities	$ 35,657,116	$ 30,709,164	16.11%
Long-term liabilities	408,652,473	467,968,470	-12.68%
Total liabilities	$ 444,309,589	$ 498,677,634	-10.90%
Deferred Inflows of Resources	$ 103,524,420	$ 55,957,160	85.01%
Net Position			
Net investment in capital assets	$ 14,720,909	$ 19,786,654	-25.60%
Restricted	19,127,805	14,123,248	35.43%
Unrestricted	(151,432,444)	(100,707,205)	-50.37%
Total net position	$ (117,583,730)	$ (66,797,303)	-76.03%

Changes in Net Position: The District's total revenues were $180.3 million for the year ended June 30, 2018. (See figure A-4.) Property taxes and state formula aid accounted for 69% of the District's revenue. (See Figure A-5.) Another 24% came from grants and contributions restricted for specific programs. The remainder came from fees charged for services and miscellaneous sources. The total cost of all programs and services was $224.0 million. The District's expenses are predominantly related to direct instruction, instructional, and pupil support services (73%). (See Figure A-6.) The District's administration and district support is 5% of total costs.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-4
Change in Net Position

	Year Ended 2018	Year Ended 2017	Percentage Change
Revenues			
Program revenues			
Charges for services	$ 8,869,505	$ 10,313,972	-14.00%
Operating grants and contributions	43,790,703	43,899,303	-0.25%
General revenues			
Property taxes	50,806,046	49,978,515	1.66%
State aid-formula grants	73,259,833	74,445,654	-1.59%
Other	3,603,008	3,908,957	-7.83%
Total revenues	180,329,095	182,546,401	-1.21%
Expenses			
Administration	$6,891,240	6,625,683	4.01%
District support services	4,672,656	5,053,160	-7.53%
Elementary and secondary regular instruction	91,609,257	94,205,124	-2.76%
Vocational education instruction	1,639,906	2,077,476	-21.06%
Special education instruction	41,713,529	38,543,759	8.22%
Instructional support services	14,522,006	13,001,852	11.69%
Pupil support services	13,901,667	12,739,456	9.12%
Sites and buildings	19,146,659	18,382,764	4.16%
Fiscal and other fixed cost programs	380,275	339,803	11.91%
Food service	5,242,904	5,317,030	-1.39%
Community education and services	12,350,253	12,958,479	-4.69%
Unallocated depreciation	8,529,120	8,035,953	6.14%
Interest and fiscal charges on long-term debt	3,425,272	3,482,068	-1.63%
Total expenses	224,024,744	220,762,607	1.48%
Increase (decrease) in net position	(43,695,649)	(38,216,206)	14.34%
Net Position			
Net position - beginning, as previously stated	(66,797,303)	(28,581,097)	133.71%
Change in accounting principle	(7,090,778)	-	
Beginning of year	(73,888,081)	(28,581,097)	-158.52%
End of year	$ (117,583,730)	$ (66,797,303)	-76.03%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-5
Source of Revenues for Fiscal Year 2018

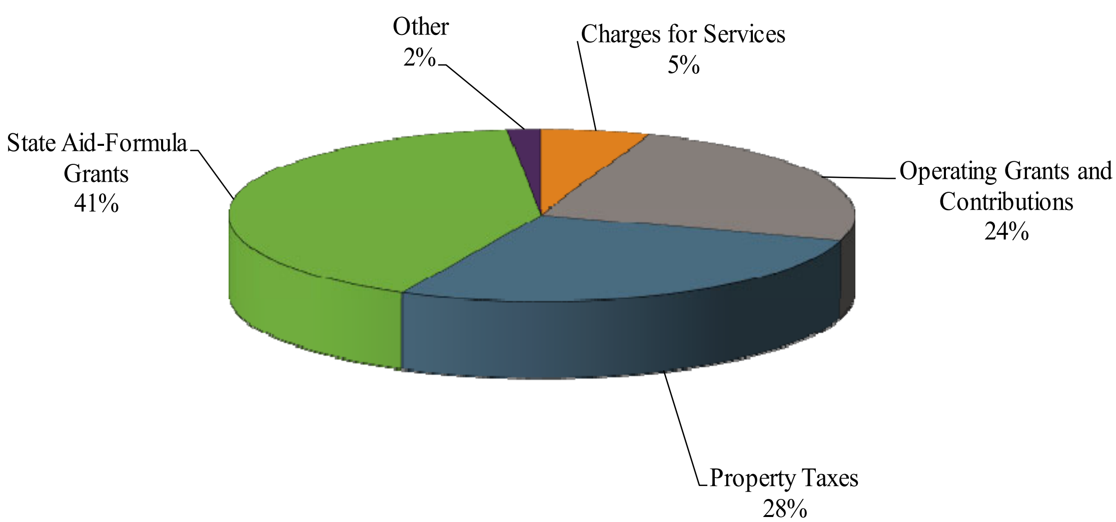
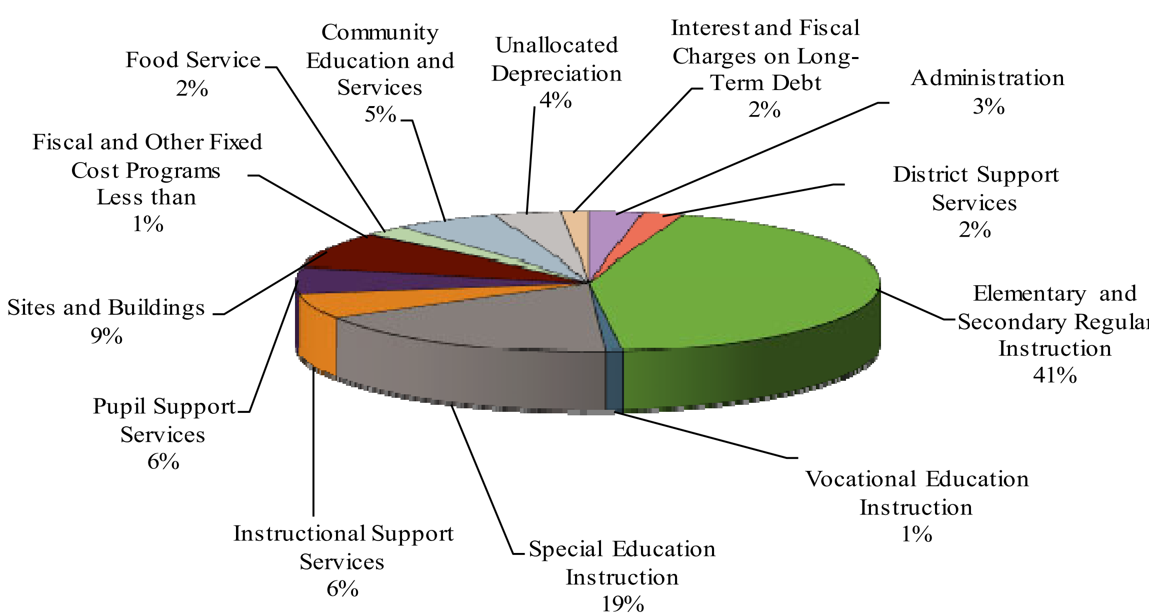


Figure A-6
Expenses for Fiscal Year 2018



GOVERNMENTAL ACTIVITIES

Figure A-7 presents the cost of District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

	Total Cost of Services	Net Cost of Services
Administrative	$ 6,891,240	$ 6,891,240
District support services	4,672,656	4,672,656
Elementary and secondary regular instruction	91,609,257	74,903,173
Vocational education instruction	1,639,906	1,545,452
Special education instruction	41,713,529	21,034,171
Instructional support services	14,522,006	14,522,006
Pupil support services	13,901,667	13,463,065
Sites and buildings	19,146,659	18,971,538
Fiscal and other fixed cost programs	380,275	380,275
Food service	5,242,904	232,243
Community education and services	12,350,253	2,794,325
Unallocated depreciation	8,529,120	8,529,120
Interest and fiscal charges on long-term debt	3,425,272	3,425,272
Total	$ 224,024,744	$ 171,364,536

- Approximately 4.0% or $8.9 million, of expenses were paid by users of District services through various fees and charges.
- Other specific program costs are offset with grants and contributions totaling $43.8 million, or 19.6%, of expenses for 2017-2018.
- The net cost of District services ($171.4 million) was paid for with local property taxes, state aid, federal grants and from District fund balances when expenses exceed revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

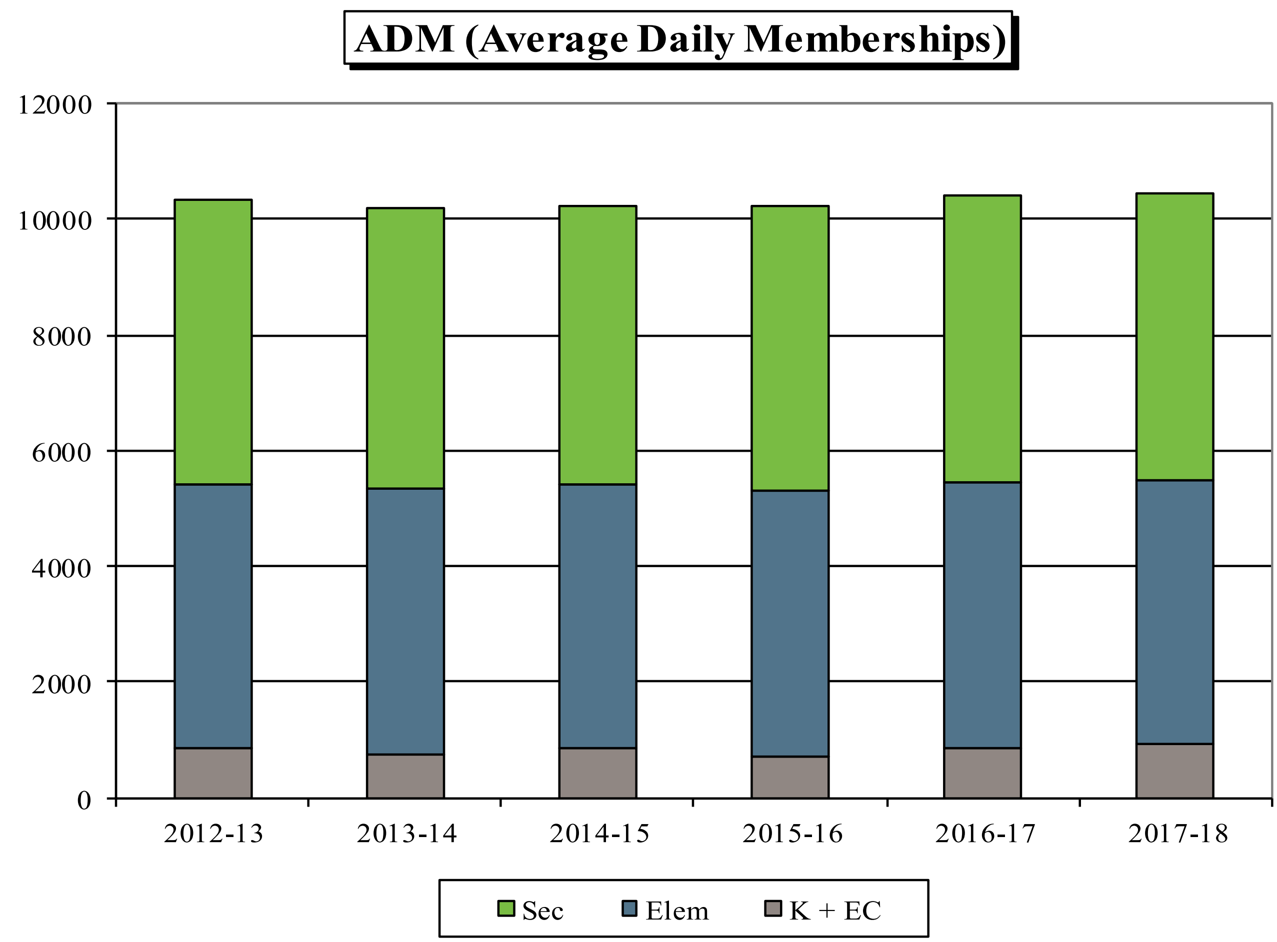
At the end of the 2017-2018 fiscal year, the District's governmental funds reported a combined fund balance of $42.4 million, a decrease of $18.1 million from the June 30, 2017, combined fund balance of $60.5 million. The main decrease was due to a $14.2 million in the capital projects fund attributable to the spending on Alternative Facilities projects funded by prior year bond proceeds.

GENERAL FUND

The General Fund is the District's primary operating fund, providing instructional services to students from kindergarten through grade 12. In addition, the costs of pupil transportation and operating capital expenditures for equipment and facilities are included in the full reporting of the General Fund.

School funding in Minnesota is driven largely by pupil enrollment. In 2017-2018, the District saw an increase of 37 average daily membership (ADM) over 2016-2017. Current ADM is 10,438.

The graph below illustrates the current trend in student enrollment over the previous five years.



GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District amended the annual operating budget. The budget amendments account for enrollment changes, previous year carryover and amendments to federal and other grant programs.

While the District's amended budget for the General Fund projected a net decrease in the fund balance of $4.9 million, the actual performance shows a net decrease of $3.7 million. The majority of this difference was due to higher than expected state special education revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Actual revenues were $148.9 million or $4.0 million over the budget of $144.9 million. Actual expenditures were $152.3 million, or $2.8 million over the budget of $149.5 million.

Figure A-8
General Fund Expenditures

	Final Budget	Net Actual Amounts	Variance with Final Budget - Over (Under)
Administrative	$ 5,911,192	$ 5,741,880	$ (169,312)
District support services	3,315,188	4,166,502	851,314
Elementary and secondary regular instruction	70,533,703	69,039,259	(1,494,444)
Vocational education instruction	1,826,522	1,306,585	(519,937)
Special education instruction	30,018,048	33,559,353	3,541,305
Instructional support services	10,036,161	10,231,033	194,872
Pupil support services	11,488,649	12,431,286	942,637
Sites and buildings	8,662,619	10,181,635	1,519,016
Fiscal and other fixed cost programs	387,000	380,275	(6,725)
Capital outlay	7,233,277	5,172,827	(2,060,450)
Debt service	69,844	69,845	1
Total	$ 149,482,203	$ 152,280,480	$ 2,798,277

FOOD SERVICE FUND

The Food Service Fund is used to record financial activity for the purpose of preparation and service of milk, meals and snacks in connection with school and community service activities. The Food Service Fund expenditures exceed revenues by $173,551 in 2017-2018.

This Fund continues to meet the District's established fund balance goals.

COMMUNITY SERVICE FUND

The Community Service Fund is used to record financial activities of the Community Services Preschool to Senior Citizens Programs. The Community Service Fund balance increased $702,426 in 2017-2018. The increase is a result of lower than budgeted spending in all areas within the budget.

This Fund continues to meet the District's established fund balance goals.

DEBT SERVICE FUND

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital or for initial or refunding bonds. The Debt Service Fund balance for 2017-2018 totaled $690,152. The fund balance was $1,357,182 in 2016-2017

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018, the District had invested $119.7 million in a broad range of capital assets, including school buildings, athletic facilities, computers and audio-visual equipment. (See Figure A-9.) (More detailed information about capital assets can be found in Note 5 to the financial statements.)

Figure A-9
Capital Assets

	Year Ended 2018	Year Ended 2017
Land	$ 2,085,954	$ 2,085,954
Construction in progress	1,336,889	162,028
Buildings and buildings improvement	111,516,244	111,800,345
Furniture and equipment	4,724,238	4,553,399
Total capital assets	$ 119,663,325	$ 118,601,726

DEBT ADMINISTRATION

Figure A-10
Outstanding Long-Term Liabilities

	Year Ended 2018	Year Ended 2017
General Obligation (G.O.) Bonds and Loans	$ 126,453,290	$ 135,121,612
Benefits payable	1,631,909	1,582,674
Total long-term liabilities	$ 128,085,199	$ 136,704,286

DEBT ADMINISTRATION (CONTINUED)

At year-end, the District had $128.1 million in long-term liabilities, including G.O. bonds, capital leases, severance benefits, and compensated absences. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements).

The June 30, 2018, Debt Service Fund balance of $0.7 million is available for meeting future debt service obligations, in addition to levied property taxes payable in 2018.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The District continues to position itself financially for anticipated flat or limited funding in the future. The District's 2018-19 budget required a $1.1 million spend down of fund balance. The District is anticipating additional budget cuts for both 2019-2020 and 2020-21 fiscal years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it is entrusted with.

If you have questions about this report or need additional financial information, contact the Finance Office, Independent School District No. 271, 1350 West 106th Street, Bloomington, Minnesota 55431-4126.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 271
Statement of Net Position
June 30, 2018

		Governmental Activities
Assets		
Cash and investments	$	111,656,644
Current property taxes receivable		27,690,234
Delinquent property taxes receivable		178,949
Accounts receivable		131,772
Interest receivable		694,443
Due from Department of Education		11,561,371
Due from other Minnesota school districts		260,256
Due from Federal Government through Department of Education		3,684,767
Due from other governmental units		166,199
Inventory		408,141
Prepaid items		121,115
Capital assets not being depreciated		
Land		2,085,954
Construction in progress		1,336,889
Capital assets net of depreciation		
Buildings and building improvements		111,516,244
Furniture and equipment		4,724,238
Total assets		276,217,216
Deferred Outflows of Resources		
Deferred amount on refunding		347,839
Deferred outflows related to OPEB		993,279
Deferred outflows related to pensions		152,691,945
Total deferred outflows of resources		154,033,063
Total assets and deferred outflows of resources	$	430,250,279
Liabilities		
Accounts and contracts payable	$	5,205,165
Contracts payable		
Salaries and benefits payable		19,492,258
Interest payable		1,932,468
Due to other Minnesota school districts		790,938
Due to other governmental units		26,973
Unearned revenue		685,465
Net bond principal payable		
Due within one year		7,305,000
Due in more than one year		118,903,922
Loan payable		
Due within one year		55,658
Due in more than one year		188,710
Compensated absences payable		
Due within one year		121,050
Due in more than one year		1,089,450
Severance payable		
Due within one year		42,141
Due in more than one year		379,268
OPEB Liability		11,456,017
Net pension liability		276,635,106
Total liabilities		444,309,589
Deferred Inflows of Resources		
Property taxes levied for subsequent year's expenditures		52,901,270
Deferred inflows related to OPEB		382,195
Deferred inflows related to pensions		50,240,955
Total deferred inflows of resources		103,524,420
Net Position		
Net investment in capital assets		14,720,909
Restricted for		
Other purposes		19,127,805
Unrestricted		(151,432,444)
Total net position		(117,583,730)
Total liabilities, deferred inflows of resources, and net position	$	430,250,279

Independent School District No. 271
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 6,891,240	$ -	$ -	$ -	$ (6,891,240)
District support services	4,672,656	-	-	-	(4,672,656)
Elementary and secondary regular instruction	91,609,257	736,785	15,969,299	-	(74,903,173)
Vocational education instruction	1,639,906	-	94,454	-	(1,545,452)
Special education instruction	41,713,529	321,421	20,357,937	-	(21,034,171)
Instructional support services	14,522,006	-	-	-	(14,522,006)
Pupil support services	13,901,667	66,340	372,262	-	(13,463,065)
Sites and buildings	19,146,659	175,121	-	-	(18,971,538)
Fiscal and other fixed cost programs	380,275	-	-	-	(380,275)
Food service	5,242,904	1,690,490	3,320,171	-	(232,243)
Community education and services	12,350,253	5,879,348	3,676,580	-	(2,794,325)
Unallocated depreciation	8,529,120	-	-	-	(8,529,120)
Interest and fiscal charges on long-term debt	3,425,272	-	-	-	(3,425,272)
Total governmental activities	$ 224,024,744	$ 8,869,505	$ 43,790,703	$ -	(171,364,536)
General revenues					
Taxes					
Property taxes, levied for general purposes					36,451,008
Property taxes, levied for debt service					9,569,588
Property taxes, levied for community service					2,063,228
Property taxes, levied for capital projects					2,722,222
State aid-formula grants					73,259,833
Other general revenues					2,598,847
Investment income					1,004,161
Total general revenues					127,668,887
Change in net position					(43,695,649)
Net position - beginning					(66,797,303)
Change in accounting principle (see Note 12)					(7,090,778)
Net position - beginning, as restated					(73,888,081)
Net position - ending					$ (117,583,730)

See notes to financial statements.

Independent School District No. 271
Balance Sheet - Governmental Funds
June 30, 2018

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 49,106,325	$ 5,835,520	$ 14,465,620	$ 8,851,823	$ 78,259,288
Current property taxes receivable	21,449,007	4,979,488	-	1,261,739	27,690,234
Delinquent property taxes receivable	132,116	36,946	-	9,887	178,949
Accounts receivable	80,356	-	-	50,401	130,757
Interest receivable	235,158	-	102,981	-	338,139
Due from Department of Education	11,081,779	167,443	-	312,149	11,561,371
Due from Federal Government through Department of Education	3,393,404	-	-	291,363	3,684,767
Due from other Minnesota school districts	21,386	-	-	238,870	260,256
Due from other governmental units	166,199	-	-	-	166,199
Inventory	269,335	-	-	138,806	408,141
Prepaid items	92,627	-	-	28,488	121,115
Total assets	$ 86,027,692	$ 11,019,397	$ 14,568,601	$ 11,183,526	$ 122,799,216
Liabilities					
Accounts payable	$ 356,363	$ -	$ 4,347,771	$ 9,476	$ 4,713,610
Contracts payable	-	-	491,555	-	491,555
Salaries and benefits payable	16,240,849	-	39,382	1,425,027	17,705,258
Due to other Minnesota school districts	778,692	-	12,246	-	790,938
Due to other governmental units	26,122	-	-	851	26,973
Interfund payable	2,438,481	-	4,612	242,975	2,686,068
Unearned revenue	423,595	-	-	261,870	685,465
Total liabilities	20,264,102	-	4,895,566	1,940,199	27,099,867
Deferred inflows of resources					
Property tax levied for subsequent year's expenditures	40,051,448	10,251,991	-	2,597,831	52,901,270
Unavailable revenue - delinquent property taxes	308,885	77,254	-	21,379	407,518
Total deferred inflows of resources	40,360,333	10,329,245	-	2,619,210	53,308,788
Fund Balances					
Nonspendable for					
Inventory	269,335	-	-	138,806	408,141
Prepaid items	92,627	-	-	28,488	121,115
Restricted for					
Capital projects levy	4,328,264	-	-	-	4,328,264
Operating capital	7,359,057	-	-	-	7,359,057
Medical assistance	460,023	-	-	-	460,023
State approved alternative program	852,230	-	-	-	852,230
Long-term Facilities Maintenance	-	-	9,673,035	-	9,673,035
Fund purpose	-	690,152	-	6,456,823	7,146,975
Committed for					
Wellness	140,965	-	-	-	140,965
Uniform and instrument replacement	110,702	-	-	-	110,702
Athletic activities	825,437	-	-	-	825,437
Site department carryover funds	764,885	-	-	-	764,885
Staff development	176,776	-	-	-	176,776
Unassigned	10,022,956	-	-	-	10,022,956
Total fund balances	25,403,257	690,152	9,673,035	6,624,117	42,390,561
Total liabilities, deferred inflows of resources, and fund balances	$ 86,027,692	$ 11,019,397	$ 14,568,601	$ 11,183,526	$ 122,799,216

See notes to financial statements.

Independent School District No. 271
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2018

Total fund balances - governmental funds	$ 42,390,561
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	259,267,169
Less accumulated depreciation	(139,603,844)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(121,390,000)
Loan payable	(244,368)
Bond premiums	(4,818,922)
Deferred amount on refunding	347,839
Compensated absences payable	(1,210,500)
OPEB Liability	(11,456,017)
Net pension liability	(276,635,106)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows related to pensions	152,691,945
Deferred inflows related to pensions	(50,240,955)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to OPEB that are not recognized in the governmental funds.	
Deferred inflows related to OPEB	(382,195)
Deferred outflows related to OPEB	993,279
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	407,518
The retiree benefit and OPEB internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	17,885,463
The dental and self insured medical benefit plans internal service funds are used by management to charge the costs of the self-insured plans. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position and interfund activity is removed.	16,768,280
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(1,932,468)
Total net position - governmental activities	$ (117,583,730)

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 36,447,171	$ 8,755,920	$ 2,722,222	$ 2,879,197	$ 50,804,510
Other local and county revenues	4,035,238	27,616	205,498	6,070,405	10,338,757
Revenue from state sources	104,337,216	1,721,773	-	3,462,324	109,521,313
Revenue from federal sources	3,984,862	-	-	3,285,405	7,270,267
Sales and other conversion of assets	103,718	-	-	1,703,757	1,807,475
Interdistrict revenue	-	-	-	238,870	238,870
Total revenues	148,908,205	10,505,309	2,927,720	17,639,958	179,981,192
Expenditures					
Current					
Administration	5,741,880	-	-	-	5,741,880
District support services	4,166,502	-	-	-	4,166,502
Elementary and secondary regular instruction	69,039,259	-	-	46,990	69,086,249
Vocational education instruction	1,306,585	-	-	-	1,306,585
Special education instruction	33,559,353	-	-	-	33,559,353
Instructional support services	10,231,033	-	-	-	10,231,033
Pupil support services	12,431,286	-	-	-	12,431,286
Sites and buildings	10,181,635	-	1,333,284	-	11,514,919
Fiscal and other fixed cost programs	380,275	-	-	-	380,275
Food service	-	-	-	5,244,680	5,244,680
Community education and services	-	-	-	11,306,597	11,306,597
Capital outlay					
Administration	13,792	-	-	-	13,792
District support services	200,699	-	-	-	200,699
Elementary and secondary regular instruction	330,714	-	-	-	330,714
Vocational education instruction	1,855	-	-	-	1,855
Special education instruction	86,456	-	-	-	86,456
Instructional support services	2,132,074	-	-	-	2,132,074
Pupil support services	1,230,723	-	-	-	1,230,723
Sites and buildings	1,176,514	-	15,824,944	-	17,001,458
Community education and services	-	-	-	47,707	47,707
Debt service					
Principal	52,387	6,690,000	-	600,000	7,342,387
Interest and fiscal charges	17,458	4,482,339	-	277,618	4,777,415
Total expenditures	152,280,480	11,172,339	17,158,228	17,523,592	198,134,639
Excess of revenues over (under) expenditures	(3,372,275)	(667,030)	(14,230,508)	116,366	(18,153,447)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	59,108	-	-	-	59,108
Transfers in	-	-	-	355,433	355,433
Transfers out	(355,433)	-	-	-	(355,433)
Total other financing sources (uses)	(296,325)	-	-	355,433	59,108
Net change in fund balances	(3,668,600)	(667,030)	(14,230,508)	471,799	(18,094,339)
Fund Balances					
Beginning of year	29,071,857	1,357,182	23,903,543	6,152,318	60,484,900
End of year	$ 25,403,257	$ 690,152	$ 9,673,035	$ 6,624,117	$ 42,390,561

Independent School District No. 271
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2018

Net change in fund balances - total governmental funds	$ (18,094,339)
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 is allocated over the useful lives as depreciation expense.	
Capital outlays	10,749,423
Depreciation expense	(9,456,969)
Loss on disposal	(230,855)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(49,235)
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	596,576
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	7,342,387
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(37,874,001)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(8,512)
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	1,360,655
The retiree benefit internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities and obligations.	(798,070)
The dental and self-insured medical benefit plans internal service funds are used by management to charge the costs of the self insured plans. The increase in net position is reported within the governmental activities in the Statement of Activities.	2,765,755
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	1,536
Change in net position - governmental activities	$ (43,695,649)

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 36,583,444	$ 36,583,444	$ 36,447,171	$ (136,273)
Other local and county revenues	3,902,509	3,982,509	4,035,238	52,729
Revenue from state sources	100,021,703	101,413,337	104,337,216	2,923,879
Revenue from federal sources	2,885,011	2,885,011	3,984,862	1,099,851
Sales and other conversion of assets	18,000	18,000	103,718	85,718
Total revenues	143,410,667	144,882,301	148,908,205	4,025,904
Expenditures				
Current				
Administration	5,862,039	5,911,192	5,741,880	(169,312)
District support services	3,444,837	3,117,733	4,166,502	1,048,769
Elementary and secondary regular instruction	68,573,685	70,533,703	69,039,259	(1,494,444)
Vocational education instruction	1,824,732	1,826,522	1,306,585	(519,937)
Special education instruction	30,018,048	30,018,048	33,559,353	3,541,305
Instructional support services	9,766,018	10,036,161	10,231,033	194,872
Pupil support services	11,226,649	11,488,649	12,431,286	942,637
Sites and buildings	8,662,619	8,662,619	10,181,635	1,519,016
Fiscal and other fixed cost programs	387,000	387,000	380,275	(6,725)
Capital outlay				
Administration	109,109	109,109	13,792	(95,317)
District support services	-	-	200,699	200,699
Elementary and secondary regular instruction	318,127	308,900	330,714	21,814
Vocational education instruction	6,000	1,500	1,855	355
Special education instruction	26,197	26,197	86,456	60,259
Instructional support services	1,942,101	1,942,101	2,132,074	189,973
Pupil support services	889,425	889,425	1,230,723	341,298
Sites and buildings	2,953,500	4,153,500	1,176,514	(2,976,986)
Debt service				
Principal	52,387	52,387	52,387	-
Interest and fiscal charges	17,457	17,457	17,458	1
Total expenditures	146,079,930	149,482,203	152,280,480	2,798,277
Excess of revenues over (under) expenditures	(2,669,263)	(4,599,902)	(3,372,275)	1,227,627
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	50,000	50,000	59,108	9,108
Transfers out	(555,097)	(305,097)	(355,433)	(50,336)
Total other financing sources (uses)	(505,097)	(255,097)	(296,325)	(41,228)
Net change in fund balance	$ (3,174,360)	$ (4,854,999)	(3,668,600)	$ 1,186,399
Fund Balance				
Beginning of year			29,071,857	
End of year			$ 25,403,257	

See notes to financial statements.

Independent School District No. 271
Statement of Net Position - Proprietary Funds
As of June 30, 2018

	Governmental Activities - Internal Service Funds
Assets	
Cash and cash equivalents	$ 20,326,837
Investments	13,070,519
Interfund receivable	2,686,068
Interest receivable	356,304
Total assets	$ 36,440,743
Liabilities and Net Position	
Liabilities	
Incurred but not reported claims	$ 1,787,000
Benefits payable	1,210,500
Unearned revenue	4,811,588
Total liabilities	7,809,088
Net Position	
Unrestricted	28,631,655
Total liabilities and net position	$ 36,440,743

Independent School District No. 271
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2018

	Governmental Activities - Internal Service Funds
Operating Revenue	
Charges for services	$ 23,495,068
District contribution	512,884
Total revenue	24,007,952
Operating Expenses	
Salaries and benefits	33,000
Employee benefits	20,159,086
Administrative	1,681,919
Total operating expenses	21,874,005
Operating income	2,133,947
Nonoperating Revenue	
Investment income	346,367
Income before transfers	2,480,314
Net Position	
Beginning of year	26,151,341
End of year	$ 28,631,655

See notes to financial statements.

Independent School District No. 271
Statement of Cash Flows - Proprietary Funds
As of June 30, 2018

	Governmental Activities - Internal Service Funds
Cash Flows - Operating Activities	
Receipts from employee contributions	$ 22,809,957
Receipts from district contributions	562,119
Employee claims paid	(19,544,974)
Payments to employees	(607,803)
Payments to suppliers	(1,696,568)
Net cash flows - operating activities	1,522,731
Cash Flows - Investment Activities	
Investment purchases	588,940
Interest received	286,838
Net cash flows - investment activities	875,778
Net change in cash and cash equivalents	2,398,509
Cash and Cash Equivalents	
Beginning of year	17,928,328
End of year	$ 20,326,837
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	$ 2,133,947
Adjustments to reconcile operating income	
To net cash flows - operating activities	
Accounts payable	(14,649)
Benefits payable	49,235
Incurred but not reported dental claims	39,309
Interfund receivable	(122,232)
Unearned revenue	(561,864)
Net adjustments	(611,216)
Net cash flows - operating activities	$ 1,522,731

See notes to financial statements.

Independent School District No. 271
Statement of Fiduciary Net Position
Year Ended June 30, 2018

	Agency Fund	Private Purpose Trust Fund
Assets		
Current		
Cash and investments	$ 309,314	$ 75,887
Due from other governments	4,467	-
Total assets	$ 313,781	$ 75,887
Liabilities		
Accounts payable	$ 124,891	$ -
Salaries and benefits payable	10,232	-
Other liabilities	178,658	-
Total liabilities	$ 313,781	$ -
Net Position		
Held in trust		$ 75,887

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

	Private Purpose Trust Fund
Additions	
Interest revenue	$ 1,056
Deductions	
Scholarships	15,595
Change in net position	(14,539)
Net Position	
Beginning of year	90,426
End of year	$ 75,887

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

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

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

The student activity accounts of the District are not under the School Board's control; therefore, separate audited financial statements have been issued.

B. Basic Financial Statement Information

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated deprecation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded as follows:

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 fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor the constraints on the specific purpose for which amounts in these funds can be spent. If resources from more than one fund balance classification could be spent, the school will follow the approved district plan for each of the areas. If there is no plan, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided, operating grants and contributions, and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Description of Funds:

Major Funds:

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

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

Capital Projects – Building Construction Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities funded with bond issues or special levies.

Nonmajor Funds:

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

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

OPEB Debt Service – This fund is used to account for the accumulation of resources for, and payment of, the 2009A OPEB Bonds and 2017B Taxable OPEB Refunding Bonds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued):

Fiduciary Funds:

Agency Fund – This fund is used to account for assets held by the District for the Bloomington education cable television.

Private Purpose Trust Fund – This fund is used to account for assets held by the District to be used for scholarships.

Proprietary Funds:

Internal Service Funds – These funds are used to account for self insured employee dental and medical costs and related stop loss insurance and retiree benefits and OPEB obligations.

D. Deposits and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described as follows.

All governmental, fiduciary, and proprietary funds of the District, except for the OPEB Fund, participate in a government-wide investment pool. Cash balances from these funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. The investment pool of the District functions essentially as a demand account for all participating funds. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and the State Investment Pool. Investments are stated at fair value.

The District's cash and cash equivalents in its OPEB Internal Service Fund are considered to be cash on hand, deposits, and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition. For all other proprietary funds, the District maintains an internal investment pool; each fund's position in this pool is considered a cash equivalent.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

Interest is allocated among the funds based on the monthly cash balance.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

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

H. Prepaid Items

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes

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

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $4,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for buildings and building improvements and 3 to 20 years for furniture and equipment.

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has three items that qualify for reporting in this category. A deferred charge on refunding, deferred outflows of resources related to pensions, and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

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

L. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

M. Compensated Absences

The District compensates most full-time classified employees upon termination of employment for unused vacation up to a set maximum. At June 30, 2018, the District recorded a liability of $1,210,500 for unused vacation in the Internal Service Fund. District employees are entitled to sick leave at various rates for each month of full-time service. Certain employees are compensated for unused sick leave upon termination of employment; unused sick leave also enters into the calculation of some employee's severance pay.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Pensions

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

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

O. Fund Equity

1. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include inventory and prepaid items.

- Restricted Fund Balances – These are amounts that are restricted to specific purposes either by constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through enabling legislation.

- Committed Fund Balances – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) through resolution.

- Assigned Fund Balances – The School Board delegates to the Superintendent, the authority to assign fund balances for specific purposes.

- Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

If resources from more than one fund balance classification could be spent, the school will follow the approved district plan for each of the areas. If there is no plan, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Equity (Continued)

2. Minimum Fund Balance Policy

The District will strive to maintain a General Fund unassigned minimum fund balance of 5% and a maximum of 8% of General Fund operating expenditures. When the District is projected to drop below its minimum fund balance, District administration shall initiate measures to either generate additional revenue or to reduce expenditures through a budget reduction plan, or a combination of both.

P. Net Position

Net Position represents the difference between assets and deferred outflows of resource; liabilities and deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Q. Use of Estimates

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

R. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: The District has a policy in place to address custodial credit risk for deposits, stating all deposits will be invested at financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) system and be willing and capable of posting collateral, private insurance or letters of credit for funds in excess of FDIC insurable limits and in amounts required by the District. The District had certificates of deposit totaling $31,807,108 at June 30, 2018, the District was not exposed to custodial credit risk on deposits.

B. Investments

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

Investment	Weighted Average Maturities (in Years)	Fair Value	Moody's/ S&P Rating
Pooled Investments			
MSDLAF+ Liquid Class	N/A	$ 14,295,076	AAAm
Minnesota Trust Investment Shares	N/A	23,965,390	AAAm
Negotiable Certificates of Deposit	0.10	1,868,916	N/A
U.S. Treasury Notes	1.11	11,379,258	AAA
Government Agency Securities	0.21	1,966,758	AA+
Term Series	0.07	10,000,000	AAAm
Limited Term Series	N/A	5,049,000	AAAm
Total pooled investments		68,524,398	
OPEB Investments			
Minnesota Trust Investment Shares	N/A	822,628	AAAm
Negotiable Certificates of Deposit	0.38	1,086,887	N/A
Local Government Obligations	14.95	2,419,402	AA, AA+, AA-, AA3
Total OPEB investments		4,328,917	
Capital Project Investments			
Minnesota Trust Investment Shares	N/A	1,749,113	AAAm
Local Governmental Obligations	0.02	630,959	AA, AAA
Term Series	0.08	5,000,000	AAAm
Total capital projects investments		7,380,072	
Total investments		$ 80,233,387	

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)
Interest Rate Risk: The District's investment policy states investments will be managed in a manner to attain market rate of return through various economic and budgetary cycles while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: The District's policy states it may invest in any type of security allowed by *Minnesota Statutes* with limits. In addition, commercial paper must be rated at the highest classifications by two of the four nationally recognized rating services.

Concentration of Credit Risk: The District's investment policy states investments shall be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector, limiting investments in securities that have higher credit risks, investing in securities with varying maturities and continuously investing a portion of the portfolio in readily available funds to ensure appropriate liquidity is maintained in order to meet ongoing obligations. The policy does not state the maximum percentage of the District's investment portfolio that may be invested in a single type of investment instrument.

Custodial Credit Risk – Investments: The District's investment policy states all investment securities shall be held in third party safekeeping by an institution designated as custodial agent. For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

- Investments of $24,401,180 are significant other observable inputs (Level 2 inputs)

C. Deposits and Investments

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

District Governmental Funds:

Deposits	$ 31,807,108
Investments (Note 3.B.)	80,233,387
Petty cash	1,350
Total deposits and investments	$ 112,041,845

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments (Continued)

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

Statement of Net Position	
Cash and investments	$ 111,656,644
Statement of Fiduciary Net Position	
Agency fund	309,314
Private purpose trust fund	75,887
Total	$ 112,041,845

NOTE 3 – INTERFUND TRANSACTIONS

A. Interfund Transfers

	Transfers in Other Nonmajor
Transfers out	
General Fund	$ 355,433

A transfer of $314,015 was made from the General Fund to the other nonmajor funds to subsidize certain costs at the Pond and Southwood Early Learning Centers. A transfer of $41,418 was made from the General Fund to the other nonmajor funds to eliminate deficit school lunch balances.

B. Interfund Receivable/Payable

	Interfund Payable			
	General	Capital Projects	Other Nonmajor	Total
Interfund receivable				
Internal service fund	$ 2,438,481	$ 4,612	$ 242,975	$ 2,686,068

An interfund receivable/payable was established to present July and August dental and health insurance premiums withheld and owed to the Internal Service Funds.

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land and land improvements	$ 2,085,954	$ -	$ -	$ 2,085,954
Construction in progress	162,028	1,336,889	162,028	1,336,889
Total capital assets not being depreciated	2,247,982	1,336,889	162,028	3,422,843
Capital assets being depreciated				
Buildings and building	231,807,654	8,121,841	10,980	239,918,515
Improvements, furniture, and equipment	16,166,209	1,452,721	1,693,119	15,925,811
Total capital assets being depreciated	247,973,863	9,754,562	1,704,099	255,844,326
Less accumulated Depreciation for				
Buildings and building improvements	120,007,309	8,398,627	3,665	128,402,271
Furniture and equipment	11,612,810	1,058,342	1,469,579	11,201,573
Total accumulated depreciation	131,620,119	9,456,969	1,473,244	139,603,844
Total capital assets being depreciated, net	116,353,744	297,593	230,855	116,240,482
Governmental activities, capital assets, net	$ 118,601,726	$ 1,634,482	$ 392,883	$ 119,663,325

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

Administration	$ 1,995
District support services	34,649
Elementary and secondary regular instruction	156,796
Vocational education instruction	1,999
Special education instruction	8,086
Community service	2,647
Instructional support	33,652
Pupil support	655,376
Food service	32,649
Unallocated	8,529,120
Total depreciation expense	$ 9,456,969

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2009A OPEB Bonds	04/15/09	4.00%-5.25%	$ 12,545,000	02/01/25	$ 320,000	$ 320,000
2013A Alternative Faclities Bonds	06/04/13	3.00%-5.00%	16,275,000	02/01/34	16,175,000	-
2013B School Refunding Bonds	06/04/13	1.50%-2.00%	11,780,000	02/01/20	3,940,000	2,005,000
2014A School Refunding Bonds	12/30/14	1.08%	23,490,000	02/01/20	10,005,000	4,870,000
2014B Alternative Facilities Bonds	12/30/14	3.47%	25,965,000	02/01/38	25,965,000	-
2015A School Refunding Bonds	12/30/15	2.00-5.00%	29,390,000	02/01/24	28,900,000	-
2017A Facility Maintenance Bonds	03/23/17	3.375-4.00%	24,915,000	02/01/41	24,915,000	-
2017B Taxable Refunding OPEB Bonds	03/23/17	0.85-2.70%	11,470,000	02/01/25	11,170,000	110,000
Build America Bonds	09/29/10	6.15%	600,000	05/15/22	244,368	55,658
Total G.O. bonds					121,634,368	7,360,658
Unamortized bond premiums					4,818,922	
Other long-term liabilities						
Compensated absences payable					1,210,500	121,050
Severance payable					421,409	42,141
Total long-term liabilities					$ 128,085,199	$ 7,523,849

The long-term bond liabilities listed above were issued to finance the acquisition, construction, and refurbishing of School facilities, purchase capital assets, refinance (refund) previous bond issues or to finance the District's OPEB obligation.

On March 23, 2017, the District issued $11,460,000 G.O. Taxable OPEB Refunding Bonds, Series 2017B for the advance refunding of the 2020 maturity along with the 2024 and 2025 maturities of the G.O. Taxable OPEB Bonds, Series 2009A. Proceeds of the 2017B Bonds were placed in escrow to redeem the 2009B Bonds with maturities of 2020 through 2025 on the call date of February 1, 2019. The 2020 through 2025 maturity are considered defeased. The net present value savings was $934,298 and the refunding lowered debt service payments by $1,044,010.

Bonds will be retired with assets from the Debt Service Funds while the compensated absences and severance liabilities will be liquidated by the General and Internal Service Funds.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds and Loans

Year Ending	G.O. Bonds			Build America Bonds		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2019	$ 7,305,000	$ 4,633,415	$ 12,484,221	$ 55,658	$ 14,186	$ 69,844
2020	7,695,000	4,332,440	12,027,440	59,134	10,710	69,844
2021	8,195,000	4,026,270	12,221,270	62,827	7,018	69,845
2022	8,890,000	3,619,670	12,509,670	66,749	3,095	69,844
2023	8,820,000	3,178,110	11,998,110	-	-	-
2024-2028	16,500,000	11,998,250	28,498,250	-	-	-
2029-2033	8,250,000	10,628,850	18,878,850	-	-	-
2034-2038	36,070,000	7,415,577	43,485,577	-	-	-
2039-2041	19,665,000	1,326,550	20,991,550	-	-	-
Total	$ 121,390,000	$ 51,159,132	$ 173,094,938	$ 244,368	$ 35,009	$ 279,377

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 128,680,000	$ -	$ 7,290,000	$ 121,390,000
Unamortized bond premiums	6,144,857	-	1,325,935	4,818,922
Build America Bonds	296,755	-	52,387	244,368
Compensated absence payable	1,161,265	912,292	863,057	1,210,500
Severance benefits payable	421,409	-	-	421,409
Total long-term liabilities	$ 136,704,286	$ 912,292	$ 9,531,379	$ 128,085,199

NOTE 6 – 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.

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

A. Restricted/Reserved Fund Equity
Restricted/Reserved for Capital Projects Levy – This balance represents available resources from the capital projects levy to be used for building construction. All interest income attributable to the capital projects levy must be credited to this account.

NOTE 6 – FUND BALANCES (CONTINUED)

A. Restricted/Reserved Fund Equity (Continued)

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

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

Restricted/Reserved for State Approved Alternative Programs – Per *Minnesota Statutes*, section 123.05, subd. 2, each district that is a member of a state approved alternative learning program must restrict/reserve revenue in an amount equal to the sum of (1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to section 126.10 subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved public alternative program, plus (2) the amount of basic skills revenue generated by pupils attending the alternative learning program.

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

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

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

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

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statues* 124D.16).

NOTE 6 – FUND BALANCES (CONTINUED)

B. Committed Fund Equity

Committed for Wellness – This balance represents resources committed for employee wellness programs.

Committed for Uniform and Instrument Replacement – This balance represents resources committed to purchase high school uniforms and future instrument replacement.

Committed for Athletic Activities – This balance represents unspent athletic and activities dollars to differentiate between athletics and activities and K-12 operating funding.

Committed for Site Department Carryover Funds – This balance represents resources committed for budget carryovers from the prior year.

Committed for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue.

C. Government-Wide Restrictions

Net position restricted for "Other Purposes" are comprised of the total General Fund restricted fund balances, the Food Service Fund and Community Service Fund balances.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2018, was $45,888,362. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

Tier II Benefits

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

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

C. Contribution Rate

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

	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2017
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	5.12%, from the single equivalent interest rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	2.00%
Mortality Assumption	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term
Domestic stocks	39 %	5.10 %
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Unallocated cash	2	0.00
Total	100 %	

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

Changes in actuarial assumptions since the 2016 valuation:

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

E. Discount Rate

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

F. Net Pension Liability

On June 30, 2018, the District reported a liability of $250,620,575 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 1.2555% at the end of the measurement period and 1.2585% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 250,620,575
State's proportionate share of the net pension liability associated with the District	24,227,300

For the year ended June 30, 2018, the District recognized pension expense of $43,432,311. It recognized $464,661 as an increase to this pension expense for the support provided by direct aid.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 2,023,855	$ 1,759,913
Net difference between projected and actual earnings on plan investments	-	2,002,319
Changes of assumptions	136,845,053	35,107,986
Changes in proportion	957,011	3,994,480
Contributions to TRA subsequent to the measurement date	5,455,439	-
Total	$ 145,281,358	$ 42,864,698

$5,455,439 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

2019	$ 25,794,689
2020	30,422,968
2021	26,654,712
2022	21,580,360
2023	(7,491,508)
Total	$ 96,961,221

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

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

District proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
$ 330,770,866	$ 250,620,575	$ 183,044,128

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

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

Public Employees' Retirement Association

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

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

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

B. Benefits Provided
PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions effect at the time they last terminated their public services.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

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

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

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2018. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were $2,084,815. The District's contributions were equal to the required contributions as set by state statute.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of $26,014,531 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $327,077. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.4075%, which was an increase/decrease of 0.4216% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $2,456,051 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $9,446 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 857,360	$ 1,758,050
Changes in actuarial assumptions	4,468,412	2,607,959
Difference between projected and actual investments earnings	-	1,102,913
Change in proportion	-	1,907,335
Contributions paid to PERA subsequent to the measurement date	2,084,815	-
Total	$ 7,410,587	$ 7,376,257

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

$2,084,815 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2019	$ (1,182,614)
2020	973,911
2021	(737,514)
2022	(1,104,268)
Total	$ (2,050,485)

E. Actuarial Assumptions

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

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

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

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

The following changes in actuarial assumptions occurred in 2017:

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10%
International stocks	19%	5.3
Bonds	20%	0.75
Alternative assets	20%	5.9
Cash	2%	0.00
Total	100%	

F. Discount Rates

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

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 40,350,471	$ 26,014,531	$ 14,277,961

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by Corporate Health. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees. No assets are acclimated in a trust.

B. Benefits Provided

The District provides benefits to certain employees and retirees based on different bargaining groups.

C. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Corporate Health. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2018, the District contributed $902,286 to the plan.

D. Members

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

Inactive employees or beneficiaries currently receiving benefits	38
Inactive employees entitled to but not yet receiving benefit payments	510
Active employees	1,317
Total	1,865

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Discount Rate	3.53%
Expected Return	n/a
Inflation	2.75%
Healthcare cost trend increases	6.9% initially, decreasing over several decades to an ultimate rate of 4.4%
Mortality Assumption	RP-2000 mortality tables with projected

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

The discount rate used to measure the total OPEB liability was 3.53% based on the Bond Buyer GO 20-Year Municipal Bond Index.

F. Total OPEB Liability

The District's total OPEB liability of $11,456,017 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at June 30, 2017	$ 11,441,509
Changes for the year	
Service cost	1,004,898
Interest	341,865
Differences between expected and actual	-
economic experience	-
Changes in assumptions	(429,969)
Employer contributions	(902,286)
Net investment income	-
Benefit payments	-
Administrative expense	-
Other charges	-
Net changes	14,508
Balances at June 30, 2018	$ 11,456,017

Changes of assumptions and other inputs reflect a change in the discount rate from 2.85% in 2016 to 3.53% in 2017.

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.53% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.53%)	Current (3.53%)	1% increase (4.53%)
Total OPEB Liability (Asset)	$ 12,090,436	$ 11,456,017	$ 10,839,125

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity (Continued)

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

	1% decrease (5.9 decreasing to 3.4%)	Current (6.9% decreasing to 4.4%)	1% increase (7.9% decreasing to 5.4%)
Total OPEB Liability (Asset)	$ 10,608,766	$ 11,456,017	$ 12,464,481

H. 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 $1,298,989. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ -
Differences between expected and actual economic experience	-	-
Changes of assumptions	-	382,195
Contributions made subsequent to measurement date	993,279	-
Total	$ 993,279	$ 382,195

$993,279 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

Year Ending December 31,	Total
2019	$ (47,774)
2020	(47,774)
2021	(47,774)
2022	(47,774)
2023	(47,774)
Thereafter	(143,325)
Total	$ (382,195)

NOTE 9 – CONTINGENCIES

Program Compliance
Federal and state program activities are subject to financial and compliance regulation. To the extent any expenditures are disallowed or other compliance features are not met, a liability to the respective grantor agencies could result.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to address these risks. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from the past year.

On July 1, 1993, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of $1,200 for each dental care claim. The General, Food Service, Community Service, and Agency Funds of the District participate in the program and make payments to the Dental Insurance Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 10 – RISK MANAGEMENT (CONTINUED)

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Dental Insurance Internal Service Fund includes a reserve of $1,238,547 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2018, is $27,000 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts for the past three years were as follows:

	Balance Beginning of Year	Claims, Expense, and Estimates	Claims Payments	Balance End of Year
2015-2016	26,000	1,093,998	(1,099,998)	20,000
2016-2017	20,000	1,148,187	(1,131,187)	37,000
2017-2018	37,000	1,170,194	(1,180,194)	27,000

During 2010, the District began to self-insure for health benefits. A stop-loss policy was purchased that limits the District's loss to $200,000 at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 125% of the prior year's claims. Settled claims have not exceeded this commercial coverage in any of the past three years.

The General, Food Service, Community Service, and Agency Funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2018, is $1,760,000 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts for the past three years were as follows:

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2015-2016	$ 1,578,835	$ 17,042,601	$ (16,910,745)	$ 1,710,691
2016-2017	1,710,691	18,670,528	(18,670,528)	1,710,691
2017-2018	1,710,691	17,414,089	(17,364,780)	1,760,000

NOTE 11 – COMMITMENTS

At June 30, 2018, the District had various construction contract commitments for projects outstanding totaling $4,543,250.

NOTE 12 – 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 $7,090,778 to add the beginning total OPEB liability.

NOTE 13 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 271
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2018
Total OPEB Liability	
Service cost	$ 1,004,898
Interest	341,865
Changes of assumptions	(429,969)
Benefit payments	(902,286)
Net change in total OPEB Liability	14,508
Beginning of year	11,441,509
End of year	$ 11,456,017
Covered payroll	$ 87,324,967
Total OPEB liability as a percentage of covered-employee payroll	13.1%

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

Independent School District No. 271
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.4741%	$ 22,270,843	$ -	$ 22,270,843	$ 24,890,469	89.5%	78.7%
2016	0.4521%	23,430,168	-	23,430,168	26,129,960	89.7%	78.2%
2017	0.4216%	34,231,829	447,074	34,678,903	26,160,187	132.6%	68.9%
2018	0.4075%	26,014,531	327,077	26,341,608	26,249,387	100.4%	75.9%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	1.3465%	$ 62,045,751	$ 4,364,762	$ 66,410,513	$ 61,461,929	100.9%	81.5%
2016	1.3409%	82,947,927	10,174,529	93,122,456	68,056,160	121.9%	76.8%
2017	1.2585%	300,182,278	30,130,021	330,312,299	65,462,973	458.6%	44.9%
2018	1.2555%	250,620,575	24,227,300	274,847,875	67,587,093	370.8%	51.6%

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

Independent School District No. 271
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 1,804,559	$ 1,804,559	$ -	$ 24,890,469	7.25%
2015	1,959,747	1,959,747	-	26,129,960	7.50%
2016	1,962,014	1,962,014	-	26,160,187	7.50%
2017	1,968,704	1,968,704	-	26,249,387	7.50%
2018	2,084,815	2,084,815	-	27,797,533	7.50%

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

Schedule Of District Contributions
TRA Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 4,302,335	$ 4,302,335	$ -	$ 61,461,929	7.00%
2015	5,104,212	5,104,212	-	68,056,160	7.50%
2016	4,909,723	4,909,723	-	65,462,973	7.50%
2017	5,069,032	5,069,032	-	67,587,093	7.50%
2018	5,455,439	5,455,439	-	72,739,187	7.50%

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

See notes to required supplementary information.

TRA Retirement Fund

2017 Changes
Changes in Actuarial Assumptions

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

2016 Changes
Changes in Actuarial Assumptions

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

2015 Changes
Changes of Benefit Terms

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

TRA Retirement Fund (Continued)

2015 Changes (Continued)
Changes in Actuarial Assumptions

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

General Employees Fund

2017 Changes
Changes in Actuarial Assumptions

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

2016 Changes
Changes in Actuarial Assumptions

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

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

2015 Changes
Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

Post Employment Health Care Plan
No assets are acclimated in a trust.

2017 Changes

- Changes of assumption and other inputs reflect a change in the discount rate from 2.85% in 2016 to 3.53% in 2017.

SUPPLEMENTARY INFORMATION

Independent School District No. 271
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and investments	$ 1,452,241	$ 6,865,937	$ 8,318,178
Current property taxes receivable	-	886,439	886,439
Delinquent property taxes receivable	-	6,262	6,262
Accounts receivable	401	50,000	50,401
Due from Department of Education	-	312,149	312,149
Due from other Minnesota school districts	-	238,870	238,870
Due from Federal Government through Department of Education	63,583	227,780	291,363
Inventory	138,806	-	138,806
Prepaid items	12,616	15,872	28,488
Total assets	$ 1,667,647	$ 8,603,309	$ 10,270,956
Liabilities			
Accounts payable	$ 1,238	$ 8,238	$ 9,476
Salaries and benefits payable	424,725	1,000,302	1,425,027
Due to other governmental units	-	851	851
Interfund payable	115,794	127,181	242,975
Unearned revenue	127,789	134,081	261,870
Total liabilities	669,546	1,270,653	1,940,199
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	1,825,077	1,825,077
Unavailable revenue - delinquent property taxes	-	14,001	14,001
Total deferred inflows of resources	-	1,839,078	1,839,078
Fund Balances			
Nonspendable			
Inventory	138,806	-	138,806
Prepaid items	12,616	15,872	28,488
Restricted			
Community education programs	-	3,300,344	3,300,344
Adult basic education	-	957,841	957,841
Early childhood family and education programs	-	846,372	846,372
School readiness	-	356,227	356,227
Fund purpose	846,679	16,922	863,601
Total fund balances	998,101	5,493,578	6,491,679
Total liabilities, deferred inflows of resources, and fund balances	$ 1,667,647	$ 8,603,309	$ 10,270,956

OPEB Debt Service	Total Nonmajor Funds
$ 533,645	$ 8,851,823
375,300	1,261,739
3,625	9,887
-	50,401
-	312,149
-	238,870
-	291,363
-	138,806
-	28,488
$ 912,570	$ 11,183,526
$ -	$ 9,476
-	1,425,027
-	851
-	242,975
-	261,870
-	1,940,199
772,754	2,597,831
7,378	21,379
780,132	2,619,210
-	138,806
-	28,488
-	3,300,344
-	957,841
-	846,372
-	356,227
132,438	996,039
132,438	6,624,117
$ 912,570	$ 11,183,526

Independent School District No. 271
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2018

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenues			
Local property taxes	$ -	$ 2,062,988	$ 2,062,988
Other local and county revenues	-	6,066,073	6,066,073
Revenue from state sources	312,557	3,149,766	3,462,323
Revenue from federal sources	3,013,397	272,008	3,285,405
Sales and other conversion of assets	1,703,757	-	1,703,757
Interdistrict revenue	-	238,870	238,870
Total revenues	5,029,711	11,789,705	16,819,416
Expenditures			
Current			
Elementary and secondary regular Instruction	-	46,990	46,990
Food service	5,244,680	-	5,244,680
Community education and services	-	11,306,597	11,306,597
Capital outlay			
Community education and services	-	47,707	47,707
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	5,244,680	11,401,294	16,645,974
Excess of revenues over (under) expenditures	(214,969)	388,411	173,442
Other Financing Source			
Transfers in	41,418	314,015	355,433
Net change in fund balances	(173,551)	702,426	528,875
Fund Balances			
Beginning of year	1,171,652	4,791,152	5,962,804
End of year	$ 998,101	$ 5,493,578	$ 6,491,679

OPEB Debt Service	Total Nonmajor Funds
$ 816,209	$ 2,879,197
4,332	6,070,405
1	3,462,324
-	3,285,405
-	1,703,757
-	238,870
820,542	17,639,958
-	46,990
-	5,244,680
-	11,306,597
-	47,707
600,000	600,000
277,618	277,618
877,618	17,523,592
(57,076)	116,366
-	355,433
(57,076)	471,799
189,514	6,152,318
$ 132,438	$ 6,624,117

Independent School District No. 271
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local and county revenues	$ 39,998	$ 39,998	$ -	$ (39,998)
Revenue from state sources	300,973	300,973	312,557	11,584
Revenue from federal sources	2,889,088	2,889,088	3,013,397	124,309
Sales and other conversion of assets	1,937,082	1,937,082	1,703,757	(233,325)
Total revenues	5,167,141	5,167,141	5,029,711	(137,430)
Expenditures				
Current				
Food service	5,318,113	5,318,113	5,244,680	(73,433)
Excess of revenues under expenditures	(150,972)	(150,972)	(214,969)	(63,997)
Other Financing Sources				
Transfers in	-	-	41,418	41,418
Net change in fund balance	$ (150,972)	$ (150,972)	(173,551)	$ (22,579)
Fund Balance				
Beginning of year			1,171,652	
End of year			$ 998,101	

Independent School District No. 271
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 2,055,351	$ 2,055,351	$ 2,062,988	$ 7,637
Other local and county revenues	5,932,246	6,058,682	6,066,073	7,391
Revenue from state sources	3,493,838	3,366,403	3,149,766	(216,637)
Revenue from federal sources	322,927	251,619	272,008	20,389
Interdistrict revenue	241,732	241,732	238,870	(2,862)
Total revenues	12,046,094	11,973,787	11,789,705	(184,082)
Expenditures				
Current				
Elementary and secondary regular Instruction	170,000	10,000	46,990	36,990
Community education and services	12,221,327	12,482,682	11,306,597	(1,176,085)
Capital outlay				
Community education and services	55,855	54,171	47,707	(6,464)
Total expenditures	12,447,182	12,546,853	11,401,294	(1,145,559)
Excess of revenues over (under) expenditures	(401,088)	(573,066)	388,411	961,477
Other Financing Sources				
Transfers in	305,097	305,097	314,015	8,918
Net change in fund balance	$ (95,991)	$ (267,969)	702,426	$ 970,395
Fund Balance				
Beginning of year			4,791,152	
End of year			$ 5,493,578	

Independent School District No. 271
Combining Statement of
Net Position - Internal Service Funds
June 30, 2018

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Assets					
Cash and cash equivalents	$ 3,636,012	$ 1,373,898	$ 14,494,299	$ 822,628	$ 20,326,837
Investments	-	-	-	13,070,519	13,070,519
Accounts receivable	-	55	960	-	1,015
Interfund receivable	-	137,155	2,548,913	-	2,686,068
Interest receivable	-	-	-	356,304	356,304
Total assets	$ 3,636,012	$ 1,511,108	$ 17,044,172	$ 14,249,451	$ 36,440,743
Liabilities					
Incurred but not reported claims	$ -	$ 27,000	$ 1,760,000	$ -	$ 1,787,000
Benefits Payable	1,210,500	-	-	-	1,210,500
Unearned revenue	-	245,561	4,566,027	-	4,811,588
Total liabilities	1,210,500	272,561	6,326,027	-	7,809,088
Net Position					
Unrestricted	2,425,512	1,238,547	10,718,145	14,249,451	28,631,655
Total liabilities and net position	$ 3,636,012	$ 1,511,108	$ 17,044,172	$ 14,249,451	$ 36,440,743

Independent School District No. 271
Combining Statement of Revenues, Expenses. and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2018

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Operating revenues					
Charges for services	$ -	$ 1,342,571	$ 22,152,497	$ -	$ 23,495,068
Contribution	512,884	-	-	-	512,884
Total revenue	512,884	1,342,571	22,152,497	-	24,007,952
Operating expenses					
Salaries and benefits	-	33,000	-	-	33,000
Employee benefits	574,803	1,170,194	17,414,089	1,000,000	20,159,086
Administrative	-	84,166	1,597,504	249	1,681,919
Total operating expenses	574,803	1,287,360	19,011,593	1,000,249	21,874,005
Operating income (loss)	(61,919)	55,211	3,140,904	(1,000,249)	2,133,947
Nonoperating revenues					
Investment income	31,917	15,572	115,929	182,949	346,367
Income before transfers	(30,002)	70,783	3,256,833	(817,300)	2,480,314
Net position					
Beginning of year	2,455,514	1,167,764	7,461,312	15,066,751	26,151,341
End of year	$ 2,425,512	$ 1,238,547	$ 10,718,145	$ 14,249,451	$ 28,631,655

Independent School District No. 271
Combining Statement of Cash Flows -
Internal Service Funds
As of June 30, 2018

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Cash Flows - Operating Activities					
Receipts from employee contributions	$ -	$ 1,305,737	$ 21,504,220	$ -	$ 22,809,957
Receipts from district contributions	562,119	-	-	-	562,119
Employee claims paid	-	(1,180,194)	(17,364,780)	(1,000,000)	(19,544,974)
Payments to employees	(574,803)	(33,000)	-	-	(607,803)
Payments to suppliers	-	(85,926)	(1,610,393)	(249)	(1,696,568)
Net cash flows - operating activities	(12,684)	6,617	2,529,047	(1,000,249)	1,522,731
Cash Flows - Investment Activities					
Investment purchases	-	-	-	588,940	588,940
Interest received	31,917	15,572	115,929	123,420	286,838
Net cash flows - investment activities	31,917	15,572	115,929	712,360	875,778
Net change in cash and cash equivalents	19,233	22,189	2,644,976	(287,889)	2,398,509
Cash and Cash Equivalents					
Beginning of year	3,616,779	1,351,709	11,849,323	1,110,517	17,928,328
End of year	$ 3,636,012	$ 1,373,898	$ 14,494,299	$ 822,628	$ 20,326,837
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities					
Operating income (loss)	$ (61,919)	$ 55,211	$ 3,140,904	$ (1,000,249)	$ 2,133,947
Adjustments to reconcile operating income (loss) to net cash flows - operating activities					
Accounts payable	-	(1,760)	(12,889)	-	(14,649)
Benefits payable	49,235	-	-	-	49,235
Incurred but not reported claims	-	(10,000)	49,309	-	39,309
Interfund receivable	-	(5,851)	(116,381)	-	(122,232)
Unearned revenue	-	(30,928)	(530,936)	-	(561,864)
Net adjustments	49,235	(48,594)	(611,857)	-	(611,216)
Net cash flows - operating activities	$ (12,684)	$ 6,617	$ 2,529,047	$ (1,000,249)	$ 1,522,731

Independent School District No. 271
Statement of Changes in Agency Fund
Assets and Liabilities
Year Ended June 30, 2018

	June 30, 2017	Additions	Deductions	June 30, 2018
Assets				
Cash and investments	$ 28,185	$ 706,945	$ (425,816)	$ 309,314
Due from other governments	247,701	4,467	(247,701)	4,467
Total assets	$ 275,886	$ 711,412	$ (673,517)	$ 313,781
Liabilities				
Accounts payable	$ 122,450	$ 109,314	$ (106,873)	$ 124,891
Due to other governments	2,000	-	(2,000)	-
Salaries and benefits payable	7,969	162,329	(160,066)	10,232
Other liabilities	143,467	190,689	(155,498)	178,658
Total liabilities	$ 275,886	$ 462,332	$ (424,437)	$ 313,781

Independent School District No. 271
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2018

	Audit	UFARS	Audit-UFARS
01 General Fund			
Total revenue	$ 148,908,205	$ 148,908,206	$ (1)
Total expenditures	152,280,480	152,280,481	(1)
Nonspendable:			
460 Nonspendable fund balance	361,962	361,962	-
Restricted/reserved:			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Projects Levy	4,328,264	4,328,264	-
408 Cooperative Programs	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	7,359,057	7,359,057	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	852,230	852,230	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluation	-	-	-
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration Revenue	-	-	-
449 Safe School Crime	-	-	-
450 Transition to Pre-Kindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-
459 Basic Skills Extended Time	-	-	-
467 Long-term Facilities Maintenance	-	-	-
472 Medical Assistance	460,023	460,023	-
475 Title VII - Impact Aid	-	-	-
476 Payments in Lieu of Taxes	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Committed for separation	-	-	-
461 Committed	2,018,765	2,018,766	(1)
Assigned:			
462 Assigned fund balance	-	-	-
Unassigned:			
422 Unassigned fund balance	10,022,956	10,022,953	3
02 Food Services Fund			
Total revenue	$ 5,029,711	$ 5,029,709	$ 2
Total expenditures	5,244,680	5,244,677	3
Nonspendable:			
460 Nonspendable fund balance	151,422	151,422	-
Restricted/reserved:			
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted fund balance	846,679	846,682	(3)
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ 11,789,705	$ 11,789,704	$ 1
Total expenditures	11,401,294	11,401,294	-
Nonspendable:			
460 Nonspendable fund balance	15,872	15,872	-
Restricted/reserved:			
426 $25 Taconite	-	-	-
431 Community Education	3,300,344	3,300,346	(2)
432 ECFE	846,372	846,372	-
440 Teacher Development and Evaluation	-	-	-
444 School Readiness	356,227	356,227	-
447 Adult Basic Education	957,841	957,841	-
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted fund balance	16,922	16,922	-
Unassigned:			
463 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 Building Construction Fund			
Total revenue	$ 2,927,720	$ 2,927,721	$ (1)
Total expenditures	17,158,228	17,158,226	2
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
467 Long-term Facilities Maintenance	9,673,035	9,673,037	(2)
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ 10,505,309	$ 10,505,309	$ -
Total expenditures	11,172,339	11,172,339	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
425 Bond refunding	-	-	-
433 Maximum effort loan aid	-	-	-
451 QZAB payments	-	-	-
Restricted:			
464 Restricted fund balance	690,152	690,152	-
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ 1,056	$ 1,056	$ -
Total expenditures	15,595	15,594	1
Unassigned:			
422 Net position	75,887	75,887	-
20 Internal Service Fund			
Total revenue	$ 24,171,370	$ 24,171,371	$ (1)
Total expenditures	20,873,756	20,873,757	(1)
Unassigned:			
422 Net position	14,382,204	14,382,204	-
25 OPEB Revocable Trust			
Total revenue	$ 182,949	$ 182,949	$ -
Total expenditures	1,000,249	1,000,250	(1)
Unassigned:			
422 Net position	14,249,451	14,249,451	-
45 OPEB Irrevocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
47 OPEB Debt Service			
Total revenue	$ 820,542	$ 820,542	$ -
Total expenditures	877,618	877,618	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted:			
425 Bond refundings	-	-	-
464 Restricted fund balance	132,438	132,438	-
Unassigned:			
463 Unassigned fund balance	-	-	-

Independent School District No. 271
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child nutrition cluster		
Commodities programs (noncash assistance)	10.555	$ 336,380
School breakfast	10.553	621,125
Summer food service	10.559	83,052
Type a lunch	10.555	1,929,492
After school snack	10.555	43,348
Total child nutrition cluster and U.S. Department of Agriculture		3,013,397
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	1,591,657
Title II, Part A - improving teacher quality	84.367	338,593
Title III, Part A - language enhancement	84.365	149,963
Special education cluster		
Special education	84.027	1,649,222
Idea part b section 211 coordinated early intervening services	84.027	50,001
Handicapped early education	84.173	62,494
Total special education cluster		1,761,717
Infants and toddlers	84.181	50,241
Adult basic education		
Adult basic education	84.002	141,671
Adult basic education literacy	84.002A	83,346
Total adult basic education		225,017
Education for homeless children and youth	84.196	13,085
Through Independent School District No. 273		
Carl Perkins	84.048A	36,509
Direct from federal government		
Indian elementary and secondary school assistance	84.060	29,901
Total U.S. Department of Education		4,196,683
Total federal expenditures		$ 7,210,080

See notes to Schedule of Expenditures of Federal Awards.

Independent School District No. 271
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2018

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed on the previous page use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used. Other inventories are stated at cost as determined on a FIFO basis.

NOTE 4 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimus indirect cost rate.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the School Board
Independent School District No. 271
Bloomington, 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. 271, Bloomington, Minnesota, as of and for the year ending June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 24, 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 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.

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Internal Control over Financial Reporting (Continued)
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 24, 2018

Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the School Board
Independent School District No. 271
Bloomington, Minnesota

Report on Compliance for Each Major Federal Program
We have audited the compliance of Independent School District No. 271, Bloomington, Minnesota, with the types of compliance requirements described in the U.S. *Office of Management and Budget (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 in Accordance with the Uniform Guidance.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards.

Auditor's Responsibility
Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of 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 legal determination of the compliance of Independent School District No. 271.

BerganKDV, Ltd.
bergankdv.com

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 271, Bloomington, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a 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.

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.

BerganKDV Ltd.

Minneapolis, Minnesota
October 24, 2018

Independent School District No. 271
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	84.010
Name of Federal Program or Cluster	Title I
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	Yes

Independent School District No. 271
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no material weaknesses or significant deficiencies noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs noted.

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Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 271
Bloomington, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, and have issued our report thereon dated October 24, 2018.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 24, 2018

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