INDEPENDENT SCHOOL DISTRICT NO. 273
EDINA, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 273

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 273

School Board and Administration
Year Ended June 30, 2018

SCHOOL BOARD

	Position
Leny Wallen-Friedman	Chair
Sarah Patzloff	Vice Chair
Matthew Fox	Treasurer
Erica Allenburg	Clerk
Ellen Jones	Assistant Treasurer
Amir Gharbi	Assistant Clerk
Owen Michaelson	Assistant Clerk

ADMINISTRATION

Dr. John Schultz	Superintendent
Margo Bauck	Director of Business Services
Ra Chhoth	Controller
Matthew Hippen	Assistant Controller

FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 273
Edina, 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. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

(continued)

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OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District 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.

EMPHASIS OF MATTER

As described in Note 1 of the notes to the basic financial statements, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, during the year ended June 30, 2018. 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 and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 RSI 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 introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

(continued)

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

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

Prior Year Comparative Information

We have previously audited the District's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated October 17, 2017. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 8, 2018

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This section of Independent School District No. 273, Edina, Minnesota's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2018 by $71,471,446 (net position deficit). The District's total net position decreased by $20,981,501 during the fiscal year ended June 30, 2018, excluding the change in accounting principle reported in the current year as discussed below.

- The District recorded a change in accounting principle in the current year with the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The change reflects standards established for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures as they relate to other post-employment benefit (OPEB) liabilities. The implementation of this standard reduced beginning net position in the government-wide statements by $9,054,391.

- Government-wide revenues totaled $147,189,766, and were $20,981,501 less than expenses of $168,171,267.

- The General Fund's total fund balance (under the governmental fund presentation) decreased $4,956,153 from the prior year, compared to an $8,738,203 decrease planned in the final budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Combining and individual fund statements and schedules, presented as supplemental information.

The following explains the two types of statements included in the basic financial statements:

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, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources, 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 indicators of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District requires consideration of 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 all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds is presented as supplemental information.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America. Some funds are required by state law and by bond covenants. The District can establish other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds financial statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental funds financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

Proprietary Funds – The District maintains one type of proprietary fund. Internal service funds are used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its self-insured employee dental program. These services have been included within governmental activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Position:

Table 1
Summary Statement of Net Position
as of June 30, 2018 and 2017

	2018	2017
Assets		
Current and other assets	$ 110,229,697	$ 157,845,853
Capital assets, net of depreciation	244,848,543	198,629,498
Total assets	$ 355,078,240	$ 356,475,351
Deferred outflows of resources		
Pension plan deferments	$ 115,530,697	$ 154,419,207
OPEB plan deferments	981,707	–
Total deferred outflows of resources	$ 116,512,404	$ 154,419,207
Liabilities		
Current and other liabilities	$ 24,658,039	$ 30,005,633
Long-term liabilities, including due within one year	432,628,782	470,492,621
Total liabilities	$ 457,286,821	$ 500,498,254
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 50,945,940	$ 48,293,154
Pension plan deferments	34,829,329	3,538,704
Total deferred inflows of resources	$ 85,775,269	$ 51,831,858
Net position		
Net investment in capital assets	$ 60,040,219	$ 47,480,908
Restricted	16,131,196	14,242,051
Unrestricted	(147,642,861)	(103,158,513)
Total net position	$ (71,471,446)	$ (41,435,554)

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, may produce a significant difference in the calculated amounts. Another major factor in determining net position as compared to fund balances are the liabilities for long-term severance, pension, and other post-employment benefits, which impact the unrestricted portion of net position.

The decrease in current assets and increase in capital assets, net of depreciation was due to ongoing construction at various sites. The changes in deferred outflows/inflows of resources and long-term liabilities were mainly due to changes in the District's proportionate share of net pension liability.

Total net position decreased by $30,035,892 in 2018, which reflects a decrease of $20,981,501 from current year operating results, along with a decrease of $9,054,391 related to the implementation of GASB Statement No. 75. Much of the decrease from current year operating results is attributable to changes in the District's share of unfunded pension liabilities related to the state-wide Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) pensions plans.

Table 2 presents a condensed version of the Statement of Activities of the District:

Table 2
Summary Statement of Activities
for the Years Ended June 30, 2018 and 2017

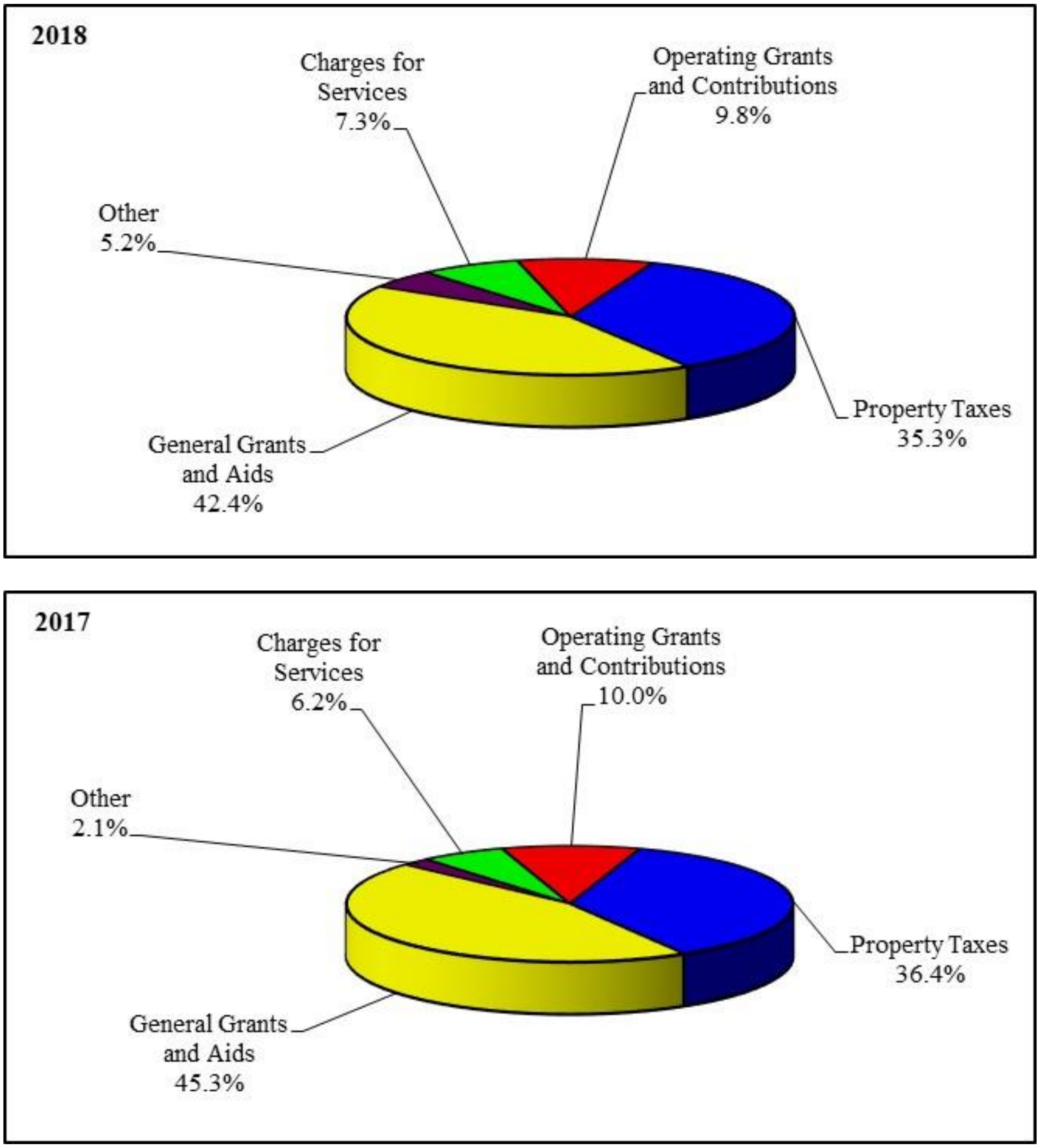
	2018	2017
Revenues		
Program revenues		
Charges for services	$ 10,687,757	$ 8,758,517
Operating grants and contributions	14,410,211	14,107,577
General revenues		
Property taxes	51,992,739	51,254,177
General grants and aids	62,441,248	63,759,959
All other	7,657,811	2,951,277
Total revenues	147,189,766	140,831,507
Expenses		
Administration	4,172,107	4,634,672
District support services	3,500,226	3,416,144
Elementary and secondary regular instruction	78,379,255	79,642,160
Vocational education instruction	387,560	296,086
Special education instruction	25,379,452	24,859,012
Instructional support services	7,652,292	7,553,915
Pupil support services	11,162,024	9,424,680
Sites and buildings	19,989,575	16,856,606
Fiscal and other fixed cost programs	306,141	319,454
Food service	3,289,385	2,770,229
Community service	7,720,547	8,010,769
Interest and fiscal charges on debt	6,232,703	6,188,267
Total expenses	168,171,267	163,971,994
Change in net position	(20,981,501)	(23,140,487)
Net position – beginning, as previously reported	(41,435,554)	(18,295,067)
Change in accounting principle	(9,054,391)	–
Net position – beginning, restated	(50,489,945)	(18,295,067)
Net position – ending	$ (71,471,446)	$ (41,435,554)

This format is similar to the fund financial statements, except it is presented on an accrual basis of accounting, and includes all governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Total revenues for fiscal year 2018 were $6,358,259 higher than last year, mainly due to a $4,696,546 gain on the sale of the District's old transportation facility. Expenses increased $4,199,273 compared to fiscal year 2017 levels, which primarily reflects natural inflationary increases.

Figures A and B show further analysis of these revenue sources and expense functions:

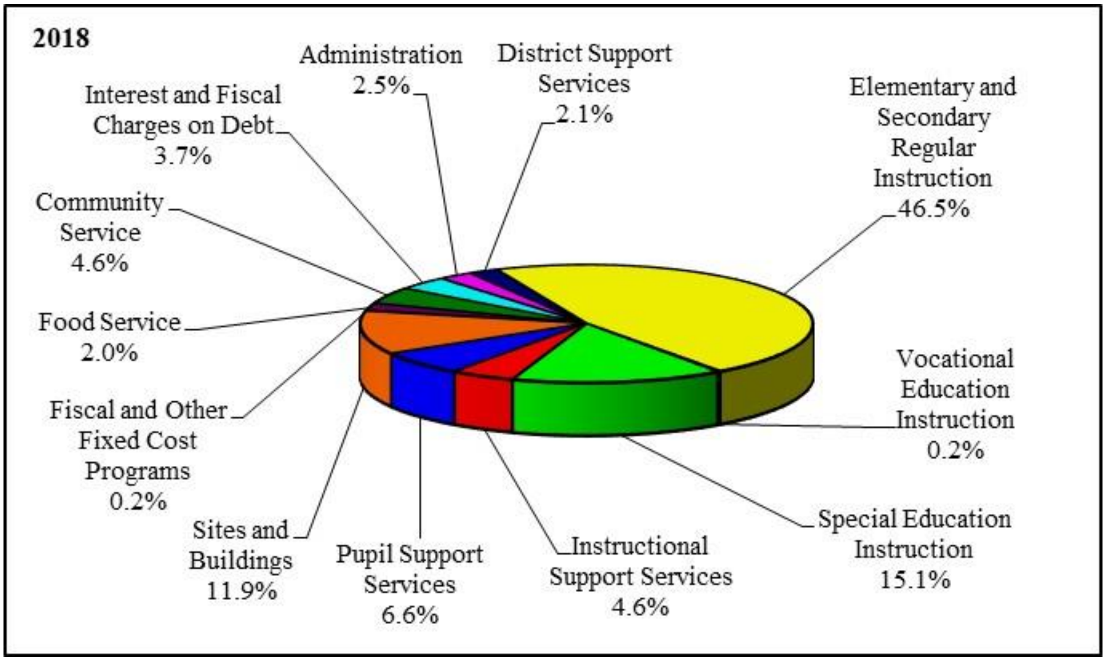
Figure A – Sources of Revenues for Fiscal Years 2018 and 2017

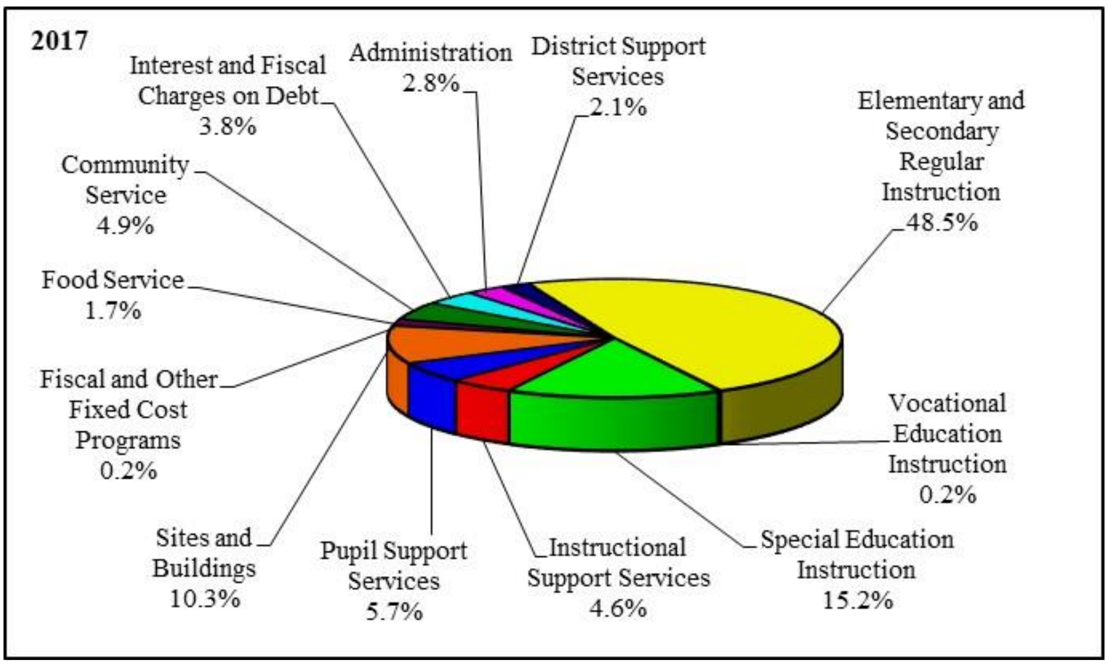


The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants.

Property taxes are the next largest source of funding. The level of funding property tax sources provide is not only dependent on taxpayers of the District by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

Figure B – Expenses for Fiscal Years 2018 and 2017





The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances in each of the District's governmental funds:

Table 3
Governmental Fund Balances
as of June 30, 2018 and 2017

	2018	2017	Increase (Decrease)
Major funds			
General	$ 13,736,002	$ 18,692,155	$ (4,956,153)
Capital Projects – Building Construction	19,804,605	60,606,714	(40,802,109)
Debt Service	1,539,589	732,774	806,815
Nonmajor funds			
Food Service Special Revenue	1,006,569	1,146,366	(139,797)
Community Service Special Revenue	740,156	483,655	256,501
Total governmental funds	$ 36,826,921	$ 81,661,664	$ (44,834,743)

In the General Fund, nonspendable fund balances for prepaid items increased $585,662. Fund balances restricted for various purposes increased $182,658. Fund balances committed by School Board resolution for cash flow needs and other purposes decreased $1,910,588. Fund balances assigned for various purposes decreased $2,238,560, mainly due to the use of previously assigned resources for next generation program implementation and bond operational costs. Unassigned fund balance also decreased $1,575,325 during the year.

The decrease in the Capital Projects – Building Construction Fund balance primarily reflects the spending of bond proceeds issued in the previous year, the remainder of which remain restricted for capital projects at year-end.

General Fund

The General Fund is used to account for all revenues and expenditures of the District not accounted for elsewhere. The General Fund is used to account for: K–12 educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and other legal school district expenditures not specifically designated to be accounted for in any other fund.

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue and other financing sources	$ 106,323,266	$ 109,857,444	$ 3,534,178	3.3%
Expenditures and other financing uses	$ 111,939,056	$ 118,595,647	$ 6,656,591	5.9%

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. In the fall and spring, the District amends the budget for known changes in circumstances such as enrollment levels, legislative funding, and employee contract settlements. Between the original and final budget, the District revised the expenditure budget for actual staffing and prior year carryover balances.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2018 Actual	Amount	Percent	Amount	Percent
Revenue and other financing sources	$ 110,849,888	$ 992,444	0.9%	$ 2,525,885	2.3%
Expenditures and other financing uses	115,806,041	$ (2,789,606)	(2.4%)	$ 6,775,351	6.2%
Net change in fund balances	$ (4,956,153)				

Actual revenues for fiscal year 2018 were 0.9 percent over budget. The revenue variance was primarily in other local revenue sources due to interest, rebates, and Normandale Elementary playground donations. The expenditure variance in 2018 was spread across several programs, with the largest savings occurring in sites and buildings, primarily due to site supply and capital carryovers; and progress of long-term facility maintenance projects budgeted for in the current year.

Revenue increases from the prior year were mainly due to additional general education aid from an increase to the per pupil general education formula allowance; and increases in other local revenue sources due to interest, rebates, and Normandale Elementary playground donations.

The increase in expenditures and other financing uses is due to different long-term facility maintenance projects from the previous year. The growth in remaining expenditures is consistent with regional inflationary trends.

Food Service Special Revenue Fund

Food Service Special Revenue Fund revenue and other financing sources for fiscal year 2018 totaled $3,098,310, and expenditures were $3,238,107. The June 30, 2018 fund balance is $1,006,569, a decrease of $139,797 from fiscal year 2017, slightly better than the budgeted decrease of $306,357.

Community Service Special Revenue Fund

Community Service Special Revenue Fund revenue for fiscal year 2018 totaled $7,406,046, and expenditures were $7,149,545. The June 30, 2018 fund balance is $740,156, an increase of $256,501 from fiscal year 2017, compared to a budgeted increase of $232,263.

Capital Projects – Building Construction Fund

Capital Projects – Building Construction Fund revenue and other financing sources for fiscal year 2018 totaled $18,391,758, and expenditures were $59,193,867. The June 30, 2018 fund balance is $19,804,605, a decrease of $40,802,109 from fiscal year 2017, compared to a planned decrease of $48,127,911. This variance was mainly due to the timing of capital projects.

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. Debt Service Fund revenue for fiscal year 2018 totaled $15,502,185, and expenditures were $14,695,370. The June 30, 2018 fund balance is $1,539,589, an increase of $806,815 from fiscal year 2017, as compared to a $713,118 increase anticipated in the budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018, the District had invested $244,848,543 in a broad range of capital assets, including school buildings, athletic facilities, and technology and equipment (see Table 6). Total depreciation expense for this year was $5,924,684.

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2018 and 2017.

Table 6
Capital Assets

	2018	2017	Change
Land	$ 5,240,001	$ 5,245,858	$ (5,857)
Land improvements	10,415,558	7,549,331	2,866,227
Buildings	206,025,067	206,175,056	(149,989)
Furniture and equipment	16,164,663	15,733,935	430,728
Construction in progress	132,682,356	83,811,115	48,871,241
Less accumulated depreciation	(125,679,102)	(119,885,797)	(5,793,305)
Total	$ 244,848,543	$ 198,629,498	$ 46,219,045
Depreciation expense	$ 5,924,684	$ 6,200,261	$ (275,577)

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2018. The most significant change from last year is in construction in progress related to previously issued building bonds and the 10-year long-term facilities maintenance plan.

The District capitalizes furniture and equipment and also land improvements valued at $5,000 or more.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

Table 7
Outstanding Long-Term Liabilities

	2018	2017	Change
General obligation bonds payable	$ 175,050,000	$ 182,230,000	$ (7,180,000)
Certification of participation payable	1,055,000	1,155,000	(100,000)
Unamortized premiums	15,615,362	16,945,453	(1,330,091)
Capital leases payable	1,748,376	1,877,236	(128,860)
Severance benefits payable	616,230	529,956	86,274
Net pension liabilities	218,632,925	258,737,440	(40,104,515)
Net OPEB liability	19,910,889	9,017,536	10,893,353
Total	$ 432,628,782	$ 470,492,621	$ (37,863,839)

The decreases in general obligation bonds, certificates of participation, and capital leases payable were due to scheduled principal repayments during fiscal year 2018, as no new debt was issued during fiscal year 2018. The difference in the net pension and OPEB liabilities reflect the changes in the District's proportionate share of the state-wide PERA and TRA pension plans, changes in the District's own pension and OPEB plans, and the implementation of GASB Statement No. 75 in the current year.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits (see Table 8).

Table 8
Limitations on Debt

District's market value	$ 9,556,071,575
Limit rate	15.0%
Legal debt limit	$ 1,433,410,736

Additional details of the District's capital assets and long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved excess operating referendum, the District is dependent on the state of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The Legislature has added $124, or 2 percent, per pupil to the basic general education funding formula for fiscal year 2019.

Annually, the School Board approves a 10-year long-term facilities maintenance plan. Goals of the plan are to support learning environment and initiatives for students, staff, and community; increase alternative facilities funding of annual deferred maintenance to meet ongoing needs; address backlog of deferred maintenance in buildings; improve energy efficiency; support strategic plan initiatives; and minimize impact to taxpayers. The plan invests $15 million in the remaining years of the plan to improve mechanical systems, exterior envelope, and paving throughout the District.

In the winter of 2017, the District received a top credit rating from one of the leading global rating agencies. Moody's Investor Service reaffirmed its AAA ratings of the District, the highest assigned by the company. The AAA rating allows the District to obtain the lowest interest rates available when borrowing money by issuing bonds and certificates.

In May 2015, the District was successful in its request to issue $124.9 million in bonds to support a number of capital projects. Funds will be used to implement the Next Generation of Edina Public Schools Strategic Plan focusing both on short-term and long-term facility needs. The remaining project will be completed by Fall 2019.

In November 2017, the District was successful in its request to renew and increase the existing operating levy scheduled to sunset in 2018–2019. The voters approved the increase in a two-step process with an increase for taxes payable in 2018 of $445 per pupil unit, and an increase of approximately $218 per pupil unit for taxes payable starting in 2020. The increase in the operating referendum has maintained the quality of programs and services expected in Edina.

The District strives to maintain its longstanding commitment to academic excellence and educational opportunity for learners within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about these statements or need additional financial information, contact the Business Services Department, Independent School District No. 273, 5701 Normandale Road, Edina, Minnesota 55424, or visit the District's website at www.edinaschools.org.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	Governmental Activities	
	2018	2017
Assets		
Cash and temporary investments	$ 75,419,872	$ 121,237,893
Receivables		
Current taxes	23,720,670	25,849,978
Delinquent taxes	484,427	495,713
Accounts and interest	597,087	316,511
Due from other governmental units	9,279,995	9,789,381
Prepaid items	727,646	156,377
Capital assets		
Not depreciated	137,922,357	89,056,973
Depreciated, net of accumulated depreciation	106,926,186	109,572,525
Total assets	355,078,240	356,475,351
Deferred outflows of resources		
Pension plan deferments	115,530,697	154,419,207
OPEB plan deferments	981,707	–
Total deferred outflows of resources	116,512,404	154,419,207
Total assets and deferred outflows of resources	$ 471,590,644	$ 510,894,558
Liabilities		
Salaries and benefits payable	$ 10,287,945	$ 10,146,388
Accounts and contracts payable	10,267,238	16,126,877
Accrued interest payable	3,044,104	3,098,093
Due to other governmental units	398,058	188,990
Unearned revenue	660,694	445,285
Long-term liabilities		
Net pension liabilities	218,632,925	258,737,440
Net OPEB liability	19,910,889	9,017,536
Bonds, certificates, capital leases, and other due within one year	7,872,349	7,592,500
Bonds, certificates, capital leases, and other due in more than one year	186,212,619	195,145,145
Total liabilities	457,286,821	500,498,254
Deferred inflows of resources		
Property taxes levied for subsequent year	50,945,940	48,293,154
Pension plan deferments	34,829,329	3,538,704
Total deferred inflows of resources	85,775,269	51,831,858
Net position		
Net investment in capital assets	60,040,219	47,480,908
Restricted for		
Capital asset acquisition	14,349,517	12,654,777
Food service	1,006,569	1,146,366
Community service	690,616	440,908
Other state restrictions	84,494	–
Unrestricted	(147,642,861)	(103,158,513)
Total net position	(71,471,446)	(41,435,554)
Total liabilities, deferred inflows of resources, and net position	$ 471,590,644	$ 510,894,558

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Activities
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	2018				2017
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 4,172,107	$ 58,777	$ –	$ (4,113,330)	$ (4,573,304)
District support services	3,500,226	–	–	(3,500,226)	(3,416,144)
Elementary and secondary regular instruction	78,379,255	1,903,654	300,176	(76,175,425)	(78,470,810)
Vocational education instruction	387,560	–	–	(387,560)	(296,086)
Special education instruction	25,379,452	197,837	12,166,544	(13,015,071)	(13,192,920)
Instructional support services	7,652,292	–	–	(7,652,292)	(7,553,915)
Pupil support services	11,162,024	41,207	646,967	(10,473,850)	(8,418,702)
Sites and buildings	19,989,575	530,950	–	(19,458,625)	(16,332,722)
Fiscal and other fixed cost programs	306,141	–	–	(306,141)	(319,454)
Food service	3,289,385	2,239,943	747,411	(302,031)	138,657
Community service	7,720,547	5,715,389	549,113	(1,456,045)	(2,482,233)
Interest and fiscal charges	6,232,703	–	–	(6,232,703)	(6,188,267)
Total governmental activities	$ 168,171,267	$ 10,687,757	$ 14,410,211	(143,073,299)	(141,105,900)
	General revenues				
	Taxes				
	Property taxes, levied for general purposes			30,129,873	30,913,347
	Property taxes, levied for community service			1,119,670	1,182,392
	Property taxes, levied for capital projects			5,344,774	5,061,998
	Property taxes, levied for debt service			15,398,422	14,096,440
	General grants and aids			62,441,248	63,759,959
	Other general revenues			1,889,515	2,112,923
	Gain on sale of capital assets			4,696,546	–
	Investment earnings			1,071,750	838,354
	Total general revenues			122,091,798	117,965,413
	Change in net position			(20,981,501)	(23,140,487)
	Net position – beginning, as previously reported			(41,435,554)	(18,295,067)
	Change in accounting principle			(9,054,391)	–
	Net position – beginning, restated			(50,489,945)	(18,295,067)
	Net position – ending			$ (71,471,446)	$ (41,435,554)

INDEPENDENT SCHOOL DISTRICT NO. 273

Balance Sheet
Governmental Funds
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 33,001,561	$ 28,631,076	$ 10,057,552
Receivables			
Current taxes	16,713,760	–	6,541,209
Delinquent taxes	352,003	–	120,563
Accounts and interest	364,221	204,619	–
Due from other governmental units	9,197,740	–	–
Prepaid items	714,427	12,739	–
Total assets	$ 60,343,712	$ 28,848,434	$ 16,719,324
Liabilities			
Salaries and benefits payable	$ 10,144,472	$ 30,031	$ –
Accounts and contracts payable	1,023,070	9,013,798	–
Due to other governmental units	392,856	–	–
Unearned revenue	5,500	–	–
Total liabilities	11,565,898	9,043,829	–
Deferred inflows of resources			
Property taxes levied for subsequent year	34,781,849	–	15,089,759
Unavailable revenue – delinquent taxes	259,963	–	89,976
Total deferred inflows of resources	35,041,812	–	15,179,735
Fund balances			
Nonspendable	714,427	12,739	–
Restricted	3,289,820	19,791,866	1,539,589
Committed	927,819	–	–
Assigned	3,535,342	–	–
Unassigned	5,268,594	–	–
Total fund balances	13,736,002	19,804,605	1,539,589
Total liabilities, deferred inflows of resources, and fund balances	$ 60,343,712	$ 28,848,434	$ 16,719,324

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2018	Total Governmental Funds 2017
$ 3,231,297	$ 74,921,486	$ 120,731,279
465,701	23,720,670	25,849,978
11,861	484,427	495,713
4,738	573,578	303,972
82,255	9,279,995	9,789,381
480	727,646	156,377
$ 3,796,332	$ 109,707,802	$ 157,326,700
$ 113,442	$ 10,287,945	$ 10,146,388
192,842	10,229,710	16,095,506
5,202	398,058	188,990
655,194	660,694	445,285
966,680	21,576,407	26,876,169
1,074,332	50,945,940	48,293,154
8,595	358,534	495,713
1,082,927	51,304,474	48,788,867
480	727,646	156,377
1,746,245	26,367,520	66,106,605
–	927,819	2,838,407
–	3,535,342	5,773,902
–	5,268,594	6,786,373
1,746,725	36,826,921	81,661,664
$ 3,796,332	$ 109,707,802	$ 157,326,700

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INDEPENDENT SCHOOL DISTRICT NO. 273

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	2018	2017
Total fund balances – governmental funds	$ 36,826,921	$ 81,661,664
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	370,527,645	318,515,295
Accumulated depreciation	(125,679,102)	(119,885,797)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(175,050,000)	(182,230,000)
Certificates of participation payable	(1,055,000)	(1,155,000)
Premium on bonds	(15,615,362)	(16,945,453)
Capital leases payable	(1,748,376)	(1,877,236)
Severance benefits payable	(616,230)	(529,956)
Net pension liabilities	(218,632,925)	(258,737,440)
Net OPEB liability	(19,910,889)	(9,017,536)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Position.	484,367	487,782
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(3,044,104)	(3,098,093)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plans	115,530,697	154,419,207
Deferred outflows – OPEB plan	981,707	–
Deferred inflows – pension plans	(34,829,329)	(3,538,704)
Deferred inflows – delinquent property taxes	358,534	495,713
Total net position – governmental activities	$ (71,471,446)	$ (41,435,554)

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 30,235,863	$ 5,344,774	$ 15,425,446
Investment earnings	472,243	481,447	76,739
Other	4,556,855	65,085	–
State sources	73,752,106	–	–
Federal sources	1,832,821	–	–
Total revenue	110,849,888	5,891,306	15,502,185
Expenditures			
Current			
Administration	3,165,048	–	–
District support services	3,252,865	–	–
Elementary and secondary regular instruction	55,129,942	–	–
Vocational education instruction	437,560	–	–
Special education instruction	19,799,024	–	–
Instructional support services	5,826,639	–	–
Pupil support services	10,026,345	–	–
Sites and buildings	9,665,421	–	–
Fiscal and other fixed cost programs	306,141	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	59,193,867	–
Debt service			
Principal	228,860	–	7,180,000
Interest and fiscal charges	101,413	–	7,515,370
Total expenditures	107,939,258	59,193,867	14,695,370
Excess (deficiency) of revenue over expenditures	2,910,630	(53,302,561)	806,815
Other financing sources (uses)			
Bonds issued	–	–	–
Premium on bonds issued	–	–	–
Sale of capital assets	–	4,721,013	–
Transfers in	–	7,779,439	–
Transfers (out)	(7,866,783)	–	–
Total other financing sources (uses)	(7,866,783)	12,500,452	–
Net change in fund balances	(4,956,153)	(40,802,109)	806,815
Fund balances			
Beginning of year	18,692,155	60,606,714	732,774
End of year	$ 13,736,002	$ 19,804,605	$ 1,539,589

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2018	Total Governmental Funds 2017
$ 1,123,835	$ 52,129,918	$ 51,045,152
41,321	1,071,750	838,354
7,955,332	12,577,272	10,871,440
666,809	74,418,915	72,575,056
629,715	2,462,536	2,437,217
10,417,012	142,660,391	137,767,219
–	3,165,048	3,542,398
–	3,252,865	3,097,417
–	55,129,942	53,688,788
–	437,560	280,680
–	19,799,024	18,431,801
–	5,826,639	5,382,317
–	10,026,345	8,118,389
–	9,665,421	11,733,576
–	306,141	319,454
3,172,591	3,172,591	2,748,269
7,135,225	7,135,225	7,211,986
79,836	59,273,703	80,947,545
–	7,408,860	6,354,550
–	7,616,783	7,513,874
10,387,652	192,216,147	209,371,044
29,360	(49,555,756)	(71,603,825)
–	–	16,350,000
–	–	465,133
–	4,721,013	–
87,344	7,866,783	4,102,593
–	(7,866,783)	(4,102,593)
87,344	4,721,013	16,815,133
116,704	(44,834,743)	(54,788,692)
1,630,021	81,661,664	136,450,356
$ 1,746,725	$ 36,826,921	$ 81,661,664

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INDEPENDENT SCHOOL DISTRICT NO. 273

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	2018	2017
Total net change in fund balances – governmental funds	$ (44,834,743)	$ (54,788,692)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital assets are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	52,168,196	78,845,475
Depreciation expense	(5,924,684)	(6,200,261)
Net book value of capital asset disposals	(24,467)	–
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.	(3,415)	49,234
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.		
General obligation bonds payable	–	(16,350,000)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds and certificates of participation	7,280,000	6,230,000
Capital leases payable	128,860	124,550
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	53,989	20,777
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	1,330,091	839,697
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Severance benefits payable	(86,274)	(167,636)
Net pension liabilities	40,104,515	(176,429,548)
Net OPEB liability	(885,597)	(1,330,445)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plans	(38,888,510)	139,827,815
Deferred outflows – OPEB plan	28,342	–
Deferred inflows – pension plans	(31,290,625)	5,979,522
Deferred inflows – delinquent property taxes	(137,179)	209,025
Change in net position – governmental activities	$ (20,981,501)	$ (23,140,487)

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2018

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 25,621,377	$ 30,050,253	$ 30,235,863	$ 185,610
Investment earnings	102,000	280,000	472,243	192,243
Other	3,223,698	3,222,598	4,556,855	1,334,257
State sources	75,699,127	74,427,524	73,752,106	(675,418)
Federal sources	1,677,064	1,877,069	1,832,821	(44,248)
Total revenue	106,323,266	109,857,444	110,849,888	992,444
Expenditures				
Current				
Administration	3,458,632	3,234,208	3,165,048	(69,160)
District support services	3,270,630	3,230,975	3,252,865	21,890
Elementary and secondary regular instruction	54,698,460	56,058,534	55,129,942	(928,592)
Vocational education instruction	380,403	253,170	437,560	184,390
Special education instruction	19,988,796	19,743,471	19,799,024	55,553
Instructional support services	5,825,218	6,044,995	5,826,639	(218,356)
Pupil support services	9,080,262	9,973,001	10,026,345	53,344
Sites and buildings	14,591,377	16,678,737	9,665,421	(7,013,316)
Fiscal and other fixed cost programs	315,000	315,000	306,141	(8,859)
Debt service				
Principal	228,859	228,859	228,860	1
Interest and fiscal charges	101,419	101,419	101,413	(6)
Total expenditures	111,939,056	115,862,369	107,939,258	(7,923,111)
Excess (deficiency) of revenue over expenditures	(5,615,790)	(6,004,925)	2,910,630	8,915,555
Other financing (uses)				
Transfers (out)	–	(2,733,278)	(7,866,783)	(5,133,505)
Net change in fund balances	$ (5,615,790)	$ (8,738,203)	(4,956,153)	$ 3,782,050
Fund balances				
Beginning of year			18,692,155	
End of year			$ 13,736,002	

See notes to basic financial statements

Statement of Net Position
Proprietary Fund
Internal Service Fund
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	2018	2017
Assets		
Current assets		
Cash and temporary investments	$ 498,386	$ 506,614
Accounts receivable	23,509	12,539
Total assets	521,895	519,153
Liabilities		
Current liabilities		
Accounts and contracts payable	37,528	31,371
Net position		
Unrestricted	$ 484,367	$ 487,782

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Fund
Internal Service Fund
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	2018	2017
Operating revenue		
Charges for services	$ 872,654	$ 879,492
Operating expenses		
Dental claims and expenses	876,069	830,258
Operating income (loss)	(3,415)	49,234
Net position		
Beginning of year	487,782	438,548
End of year	$ 484,367	$ 487,782

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Cash Flows
Proprietary Fund
Internal Service Fund
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	2018	2017
Cash flows from operating activities		
Contributions from governmental funds	$ 861,684	$ 879,932
Dental claims and other expense payments	(869,912)	(830,543)
Net cash flows from operating activities	(8,228)	49,389
Cash and temporary investments		
Beginning of year	506,614	457,225
End of year	$ 498,386	$ 506,614
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	$ (3,415)	$ 49,234
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts receivable	(10,970)	440
Accounts and contracts payable	6,157	(285)
Net cash flows from operating activities	$ (8,228)	$ 49,389

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Organization

Independent School District No. 273, Edina, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District serves pre-kindergarten through 12th grade students attending the District either as a resident of the District or through an open enrollment option election. It is governed by a School Board elected by voters of the District to four-year terms. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2018, the District paid TIES $513,168 for services provided.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in these financial statements.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory tax shift described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Internal service funds are presented in proprietary fund financial statements. Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes. Because the principal users of the internal services are the District's governmental activities, the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. An internal service fund accounts for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The principal operating revenue of the District's Internal Service Fund is charges to other district funds for service. Operating expenses for the Internal Service Fund include the costs of providing services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund – The General Fund is the government's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue, capital project levies, or the Long-Term Facilities Maintenance Program.

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

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used to account for the District's child nutrition program.

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Proprietary Funds

Internal Service Fund – The District's Internal Service Fund is used to account for dental insurance offered by the District to its employees as a self-insured plan.

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. Actual expenditures for the year ended June 30, 2018 exceeded budgeted appropriations by $119,863 and $2,787,904 in the Community Service Special Revenue Fund and Capital Projects – Building Construction Fund, respectively. Revenues and other financing sources in excess of budget, along with available fund balance, financed these variances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to the fund.

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents. The proprietary (internal service) fund's equity in the government-wide cash and investment management pool is considered to be cash equivalent.

Investments are generally stated at fair value, except for investments in external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of year-end.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported as expenses/expenditures at the time of consumption.

I. Property Taxes

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the Legislature based on education funding priorities.

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift,” which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $3,774,730 of the property tax levy collectible in 2018 as revenue to the District in fiscal year 2017–2018. The remaining portion of the taxes collectible in 2018 is reported as a deferred inflow of resources (property taxes levied for subsequent year).

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District in the current year.

J. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of $5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. The District does not possess material amounts of infrastructure capital assets. Such items are considered to be part of the cost of buildings or other improvable property.

Capital assets are reported in the government-wide financial statements, but not in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for furniture and equipment. Land and construction in progress are not depreciated.

K. 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. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

L. Compensated Absences

Under the terms of union contracts, certain employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end. Compensated absences, if material, are accrued when earned in the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year’s salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future, and are accrued in the governmental fund financial statements as the liability matures due to employee termination.

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

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

The PERA has a special funding situation created by a direct aid contribution made by the state of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement Fund into the PERA on January 1, 2015.

O. Risk Management and Self-Insurance

1. **General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers’ compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District’s insurance coverage in the current fiscal year.

2. **Self-Insurance** – The District established an Internal Service Fund to account for and finance its uninsured risk of loss for its employee dental plan. Under this plan, the District provides coverage to participating employees and their dependents for various dental costs as described in the plan.

   The District makes premium payments to the Internal Service Fund on behalf of program participants based on provisional rates determined by insurance company estimates of monthly claims paid for each coverage class, plus the stop-loss health insurance premium costs and administrative service charges.

District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claim liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balance of dental claim liabilities were as follows:

Fiscal Year Ended June 30,	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2017	$ 31,656	$ 830,258	$ 830,543	$ 31,371
2018	$ 31,371	$ 876,069	$ 869,912	$ 37,528

P. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, statements of financial position or balance sheets will sometimes report separate sections for deferred outflows or inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

The District reports deferred outflows and inflows of resources related to pensions and other post-employment benefit plans (OPEB) reported in the government-wide Statement of Net Position. These deferred outflows and inflows result from differences between expected and actual economic experience, changes in actuarial assumptions, difference between projected and actual investment earnings, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension and OPEB standards.

Property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, are 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.

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.

Q. Interfund Transfers

The General Fund transferred $87,344 to the Food Service Special Revenue Fund to eliminate student lunch account deficits, and $7,779,439 to the Capital Projects – Building Construction Fund to allocate revenues received by the General Fund that will be expended by the Capital Projects – Building Construction Fund for long-term facilities maintenance projects. Such interfund transfers are reported in the fund financial statements, but are eliminated in the government-wide financial statements.

R. Net Position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

S. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District's superintendent and director of business services are authorized to establish assignments of fund balance.

- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. 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 amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

U. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

V. Change in Accounting Principle

During the year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. This statement establishes standards for employer recognition and measurement of liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for OPEB. Certain amounts necessary to fully restate fiscal year 2017 financial information are not determinable; therefore, prior year comparative amounts have not been restated. The implementation of this statement resulted in the following restatement of entity-wide net position as of June 30, 2017:

	Governmental Activities
Net position – beginning, as previously reported	$ (41,435,554)
Change in accounting principle	
Net OPEB obligation, under previous reporting standards	9,017,536
Net OPEB liability, under current reporting standards	(19,025,292)
Deferred outflows of resources, under current reporting standards	953,365
Total change in accounting principle	(9,054,391)
Net position – beginning, restated	$ (50,489,945)

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

Cash and temporary investments at year-end consist of the following:

Deposits	$ 12,073,724
Investments	63,346,148
Cash and temporary investments	$ 75,419,872

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and nonnegotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District's deposit policies do not further limit depository choices.

The year-end bank balances of the District's deposits totaled $12,073,724, which were fully covered by federal depository insurance or collateral held by the District's agent in the District's name.

C. Investments

The District has the following investments at year-end:

Investment Type	Credit Rating	Rating Agency	Fair Value Measurements Using	Interest Rate Risk – Maturity Duration in Years: No Maturity Date	Less Than 1 Year	Total
Negotiable certificates of deposits	Not Rated		Level 2	$ –	$ 2,474,730	$ 2,474,730
Investment pools						
MSDLAF – Liquid Class	AAA	S&P	Not Applicable	$ 17,238,724	$ –	17,238,724
MSDLAF – MAX Class	AAA	S&P	Not Applicable	$ 4,607,000	$ –	4,607,000
MSDLAF – Term	AAA	S&P	Not Applicable	$ –	$ 5,000,000	5,000,000
MNTrust Investment Shares Portfolio	AAA	S&P	Not Applicable	$ 17,775,694	$ –	17,775,694
MNTrust Term Series	AAA	S&P	Not Applicable	$ –	$ 16,250,000	16,250,000
Total investments						$ 63,346,148

The investment pools managed by the Minnesota School District Liquid Asset Fund (MSDLAF) and MNTrust are regulated by Minnesota Statutes and are external investment pools not registered with the Securities and Exchange Commission (SEC) that follow the regulatory rules of the SEC. The District's investment in each is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. For these investment pools there are no unfunded commitments; redemption frequency is daily; and no redemption notice is required except for the MSDLAF – MAX Class investment pool, which has a redemption notice period of 14 days.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – This is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers.

The District's investment policy also requires that commercial paper be of corporations organized in the United States; having at least $1 billion of outstanding corporate paper obligations; rated at the highest classification by Standard and Poor's (A-1) or Moody's Investment Services (P-1); and not be on credit watch for potential downgrades. No more than 50 percent of the District's investments can be in commercial paper on any given day. District policy does not allow investments in derivatives.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5.0 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's policies limit the investment on any given day, in any given corporation, to $1 million.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit investment maturities; however, the District considers such things as interest rates and cash flow needs when purchasing investments.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	$ 5,245,858	$ –	$ (5,857)	$ 5,240,001
Construction in progress	83,811,115	50,600,332	(1,729,091)	132,682,356
Total capital assets, not depreciated	89,056,973	50,600,332	(1,734,948)	137,922,357
Capital assets, depreciated				
Land improvements	7,549,331	2,866,227	–	10,415,558
Buildings	206,175,056	–	(149,989)	206,025,067
Furniture and equipment	15,733,935	430,728	–	16,164,663
Total capital assets, depreciated	229,458,322	3,296,955	(149,989)	232,605,288
Less accumulated depreciation for				
Land improvements	(3,969,784)	(328,108)	–	(4,297,892)
Buildings	(102,664,639)	(5,114,638)	131,379	(107,647,898)
Furniture and equipment	(13,251,374)	(481,938)	–	(13,733,312)
Total accumulated depreciation	(119,885,797)	(5,924,684)	131,379	(125,679,102)
Net capital assets, depreciated	109,572,525	(2,627,729)	(18,610)	106,926,186
Total capital assets, net	$ 198,629,498	$ 47,972,603	$ (1,753,558)	$ 244,848,543

Depreciation for the year was charged to the following governmental functions:

Administration	$ 10,199
Elementary and secondary regular instruction	3,149,814
Special education instruction	4,583
Instructional support services	23,057
Pupil support services	18,009
Sites and buildings	2,685,010
Food service	19,916
Community service	14,096
Total depreciation expense	$ 5,924,684

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Alternative facilities bonds	05/08/2008	3.00–3.60%	$ 4,500,000	02/01/2019	$ 520,000
Refunding bonds	10/05/2011	4.00–5.00%	$ 50,370,000	02/01/2024	31,190,000
Alternative facilities bonds	02/21/2013	2.00–3.00%	$ 11,775,000	02/01/2026	11,575,000
Alternative facilities bonds	12/30/2014	3.00–3.50%	$ 6,050,000	02/01/2035	6,050,000
Building bonds	07/22/2015	4.00–5.00%	$ 113,385,000	02/01/2037	109,365,000
Facilities maintenance and building bonds	04/13/2017	2.50–4.00%	$ 16,350,000	02/01/2031	16,350,000
Total general obligation bonds payable					$ 175,050,000

These bonds were issued to finance acquisition and/or construction of capital facilities or to finance (refund) prior bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

B. Certificates of Participation Payable

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
2011C Certificates of Participation	11/17/2011	2.00–3.75%	$ 1,615,000	04/01/2027	$ 1,055,000

In November 2011, the District sold $1,615,000 of certificates of participation under Minnesota Statutes § 123B.51 to finance the construction of an addition to South View Middle School. Scheduled future ad valorem lease obligation tax levies will be made to finance the retirement of principal and interest payments on the certificates. These certificates of participation are being paid by the General Fund.

C. Capital Leases Payable

The District entered into two capital lease agreements to finance the construction of several building additions. The leases have an effective interest rate of 3.43 percent, and call for annual principal and interest payments through January 15, 2029. The leases are being paid through the General Fund. The leased assets were recorded at $2,233,000 (the present value of future minimum lease payments as of the inception dates of the leases). Total accumulated depreciation on these assets at June 30, 2018 was $178,640.

D. Other Long-Term Liabilities

The District offers a number of benefits to its employees including severance benefits for eligible employees based on unused sick leave. Such benefits are paid primarily from the General Fund.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

E. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds, certificates of participation, and capital leases are as follows:

Year Ending June 30,	General Obligation Bonds Payable Principal	General Obligation Bonds Payable Interest	Certificates of Participation Principal	Certificates of Participation Interest	Capital Leases Principal	Capital Leases Interest
2019	$ 7,405,000	$ 7,258,595	$ 105,000	$ 35,125	$ 133,316	$ 58,836
2020	8,140,000	6,895,625	105,000	31,975	137,929	54,224
2021	7,710,000	6,500,725	110,000	28,825	142,700	49,452
2022	8,365,000	6,128,725	110,000	25,525	147,636	44,516
2023	8,725,000	5,781,225	115,000	22,088	152,744	39,408
2024–2028	43,910,000	24,106,444	510,000	47,337	846,732	114,030
2029–2033	52,120,000	13,687,488	–	–	187,319	4,832
2034–2037	38,675,000	3,793,537	–	–	–	–
	$ 175,050,000	$ 74,152,364	$ 1,055,000	$ 190,875	$ 1,748,376	$ 365,298

F. Changes in Long-Term Liabilities

	Beginning of Year	Additions	Retirements	End of Year	Due Within One Year
General obligation bonds payable	$ 182,230,000	$ –	$ 7,180,000	$ 175,050,000	$ 7,405,000
Certificates of participation payable	1,155,000	–	100,000	1,055,000	105,000
Unamortized premiums	16,945,453	–	1,330,091	15,615,362	–
Capital leases payable	1,877,236	–	128,860	1,748,376	133,316
Severance benefits payable	529,956	107,895	21,621	616,230	229,033
	$ 202,737,645	$ 107,895	$ 8,760,572	$ 194,084,968	$ 7,872,349

NOTE 5 – FUND BALANCES

The table on the following page presents a breakdown of governmental fund equity components as defined earlier in these notes. State mandated restrictions that have an accumulated deficit at June 30, if any, are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. However, a description of any deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

The School Board has formally adopted a fund balance policy regarding maintaining a minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance goal of 6.0 percent of the unassigned General Fund expenditures. At June 30, 2018, the unassigned fund balance of the General Fund was 5.5 percent of budgeted unassigned expenditures for fiscal 2019.

NOTE 5 – FUND BALANCES (CONTINUED)

At June 30, 2018, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	$ 714,427	$ 12,739	$ –	$ 480	$ 727,646
Restricted					
Staff development	51,502	–	–	–	51,502
Health and safety	3,994	–	–	–	3,994
Operating capital	3,201,332	–	–	–	3,201,332
Basic skills programs	32,992	–	–	–	32,992
Capital projects levy	–	740,476	–	–	740,476
Long-term facilities maintenance	–	4,247,704	–	–	4,247,704
Capital projects	–	14,803,686	–	–	14,803,686
Debt service	–	–	1,539,589	–	1,539,589
Food service	–	–	–	1,006,089	1,006,089
Community education programs	–	–	–	489,024	489,024
Early childhood family education programs	–	–	–	80,107	80,107
School readiness	–	–	–	158,316	158,316
Community service	–	–	–	12,709	12,709
Total restricted	3,289,820	19,791,866	1,539,589	1,746,245	26,367,520
Committed					
Cash flow	927,819	–	–	–	927,819
Assigned					
Separation/retirement benefits	2,644,099	–	–	–	2,644,099
Carryover	802,675	–	–	–	802,675
Alternative compensation	88,568	–	–	–	88,568
Total assigned	3,535,342	–	–	–	3,535,342
Unassigned					
Unassigned	5,268,594	–	–	–	5,268,594
Total	$ 13,736,002	$ 19,804,605	$ 1,539,589	$ 1,746,725	$ 36,826,921

NOTE 6 – DEFINED BENEFIT PENSION PLANS

District employees participate in three defined benefit pension plans described later in these notes, including two state-wide, cost-sharing, multi-employer plans, and a single employer plan administered by the District. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2018:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
State-wide, multi-employer – PERA	$ 18,475,105	$ 5,753,799	$ 4,229,862	$ 2,272,533
State-wide, multi-employer – TRA	189,098,264	109,209,024	30,257,056	33,133,045
District single employer	11,059,556	567,874	342,411	974,064
Total	$ 218,632,925	$ 115,530,697	$ 34,829,329	$ 36,379,642

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

The District participates in the following cost-sharing, multi-employer defined benefit pension plans administered by the PERA and the TRA. The PERA's and the TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. The PERA's and the TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code (IRC).

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the 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 Minnesota State Colleges 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 administered by MnSCU.

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.

- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually through 2018, and 1.0 percent thereafter.

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

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the 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 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent 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 age 66.

2. TRA Benefits

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

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

Tier I Benefits

Step-Rate Formula	Percentage per Year
Basic Plan	
First 10 years of service	2.2 %
All years after	2.7 %
Coordinated Plan	
First 10 years if service years are up to July 1, 2006	1.2 %
First 10 years if service years are July 1, 2006 or after	1.4 %
All other years of service if service years are up to July 1, 2006	1.7 %
All other years of service if service years are up to July 1, 2006 or after	1.9 %

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) Three percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

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

Tier II Benefits

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

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

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

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2018; the District was required to contribute 7.5 percent for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2018, were $1,391,159. The District's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

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

	Year Ended June 30,			
	2017		2018	
	Employee	Employer	Employee	Employer
Basic Plan	11.0 %	11.5 %	11.0 %	11.5 %
Coordinated Plan	7.5 %	7.5 %	7.5 %	7.5 %

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2018, were $3,990,842. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

The following is a reconciliation of employer contributions in the TRA's Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Nonemployer Pension Allocations:

	in thousands
Employer contributions reported in the TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 367,791
Add employer contributions not related to future contribution efforts	810
Deduct the TRA's contributions not included in allocation	(456)
Total employer contributions	368,145
Total nonemployer contributions	35,588
Total contributions reported in the Schedule of Employer and Nonemployer 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. The TRA has rounded percentage amounts to the nearest ten thousandths.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2018, the District reported a liability of $18,475,105 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the 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 the PERA's participating employers. The District's proportionate share was 0.2894 percent at the end of the measurement period and 0.2774 percent for the beginning of the period.

The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of $6 million to the fund. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. 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 the net pension liability	$ 18,475,105
State's proportionate share of the net pension liability associated with the District	$ 232,340

For the year ended June 30, 2018, the District recognized pension expense of $2,265,825 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional $6,708 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $6 million to the GERF.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 608,883	$ 1,136,479
Changes in actuarial assumptions	2,940,081	1,852,131
Differences between projected and actual investment earnings	–	893,624
Changes in proportion	813,676	347,628
District's contributions to the GERF subsequent to the measurement date	1,391,159	–
Total	$ 5,753,799	$ 4,229,862

A total of $1,391,159 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	$ (199,017)
2020	$ 1,257,504
2021	$ (141,475)
2022	$ (784,234)

2. TRA Pension Costs

At June 30, 2018, the District reported a liability of $189,098,264 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.9473 percent at the end of the measurement period and 0.9434 percent for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to the 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 the net pension liability	$ 189,098,264
State's proportionate share of the net pension liability associated with the District	$ 18,280,007

For the year ended June 30, 2018, the District recognized pension expense of $32,782,448. It also recognized $350,597 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,488,928	$ 1,327,857
Changes in actuarial assumptions	102,019,830	26,489,681
Difference between projected and actual investment earnings	–	1,764,154
Changes in proportion	1,709,424	675,364
District's contributions to the TRA subsequent to the measurement date	3,990,842	–
Total	$ 109,209,024	$ 30,257,056

A total of $3,990,842 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	$ 19,739,419
2020	$ 23,156,394
2021	$ 20,264,892
2022	$ 17,207,885
2023	$ (5,407,464)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per year	
Price inflation		2.50%
Wage growth rate		2.85% for 10 years and 3.25%, thereafter
Active member payroll	3.25% per year	2.85% to 8.85% for 10 years, and 3.25% to 9.25% thereafter
Investment rate of return	7.50%	5.12%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.0 percent per year for the GERF through 2044, and then 2.5 percent thereafter, and 2.0 percent per year for all future years for the TRA.

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

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

The following changes in actuarial assumptions occurred in 2017:

1. **GERF**

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

2. **TRA**

- The cost of living adjustment (COLA) was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.

- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.

- Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.

- The investment return assumption was changed from 8.00 percent to 7.50 percent.

- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.

- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.

- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.

- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

- The single discount rate changed from 4.66 percent to 5.12 percent.

The long-term expected rate of return on pension plan investments is 7.50 percent for the GERF and 5.12 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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	5.30 %
Bonds	20	0.75 %
Alternative assets	20	5.90 %
Cash	2	– %
Total	100 %	

F. Discount Rate

1. GERF

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

2. TRA

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 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 the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the municipal bond index rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the municipal bond index rate from the prior year measurement date (3.01 percent).

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

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	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	$ 28,656,261	$ 18,475,105	$ 10,139,980
TRA discount rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	$ 249,573,271	$ 189,098,264	$ 138,110,476

H. Pension Plan Fiduciary Net Position

Pension Benefit Reforms – The 2018 pension bill included a number of reforms to the various defined benefit pension plans across the state, including the plans administered by the TRA and the PERA. The reforms include several changes, including modifications in future cost of living adjustments and contribution rates.

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLAN – DISTRICT

A. Plan Description

The District provides pension benefits to certain eligible employees through its Pension Benefits Plan, a single-employer defined benefit plan administered by the District. The following employee groups receive the benefit: Superintendent's Advisory Council, Administrators (Edina Administrative Council), Controller, Director of Buildings and Grounds, Human Resources Manager, Strategic Planner/Analyst, Teachers, Community Education Services Coordinators, Classified Supervisors, Confidential Employees, and Other Support Staff. All pension benefits are based on contractual agreements with these employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. The benefits are calculated using a predetermined number of days depending on the employee group, multiplied by the employee's daily base pay, or in certain cases, a fixed amount per year of service. Payments are made in either a lump sum or installments to a 403(b) plan or in a lump sum directly to the employee. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a separate financial report.

B. Contributions and Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the District. The District has not established a trust fund to finance these pension benefits.

C. Membership

Membership in the plan consisted of the following as of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	37
Active plan members	688
Total members	725

D. Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial study with a valuation date as of July 1, 2016 and measurement date as of July 1, 2017, using the entry age method, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.40%
20-year municipal bond yield	3.40%
Inflation rate	2.50%
Salary increases	3.00%

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale. The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

E. Discount Rate

The discount rate used to measure the total pension liability was 3.40 percent. The projection of cash flows used to determine the discount rate was determined by estimating the long-term investment yield on the employer funds that will be used to pay benefits as they come due. The District discount rate used in the prior measurement date was 2.90 percent.

NOTE 8 – DEFINED BENEFIT PENSION PLAN – DISTRICT (CONTINUED)

F. Changes in the Net Pension Liability

	Total Pension Liability
Beginning balance	$ 11,190,526
Changes for the year	
Service cost	669,633
Interest	332,966
Assumption changes	(370,946)
Benefit payments	(762,623)
Total net changes	(130,970)
Ending balance	$ 11,059,556

G. Net Pension Liability Sensitivity to Discount Rate Changes

The following presents the net pension liability of the District, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Pension discount rate	2.40%	3.40%	4.40%
Net pension liability	$ 11,932,205	$ 11,059,556	$ 10,233,039

H. Pension Expense and Related Deferred Outflows and Deferred Inflows of Resources

The District recognized pension expense of $974,064 in the current year, and at year-end reported the following deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	$ –	$ 342,411
District's contributions subsequent to the measurement date	567,874	–
Total	$ 567,874	$ 342,411

A total of $567,874 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 ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense
2019	$ (28,535)
2020	$ (28,535)
2021	$ (28,535)
2022	$ (28,535)
2023	$ (28,535)
Thereafter	$ (199,736)

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Descriptions

The District provides post-employment benefits to certain eligible employees through a single-employer defined benefit OPEB plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups, with benefit eligibility based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a separate financial report.

All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the District. The District has not established a trust fund to finance these OPEB benefits.

C. Membership

Membership in the plan consisted of the following as of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	68
Active plan members	1,150
Total members	1,218

D. Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial study with a valuation date as of July 1, 2016 and measurement date as of July 1, 2017, using the entry age method, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.40%
20-year municipal bond yield	3.40%
Inflation rate	2.50%
Salary increases	3.00%
Medical trend rate	6.50% in 2017 grading to 5.00% over 6 years
Dental trend rate	4.00%

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale. The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

Future retirees electing coverage is assumed to be 100 percent when a pre-age 65 subsidy is available, and 50 percent when a pre-age 65 subsidy is not available. Married future retirees electing spouse coverage is assumed to be 100 percent when a pre-age 65 subsidy is available, and 25 percent when a pre-age 65 subsidy is not available.

E. Discount Rate

The discount rate used to measure the total OPEB liability was 3.40 percent. The projection of cash flows used to determine the discount rate was determined by estimating the long-term investment yield on the employer funds that will be used to pay benefits as they come due. The District discount rate used in the prior measurement date was 2.90 percent.

F. Changes in the Net OPEB Liability

	Total OPEB Liability
Beginning balance	$ 19,025,292
Changes for the year	
Service cost	1,168,447
Interest	670,515
Benefit payments	(953,365)
Total net changes	885,597
Ending balance	$ 19,910,889

G. Net OPEB Liability Sensitivity to Discount and Healthcare Cost Trend Rate Changes

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
OPEB discount rate	2.40%	3.40%	4.40%
Net OPEB liability	$ 21,344,319	$ 19,910,889	$ 18,533,414

NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Trend Rates	Healthcare Trend Rates	1% Increase in Healthcare Trend Rates
Healthcare Trend Rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years
Dental Trend Rate	3.00%	4.00%	5.00%
Net OPEB liability	$ 18,030,434	$ 19,910,889	$ 22,124,988

H. OPEB Expense and Related Deferred Outflows and Deferred Inflows of Resources

The District recognized OPEB expense of $1,838,962 in the current year, and at year-end reported the following deferred outflows and inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
District's contributions subsequent to the measurement date	$ 981,707	$ –

A total of $981,707 reported as deferred outflows of resources related to OPEB resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

NOTE 10 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan, which is classified as a "cafeteria plan" (the Plan) under § 125 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant.

Before the beginning of the Plan year, which is from January 1 to December 31, each participant designates a total amount of pretax dollars to be contributed to the Plan during the year. The Plan is administered by the District and is accounted for in the District's General Fund. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Plan are equal to those of general creditors of the District in an amount equal to the eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

B. Construction Commitments

At June 30, 2018, the District had commitments totaling $25,802,524 under various construction contracts for which the work was not yet completed.

C. Legal Claims

The District is a defendant in various lawsuits. Although the outcomes of these lawsuits are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Public Employees Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2018

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the 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 as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.2999%	$ 14,087,800	$ –	$ 14,087,800	$ 15,747,600	89.46%	78.70%
06/30/2016	06/30/2015	0.2742%	$ 14,210,468	$ –	$ 14,210,468	$ 16,108,678	88.22%	78.20%
06/30/2017	06/30/2016	0.2774%	$ 22,523,504	$ 294,246	$ 22,817,750	$ 17,218,936	130.81%	68.90%
06/30/2018	06/30/2017	0.2894%	$ 18,475,105	$ 232,340	$ 18,707,445	$ 18,646,353	99.08%	75.90%

Public Employees Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2018

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 1,195,515	$ 1,195,515	$ –	$ 16,108,678	7.42%
06/30/2016	$ 1,291,318	$ 1,291,318	$ –	$ 17,218,936	7.50%
06/30/2017	$ 1,398,478	$ 1,398,478	$ –	$ 18,646,353	7.50%
06/30/2018	$ 1,391,159	$ 1,391,159	$ –	$ 18,550,623	7.50%

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Teachers Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2018

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the 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 as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.9949%	$ 45,844,276	$ 3,225,114	$ 49,069,390	$ 45,414,080	100.95%	81.50%
06/30/2016	06/30/2015	0.9238%	$ 57,146,166	$ 7,009,435	$ 64,155,601	$ 46,887,773	121.88%	76.80%
06/30/2017	06/30/2016	0.9434%	$225,023,410	$ 22,586,637	$247,610,047	$ 48,890,860	460.26%	44.88%
06/30/2018	06/30/2017	0.9473%	$189,098,264	$ 18,280,007	$207,378,271	$ 50,958,882	371.08%	51.57%

Teachers Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2018

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 3,516,583	$ 3,516,583	$ –	$ 46,887,773	7.50%
06/30/2016	$ 3,680,210	$ 3,680,210	$ –	$ 48,890,860	7.53%
06/30/2017	$ 3,820,933	$ 3,820,933	$ –	$ 50,958,882	7.50%
06/30/2018	$ 3,990,842	$ 3,990,842	$ –	$ 53,228,684	7.50%

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Pension Benefits Plan
Schedule of Changes in the District's Net
Pension Liability and Related Ratios
Year Ended June 30, 2018

	2018	2017
Total pension liability		
Service cost	$ 669,633	$ 706,737
Interest	332,966	326,649
Assumption changes	(370,946)	–
Benefit payments	(762,623)	(794,118)
Net change in total pension liability	(130,970)	239,268
Total pension liability – beginning of year	11,190,526	10,951,258
Total pension liability – end of year	$ 11,059,556	$ 11,190,526
Covered-employee payroll	$ 49,972,083	$ 48,516,585
Total pension liability as a percentage of covered-employee payroll	22.13%	23.07%

Note 1: The District has not established a trust fund to finance GASB Statement No. 73 related benefits.

Note 2: The District implemented GASB Statement No. 73 for the year ended June 30, 2017. The schedules within the RSI section require a 10-year presentation. Additional years will be presented as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Other Post-Employment Benefits Plan
Schedule of Changes in the District's Net
OPEB Liability and Related Ratios
Year Ended June 30, 2018

	2018
Total OPEB liability	
Service cost	$ 1,168,447
Interest	670,515
Benefit payments	(953,365)
Net change in total OPEB liability	885,597
Total OPEB liability – beginning of year	19,025,292
Total OPEB liability – end of year	$ 19,910,889
Covered-employee payroll	$ 62,990,740
Total OPEB liability as a percentage of covered-employee payroll	31.61%

Note 1: The District has not established a trust fund to finance GASB Statement No. 75 related benefits.

Note 2: The District implemented GASB Statement No. 75 for the year ended June 30, 2018. The schedules within the RSI section require a 10-year presentation. Additional years will be presented as they become available.

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035, and 2.50 percent per year thereafter, to 1.00 percent per year for all years.

- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.

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

2015 CHANGES IN PLAN PROVISIONS:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement 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.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030, and 2.50 percent per year thereafter, to 1.00 percent per year through 2035, and 2.50 percent per year thereafter.

TRA

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The cost of living adjustment (COLA) was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the CSA. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The single discount rate was changed from 8.00 percent to 4.66 percent.

2015 CHANGES IN PLAN PROVISIONS:

- The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The annual COLA for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent, with an increase to 2.50 percent commencing in 2034.
- The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent.

PENSION BENEFITS PLAN

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The discount rate was changed from 2.90 percent to 3.40 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The mortality table was updated from RP-2000 projected to 2014 with Scale BB, to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and retirement tables for only employees eligible to retire with Rule of 90 also were updated.
- The discount rate was changed from 4.00 percent to 2.90 percent.

OTHER POST-EMPLOYMENT BENEFITS PLAN

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The discount rate was changed from 2.90 percent to 3.40 percent.

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2018

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 1,271,782	$ 1,959,515	$ 3,231,297
Receivables			
Current taxes	–	465,701	465,701
Delinquent taxes	–	11,861	11,861
Accounts and interest	–	4,738	4,738
Due from other governmental units	25,804	56,451	82,255
Prepaid items	480	–	480
Total assets	$ 1,298,066	$ 2,498,266	$ 3,796,332
Liabilities			
Salaries and benefits payable	$ 36	$ 113,406	$ 113,442
Accounts and contracts payable	71,024	121,818	192,842
Due to other governmental units	–	5,202	5,202
Unearned revenue	220,437	434,757	655,194
Total liabilities	291,497	675,183	966,680
Deferred inflows of resources			
Property taxes levied for subsequent year	–	1,074,332	1,074,332
Deferred revenue – delinquent taxes	–	8,595	8,595
Total deferred inflows of resources	–	1,082,927	1,082,927
Fund balances			
Nonspendable	480	–	480
Restricted	1,006,089	740,156	1,746,245
Total fund balances	1,006,569	740,156	1,746,725
Total liabilities, deferred inflows of resources, and fund balances	$ 1,298,066	$ 2,498,266	$ 3,796,332

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2018

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 1,123,835	$ 1,123,835
Investment earnings	23,612	17,709	41,321
Other	2,239,943	5,715,389	7,955,332
State sources	117,696	549,113	666,809
Federal sources	629,715	–	629,715
Total revenue	3,010,966	7,406,046	10,417,012
Expenditures			
Current			
Food service	3,172,591	–	3,172,591
Community service	–	7,135,225	7,135,225
Capital outlay	65,516	14,320	79,836
Total expenditures	3,238,107	7,149,545	10,387,652
Excess (deficiency) of revenues over expenditures	(227,141)	256,501	29,360
Other financing sources			
Transfers in	87,344	–	87,344
Net change in fund balances	(139,797)	256,501	116,704
Fund balances			
Beginning of year	1,146,366	483,655	1,630,021
End of year	$ 1,006,569	$ 740,156	$ 1,746,725

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 33,001,561	$ 33,480,727
Receivables		
Current taxes	16,713,760	17,637,841
Delinquent taxes	352,003	365,953
Accounts and interest	364,221	178,384
Due from other governmental units	9,197,740	9,739,482
Prepaid items	714,427	128,765
Total assets	$ 60,343,712	$ 61,531,152
Liabilities		
Salaries and benefits payable	$ 10,144,472	$ 10,009,839
Accounts and contracts payable	1,023,070	496,640
Due to other governmental units	392,856	180,678
Unearned revenue	5,500	10,826
Total liabilities	11,565,898	10,697,983
Deferred inflows of resources		
Property taxes levied for subsequent year	34,781,849	31,775,061
Unavailable revenue – delinquent taxes	259,963	365,953
Total deferred inflows of resources	35,041,812	32,141,014
Fund balances		
Nonspendable for prepaid items	714,427	128,765
Restricted for staff development	51,502	–
Restricted for health and safety	3,994	43,840
Restricted for operating capital	3,201,332	3,063,322
Restricted for basic skills programs	32,992	–
Committed for cash flow	927,819	1,943,586
Committed for federal education jobs	–	894,821
Assigned for separation/retirement benefits	2,644,099	2,626,646
Assigned for next generation program implementation	–	1,500,000
Assigned for bond operational costs	–	750,000
Assigned for carryover	802,675	765,914
Assigned for alternative compensation	88,568	131,342
Unassigned	5,268,594	6,843,919
Total fund balances	13,736,002	18,692,155
Total liabilities, deferred inflows of resources, and fund balances	$ 60,343,712	$ 61,531,152

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 30,050,253	$ 30,235,863	$ 185,610	$ 30,769,055
Investment earnings	280,000	472,243	192,243	156,482
Other	3,222,598	4,556,855	1,334,257	3,631,626
State sources	74,427,524	73,752,106	(675,418)	71,970,881
Federal sources	1,877,069	1,832,821	(44,248)	1,795,959
Total revenue	109,857,444	110,849,888	992,444	108,324,003
Expenditures				
Current				
Administration	3,234,208	3,165,048	(69,160)	3,542,398
District support services	3,230,975	3,252,865	21,890	3,097,417
Elementary and secondary regular instruction	56,058,534	55,129,942	(928,592)	53,688,788
Vocational education instruction	253,170	437,560	184,390	280,680
Special education instruction	19,743,471	19,799,024	55,553	18,431,801
Instructional support services	6,044,995	5,826,639	(218,356)	5,382,317
Pupil support services	9,973,001	10,026,345	53,344	8,118,389
Sites and buildings	16,678,737	9,665,421	(7,013,316)	11,733,576
Fiscal and other fixed cost programs	315,000	306,141	(8,859)	319,454
Debt service				
Principal	228,859	228,860	1	224,550
Interest and fiscal charges	101,419	101,413	(6)	108,727
Total expenditures	115,862,369	107,939,258	(7,923,111)	104,928,097
Excess (deficiency) of revenue over expenditures	(6,004,925)	2,910,630	8,915,555	3,395,906
Other financing (uses)				
Transfers (out)	(2,733,278)	(7,866,783)	(5,133,505)	(4,102,593)
Net change in fund balances	$ (8,738,203)	(4,956,153)	$ 3,782,050	(706,687)
Fund balances				
Beginning of year		18,692,155		19,398,842
End of year		$ 13,736,002		$ 18,692,155

INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 1,271,782	$ 1,375,586
Receivables		
Accounts and interest	–	287
Due from other governmental units	25,804	–
Prepaid items	480	16,759
Total assets	$ 1,298,066	$ 1,392,632
Liabilities		
Salaries and benefits payable	$ 36	$ 3,135
Accounts and contracts payable	71,024	9,990
Unearned revenue	220,437	233,141
Total liabilities	291,497	246,266
Fund balances		
Nonspendable for prepaid items	480	16,759
Restricted for food service	1,006,089	1,129,607
Total fund balances	1,006,569	1,146,366
Total liabilities and fund balances	$ 1,298,066	$ 1,392,632

INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ 9,000	$ 23,612	$ 14,612	$ 9,850
Other – primarily meal sales	2,185,350	2,239,943	54,593	2,148,743
State sources	133,050	117,696	(15,354)	118,885
Federal sources	655,000	629,715	(25,285)	641,258
Total revenue	2,982,400	3,010,966	28,566	2,918,736
Expenditures				
Current				
Salaries	386,336	406,055	19,719	111,113
Employee benefits	73,321	112,147	38,826	16,236
Purchased services	2,599,600	2,473,947	(125,653)	2,457,552
Supplies and materials	154,500	172,450	17,950	163,316
Other expenditures	–	7,992	7,992	52
Capital outlay	75,000	65,516	(9,484)	18,206
Total expenditures	3,288,757	3,238,107	(50,650)	2,766,475
Excess (deficiency) of revenue over expenditures	(306,357)	(227,141)	79,216	152,261
Other financing sources				
Transfers in	–	87,344	87,344	–
Net change in fund balances	$ (306,357)	(139,797)	$ 166,560	152,261
Fund balances				
Beginning of year		1,146,366		994,105
End of year		$ 1,006,569		$ 1,146,366

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 1,959,515	$ 1,350,523
Receivables		
Current taxes	465,701	556,656
Delinquent taxes	11,861	12,760
Accounts and interest	4,738	16,376
Due from other governmental units	56,451	49,899
Total assets	$ 2,498,266	$ 1,986,214
Liabilities		
Salaries and benefits payable	$ 113,406	$ 112,952
Accounts and contracts payable	121,818	47,547
Due to other governmental units	5,202	8,312
Unearned revenue	434,757	201,318
Total liabilities	675,183	370,129
Deferred inflows of resources		
Property taxes levied for subsequent year	1,074,332	1,119,670
Unavailable revenue – delinquent taxes	8,595	12,760
Total deferred inflows of resources	1,082,927	1,132,430
Fund balances (deficits)		
Restricted for community education programs	489,024	449,015
Restricted for early childhood family education programs	80,107	–
Restricted for school readiness	158,316	92,186
Restricted for community service	12,709	–
Unassigned – early childhood family education programs restricted account deficit	–	(49,866)
Unassigned – community service restricted account deficit	–	(7,680)
Total fund balances	740,156	483,655
Total liabilities, deferred inflows of resources, and fund balances	$ 2,498,266	$ 1,986,214

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,119,656	$ 1,123,835	$ 4,179	$ 1,177,557
Investment earnings	15,000	17,709	2,709	16,656
Other – primarily tuition and fees	5,590,096	5,715,389	125,293	5,043,246
State sources	537,193	549,113	11,920	485,290
Total revenue	7,261,945	7,406,046	144,101	6,722,749
Expenditures				
Current				
Salaries	4,277,175	4,416,249	139,074	4,562,774
Employee benefits	1,123,706	1,082,123	(41,583)	1,139,943
Purchased services	1,204,390	1,224,684	20,294	1,139,122
Supplies and materials	318,888	390,783	71,895	352,650
Other expenditures	60,713	21,386	(39,327)	17,497
Capital outlay	44,810	14,320	(30,490)	51,962
Total expenditures	7,029,682	7,149,545	119,863	7,263,948
Net change in fund balances	$ 232,263	256,501	$ 24,238	(541,199)
Fund balances				
Beginning of year		483,655		1,024,854
End of year		$ 740,156		$ 483,655

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 28,631,076	$ 76,048,727
Receivables		
Accounts and interest	204,619	108,925
Prepaid items	12,739	10,853
Total assets	$ 28,848,434	$ 76,168,505
Liabilities		
Salaries and benefits payable	$ 30,031	$ 20,462
Accounts and contracts payable	9,013,798	15,541,329
Total liabilities	9,043,829	15,561,791
Fund balances		
Nonspendable for prepaid items	12,739	10,853
Restricted for capital projects levy	740,476	791,932
Restricted for long-term facilities maintenance	4,247,704	19,998,002
Restricted for capital projects	14,803,686	39,805,927
Total fund balances	19,804,605	60,606,714
Total liabilities and fund balances	$ 28,848,434	$ 76,168,505

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 5,344,774	$ 5,344,774	$ –	$ 5,061,998
Investment earnings	200,000	481,447	281,447	634,353
Other	–	65,085	65,085	47,825
Total revenue	5,544,774	5,891,306	346,532	5,744,176
Expenditures				
Capital outlay				
Salaries	1,620,525	1,488,086	(132,439)	1,601,274
Employee benefits	468,652	460,317	(8,335)	466,934
Purchased services	4,613,525	3,136,512	(1,477,013)	7,750,633
Supplies and materials	1,321,578	–	(1,321,578)	319,765
Capital expenditures	48,381,683	54,108,952	5,727,269	70,738,771
Debt service				
Interest and fiscal charges	–	–	–	7,288
Total expenditures	56,405,963	59,193,867	2,787,904	80,884,665
Excess (deficiency) of revenues over expenditures	(50,861,189)	(53,302,561)	(2,441,372)	(75,140,489)
Other financing sources				
Bonds issued	–	–	–	16,350,000
Premium on bonds issued	–	–	–	462,206
Sale of capital assets	–	4,721,013	4,721,013	–
Transfers in	2,733,278	7,779,439	5,046,161	4,102,593
Total other financing sources	2,733,278	12,500,452	9,767,174	20,914,799
Net change in fund balances	$ (48,127,911)	(40,802,109)	$ 7,325,802	(54,225,690)
Fund balances				
Beginning of year		60,606,714		114,832,404
End of year		$ 19,804,605		$ 60,606,714

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 10,057,552	$ 8,475,716
Receivables		
Current taxes	6,541,209	7,655,481
Delinquent taxes	120,563	117,000
Total assets	$ 16,719,324	$ 16,248,197
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 15,089,759	$ 15,398,423
Unavailable revenue – delinquent taxes	89,976	117,000
Total deferred inflows of resources	15,179,735	15,515,423
Fund balances		
Restricted for debt service	1,539,589	732,774
Total deferred inflows of resources and fund balances	$ 16,719,324	$ 16,248,197

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 15,396,713	$ 15,425,446	$ 28,733	$ 14,036,542
Investment earnings	20,000	76,739	56,739	21,013
Total revenue	15,416,713	15,502,185	85,472	14,057,555
Expenditures				
Debt service				
Principal	7,180,000	7,180,000	–	6,130,000
Interest	7,508,595	7,508,595	–	7,385,085
Fiscal charges and other	15,000	6,775	(8,225)	12,774
Total expenditures	14,703,595	14,695,370	(8,225)	13,527,859
Excess of revenue over expenditures	713,118	806,815	93,697	529,696
Other financing sources				
Premium on bonds issued	–	–	–	2,927
Net change in fund balances	$ 713,118	806,815	$ 93,697	532,623
Fund balances				
Beginning of year		732,774		200,151
End of year		$ 1,539,589		$ 732,774

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OTHER DISTRICT INFORMATION

(UNAUDITED)

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INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	Other Local and County Revenues	State Revenue	Federal Revenue	Total
2009	$ 18,737,025	$ 2,248,905	$ 58,378,178	$ 1,713,683	$ 81,077,791
	23%	3%	72%	2%	100%
2010	20,228,122	2,280,570	53,924,966	6,958,246	83,391,904
	24%	3%	65%	8%	100%
2011	28,851,473	2,520,934	51,887,383	3,061,247	86,321,037
	33%	3%	60%	4%	100%
2012	23,813,219	2,754,726	58,857,487	3,344,546	88,769,978
	27%	3%	66%	4%	100%
2013	27,237,931	2,487,574	62,296,085	1,683,183	93,704,773
	29%	3%	66%	2%	100%
2014	10,666,213	2,593,867	76,710,991	1,809,161	91,780,232
	12%	3%	83%	2%	100%
2015	22,950,814	2,794,515	68,608,136	1,488,368	95,841,833
	24%	3%	71%	2%	100%
2016	23,596,521	4,100,426	71,873,064	1,871,244	101,441,255
	23%	4%	71%	2%	100%
2017	30,769,055	3,788,108	71,970,881	1,795,959	108,324,003
	28%	3%	67%	2%	100%
2018	30,235,863	5,029,098	73,752,106	1,832,821	110,849,888
	27%	5%	66%	2%	100%

Note: Legislative changes in the “tax shift” impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. These changes were offset by an adjustment to state aid payments by an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Expenditures by Program
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Instruction	Instructional Support Services	Pupil Support Services
2009	$ 3,092,640	$ 2,593,246	$ 51,619,145	$ 7,885,063	$ 6,217,918
	4%	3%	65%	10%	8%
2010	2,891,265	2,613,421	55,612,094	6,593,566	6,345,288
	4%	3%	68%	8%	8%
2011	2,922,416	2,731,865	58,238,240	6,592,322	6,669,731
	3%	3%	68%	8%	8%
2012	2,921,447	2,701,860	58,140,863	6,760,932	7,329,686
	3%	3%	68%	8%	8%
2013	3,057,055	2,517,407	60,574,774	5,105,226	7,608,727
	3%	3%	66%	6%	8%
2014	3,100,900	2,969,022	62,272,584	4,916,476	7,544,789
	4%	3%	69%	5%	8%
2015	3,124,572	3,063,669	64,083,923	5,063,892	7,745,956
	3%	3%	70%	5%	8%
2016	3,281,563	3,093,531	71,523,452	5,508,758	7,922,598
	3%	3%	71%	5%	8%
2017	3,542,398	3,097,417	72,401,269	5,382,317	8,118,389
	3%	3%	69%	5%	8%
2018	3,165,048	3,252,865	75,366,526	5,826,639	10,026,345
	3%	3%	70%	5%	9%

Note: Instruction includes regular, vocational, and special education instruction.

Sites and Buildings	Other Programs	Total
$ 8,116,755	$ 269,231	$ 79,793,998
10%	–%	100%
7,681,111	291,515	82,028,260
9%	–%	100%
8,203,146	300,830	85,658,550
10%	–%	100%
8,714,030	381,487	86,950,305
10%	–%	100%
13,393,834	469,478	92,726,501
14%	–%	100%
9,691,920	362,556	90,858,247
11%	–%	100%
9,006,454	543,004	92,631,470
10%	1%	100%
8,954,875	579,502	100,864,279
9%	1%	100%
11,733,576	652,731	104,928,097
11%	1%	100%
9,665,421	636,414	107,939,258
9%	1%	100%

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School Tax Levies and Tax Rates by Fund
Last Ten Fiscal Years

	Year Collectible	General Fund	Community Service Special Revenue Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Total All Funds
Levies						
	2009	$ 19,822,034	$ 938,749	$ 1,000,300	$ 9,947,842	$ 31,708,925
	2010	21,451,658	957,557	1,000,406	10,133,671	33,543,292
	2011	21,276,283	982,373	1,885,932	10,554,475	34,699,063
	2012	26,739,844	1,053,989	1,730,064	10,281,370	39,805,267
	2013	26,641,579	1,093,196	4,383,529	7,194,307	39,312,611
	2014	27,084,132	1,142,821	4,640,567	7,094,461	39,961,981
	2015	28,429,772	1,129,162	6,921,752	6,488,222	42,968,908
	2016	35,838,469	1,190,018	–	14,164,398	51,192,885
	2017	35,477,140	1,119,670	–	15,398,423	51,995,233
	2018	38,556,680	1,074,335	–	15,089,798	54,720,813
Tax rates						
Tax capacity rates						
	2009	4.635	1.037	1.105	10.989	17.766
	2010	5.487	1.050	1.097	11.112	18.746
	2011	7.288	1.136	1.157	12.205	21.786
	2012	13.939	1.267	–	12.359	27.565
	2013	17.649	1.334	–	8.779	27.762
	2014	17.566	1.386	–	8.604	27.556
	2015	18.979	1.240	–	7.125	27.344
	2016	18.873	1.242	–	14.783	34.898
	2017	18.216	1.124	–	15.458	34.798
	2018	15.776	1.010	–	14.186	30.972
Market value rates						
	2009	0.183	–	–	–	0.183
	2010	0.194	–	–	–	0.194
	2011	0.196	–	–	–	0.196
	2012	0.215	–	–	–	0.215
	2013	0.217	–	–	–	0.217
	2014	0.223	–	–	–	0.223
	2015	0.215	–	–	–	0.215
	2016	0.201	–	–	–	0.201
	2017	0.188	–	–	–	0.188
	2018	0.222	–	–	–	0.222

Note 1: A tax rate based on market value is used for the District's referendum, equity, and transition levies.

Note 2: The levy for the Capital Projects – Building Construction Fund is a capital projects levy which is included as a component of the general referendum levy based on net tax capacity. Starting in 2012, the tax capacity for this levy is included in the General Fund.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 273

Property Tax Levies and Receivables
Last Ten Years

For Taxes Collectible	Original Levy			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2009	$ 30,639,825	$ 945,589	$ 123,511	$ 31,708,925
2010	32,343,270	1,061,264	138,758	33,543,292
2011	33,450,877	1,083,275	164,911	34,699,063
2012	38,740,332	1,064,935	–	39,805,267
2013	38,221,083	1,091,528	–	39,312,611
2014	38,892,673	1,069,308	–	39,961,981
2015	41,891,155	1,077,753	–	42,968,908
2016	50,099,457	1,093,428	–	51,192,885
2017	50,638,605	1,356,628	–	51,995,233
2018	53,267,718	1,453,095	–	54,720,813

Note 1: Delinquent taxes receivable are written off after seven years.

Note 2: A portion of the total spread levy was paid with state aid through various property tax credits for residential homestead properties through 2011. This tax credit program ended in 2012.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2018			
Delinquent		Current	
Amount	Percent	Amount	Percent
$ –	– %	$ –	– %
–	–	–	–
–	–	–	–
67,547	0.17	–	–
10,857	0.03	–	–
74,343	0.19	–	–
50,371	0.12	–	–
153,293	0.30	–	–
128,016	0.25	–	–
–	–	23,720,670	43.35
$ 484,427		$ 23,720,670	

INDEPENDENT SCHOOL DISTRICT NO. 273

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM) (for Students Served or Tuition Paid)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2009	72.10	514.21	3,672.12	3,649.88	7,908.31	9,137.36
2010	69.27	510.50	3,699.26	3,774.26	8,053.29	9,321.73
2011	72.25	506.30	3,808.45	3,875.72	8,262.72	9,571.81
2012	70.30	507.92	3,821.35	3,918.16	8,317.73	9,640.67
2013	78.84	502.78	3,807.72	3,979.41	8,368.75	9,710.33
2014	61.97	537.17	3,814.26	4,017.20	8,430.60	9,770.48
2015	79.79	518.55	3,827.59	4,030.07	8,456.00	9,261.99
2016	66.76	504.56	3,812.42	4,045.60	8,429.34	9,238.47
2017	61.94	558.16	3,783.81	4,075.40	8,479.31	9,294.37
2018	67.21	528.85	3,801.66	4,057.00	8,454.72	9,266.13

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: ADM is weighted as follows in computing pupil units:

	Pre-Kindergarten	Handicapped Kindergarten	Half-Day Kindergarten	Full-Day Kindergarten	Elementary 1–3	Elementary 4–6	Secondary
Fiscal 2009 through 2014	1.250	1.000	0.612	0.612	1.115	1.060	1.300
Fiscal 2015 through 2018	1.000	1.000	0.550	1.000	1.000	1.000	1.200

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures		Noncash Assistance
U.S. Department of Agriculture				
Passed through Minnesota Department of Education				
Child nutrition cluster				
School Breakfast Program	10.553	$ 65,669		
National School Lunch Program	10.555	564,046		$ 142,211
Total child nutrition cluster			$ 629,715	
U.S. Department of Education				
Passed through Minnesota Department of Education				
Special education cluster				
Special Education Grants to States	84.027	1,447,306		
Special Education Preschool Grants	84.173	49,205		
Total special education cluster			1,496,511	
Special Education – Grants for Infants and Families	84.181		36,135	
Title I Grants to Local Educational Agencies	84.010		142,565	
Supporting Effective Instruction State Grant	84.367		102,271	
English Language Acquisition State Grants	84.365		42,972	
Passed through SouthWest Metro Intermediate District No. 288				
Career and Technical Education – Basic Grants to States	84.048		12,367	
Total federal awards			$ 2,462,536	

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The District did not elect to use the 10 percent de minimis indirect cost rate.

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William J. Lauer, CPA
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Victoria L. Holinka, CPA/CMA

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

To the School Board and Management of
Independent School District No. 273
Edina, 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. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 8, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

(continued)

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COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 8, 2018

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

To the School Board and Management of
Independent School District No. 273
Edina, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 273, Edina, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget's 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 Audit Results Section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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OPINION ON EACH MAJOR FEDERAL PROGRAM

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 8, 2018

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA

INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 273
Edina, 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. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 8, 2018.

MINNESOTA LEGAL COMPLIANCE

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, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Questioned Costs as item 2018-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

DISTRICT'S RESPONSE TO FINDING

The District's response to the legal compliance finding identified in our audit has been included in the Schedule of Findings and Questioned Costs. The District's response was not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 8, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued?		X Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X None reported
Noncompliance material to the financial statements noted?	___ Yes	X No

Federal Awards

Internal controls over major federal award programs:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X None reported
Type of auditor's report issued on compliance for major programs?		X Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	X No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education – special education cluster consisting of:	
– Special Education Grants to States	84.027
– Special Education Preschool Grants	84.173

Threshold for distinguishing between type A and B programs.	$ 750,000	
Does the auditee qualify as a low-risk auditee?	X Yes	___ No

B. FINANCIAL STATEMENT FINDINGS

None.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

2018-001 Payment of Invoices

Criteria – Minnesota Statutes § 471.425 requires prompt payment of local government bills within a standard payment period of 35 days from the receipt of goods and services, or the invoice for goods or services, for districts with governing boards that meet at least once a month.

Condition – Three of forty disbursements selected for testing were not paid within the required 35 days from the receipt of goods and services.

Questioned Costs – Not applicable.

Context – Three of forty disbursements tested were not paid within the required 35-day period.

Repeat Finding – This is a current year and prior year finding.

Cause – This was an oversight by district personnel.

Effect – The District did not pay this claim within the time frame allowed by state statutes.

Recommendation – We recommend that the District review its procedures for paying invoices to ensure that all bills are paid within the statutory time limit.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review its procedures relating to processing disbursements to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

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Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2018

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		$ 110,849,888	$ 110,849,888	$ –
Total expenditures		$ 107,939,258	$ 107,939,257	$ 1
Nonspendable				
460	Nonspendable fund balance	$ 714,427	$ 714,428	$ (1)
Restricted				
403	Staff development	$ 51,502	$ 51,502	$ –
405	Deferred maintenance	$ –	$ –	$ –
406	Health and safety	$ 3,994	$ 3,994	$ –
407	Capital projects levy	$ –	$ –	$ –
408	Cooperative revenue	$ –	$ –	$ –
409	Alternative facility program	$ –	$ –	$ –
413	Project funded by COP	$ –	$ –	$ –
414	Operating debt	$ –	$ –	$ –
416	Levy reduction	$ –	$ –	$ –
417	Taconite building maintenance	$ –	$ –	$ –
423	Certain teacher programs	$ –	$ –	$ –
424	Operating capital	$ 3,201,332	$ 3,201,332	$ –
426	$25 taconite	$ –	$ –	$ –
427	Disabled accessibility	$ –	$ –	$ –
428	Learning and development	$ –	$ –	$ –
434	Area learning center	$ –	$ –	$ –
435	Contracted alternative programs	$ –	$ –	$ –
436	State approved alternative program	$ –	$ –	$ –
438	Gifted and talented	$ –	$ –	$ –
440	Teacher development and evaluation	$ –	$ –	$ –
441	Basic skills programs	$ 32,992	$ 32,992	$ –
445	Career and technical programs	$ –	$ –	$ –
448	Achievement and integration	$ –	$ –	$ –
449	Safe schools levy	$ –	$ –	$ –
450	Pre-Kindergarten	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
453	Unfunded severance and retirement levy	$ –	$ –	$ –
459	Basic skills extended time	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
472	Medical Assistance	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
475	Title VII – Impact aid	$ –	$ –	$ –
476	Payment in lieu of taxes	$ –	$ –	$ –
Committed				
418	Committed for separation	$ –	$ –	$ –
461	Committed fund balance	$ 927,819	$ 927,819	$ –
Assigned				
462	Assigned fund balance	$ 3,535,342	$ 3,535,342	$ –
Unassigned				
422	Unassigned fund balance	$ 5,268,594	$ 5,268,592	$ 2
Food Service				
Total revenue		$ 3,010,966	$ 3,010,966	$ –
Total expenditures		$ 3,238,107	$ 3,238,107	$ –
Nonspendable				
460	Nonspendable fund balance	$ 480	$ 480	$ –
Restricted				
452	OPEB liability not in trust	$ –	$ –	$ –
464	Restricted fund balance	$ 1,006,089	$ 1,006,089	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Community Service				
Total revenue		$ 7,406,046	$ 7,406,046	$ –
Total expenditures		$ 7,149,545	$ 7,149,546	$ (1)
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
426	$25 taconite	$ –	$ –	$ –
431	Community education	$ 489,024	$ 489,024	$ –
432	ECFE	$ 80,107	$ 80,107	$ –
440	Teacher development and evaluation	$ –	$ –	$ –
444	School readiness	$ 158,316	$ 158,316	$ –
447	Adult basic education	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
464	Restricted fund balance	$ 12,709	$ 12,708	$ 1
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2018

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ 5,891,306	$ 5,891,306	$ –
Total expenditures		$ 59,193,867	$ 59,193,867	$ –
Nonspendable				
460	Nonspendable fund balance	$ 12,739	$ 12,739	$ –
Restricted				
407	Capital projects levy	$ 740,476	$ 740,477	$ (1)
413	Project funded by COP	$ –	$ –	$ –
467	Long-term facilities maintenance	$ 4,247,704	$ 4,247,703	$ 1
464	Restricted fund balance	$ 14,803,686	$ 14,803,686	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ 15,502,185	$ 15,502,186	$ (1)
Total expenditures		$ 14,695,370	$ 14,695,370	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
464	Restricted fund balance	$ 1,539,589	$ 1,539,590	$ (1)
467	Long-term facilities maintenance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Internal Service				
Total revenue		$ 872,654	$ 872,654	$ –
Total expenditures		$ 876,069	$ 876,069	$ –
422	Net position	$ 484,367	$ 484,366	$ 1
OPEB Revocable Trust Fund				
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Debt Service Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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