

**Independent School District No. 277
Minnetrista, Minnesota**

Financial Statements

June 30, 2018



Independent School District No. 277
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**Independent School District No. 277
Board of Education and Administration
June 30, 2018**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
David Botts	Chairperson	January 1, 2020
Gary Wollner	Vice Chairperson	January 1, 2022
Ralph Harrison	Treasurer	January 1, 2020
Loren Davis	Clerk	January 1, 2022
Kelle Downey Bowe	Director	January 1, 2020
Brian Carlson	Director	January 1, 2022
Heidi Marty	Director	January 1, 2020
<u>Administration</u>		
Kevin Borg	Superintendent	
Mark Femrite	Assistant Superintendent for Teaching and Learning	
Kathy Miller	Director of Finance	
Joel Dahl	Director of Community Education	
Cory Wolf	Director of Technology Services	
Meredith Boo	Director of Special Services	
Mark McIlmoyle	Principal - Mound Westonka High School	
Christy Zachow	Principal - Grandview Middle School	
Scott Eidsness	Principal - Shirley Hills Primary	
Mike Moch	Principal - Hilltop Primary	



Independent Auditor's Report

To the School Board
Independent School District No. 277
Minnetrista, 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. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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



Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 75

As discussed in Note 10 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financials.



Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
October 8, 2018

Independent School District No. 277 Management's Discussion and Analysis

This section of Independent School District No. 277's (the "District") annual financial report presents the District's management discussion and analysis of the District's financial performance during the year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, Required Supplementary Information that includes the Management's Discussion and Analysis ([MD&A] this section), the Basic Financial Statements, and Supplemental Information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are the government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

District-Wide Statements

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

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

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

Independent School District No. 277 Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

Proprietary Funds – These funds present short and long-term financial information about the activities the District operates like a business, such as internal service funds for self-insurance.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as scholarships. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**Independent School District No. 277
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position – The District's combined net position was (\$8,595,876) on June 30, 2018.

**Table 1
Statement of Net Position
Governmental Activities**

	<u>2017</u>	<u>2018</u>	Percentage Change 2017-18
Assets			
Current and other assets	\$ 44,524,017	\$ 31,843,291	-28.5%
Capital assets	<u>42,480,430</u>	<u>59,172,498</u>	39.3%
Total assets	<u>87,004,447</u>	<u>91,015,789</u>	4.6%
Deferred Outflow of Resources			
Deferred outflows	<u>\$ 37,590,049</u>	<u>\$ 28,516,475</u>	-24.1%
Liabilities			
Long-term liabilities	\$ 108,500,060	\$ 100,742,034	-7.2%
Other liabilities	<u>4,762,992</u>	<u>6,507,550</u>	36.6%
Total liabilities	<u>113,263,052</u>	<u>107,249,584</u>	-5.3%
Deferred Inflow of Resources			
Deferred inflows	<u>12,434,693</u>	<u>20,878,556</u>	67.9%
Net Position			
Net investment in capital assets	15,136,713	15,504,781	2.4%
Restricted	545,365	2,956,906	442.2%
Unrestricted	<u>(16,785,327)</u>	<u>(27,057,563)</u>	-61.2%
Total net position	<u>\$ (1,103,249)</u>	<u>\$ (8,595,876)</u>	679.1%

**Independent School District No. 277
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

A summary of the revenue and expenses is presented in Table 2.

**Table 2
Change in Net Position**

	<u>2017</u>	<u>2018</u>	<u>Percentage Change 2017-18</u>
Revenues			
Program revenues			
Charges for services	\$ 3,807,075	\$ 4,079,925	7.2%
Operating grants and contributions	5,158,033	5,236,327	1.5%
Capital grants and contributions	39,637	184,350	365.1%
General revenues			
Property taxes	11,527,224	13,079,116	13.5%
State aid - formula grants	15,917,372	15,758,585	-1.0%
Other	503,636	625,019	24.1%
Total revenues	<u>36,952,977</u>	<u>38,963,322</u>	5.4%
Expenses			
Administration	1,490,910	1,469,848	-1.4%
District support services	1,237,003	1,525,609	23.3%
Elementary and secondary regular instruction	17,996,384	18,857,092	4.8%
Vocational education instruction	496,454	492,828	-0.7%
Special education instruction	6,341,103	6,635,899	4.6%
Instructional support services	1,993,237	2,031,915	1.9%
Pupil support services	2,402,246	2,426,500	1.0%
Sites, buildings, and equipment	3,549,901	4,034,481	13.7%
Fiscal and other fixed cost programs	76,288	91,334	19.7%
Food service	1,346,818	1,430,284	6.2%
Community education and services	2,984,228	3,551,115	19.0%
Interest on long-term debt	1,071,685	1,037,397	-3.2%
Total expenses	<u>40,986,257</u>	<u>43,584,302</u>	6.3%
Change in accounting principle	-	(2,871,647)	Undefined
Change in net position	<u>(4,033,280)</u>	<u>(4,620,980)</u>	14.6%
End of year net position	<u>\$ (1,103,249)</u>	<u>\$ (8,595,876)</u>	679.1%

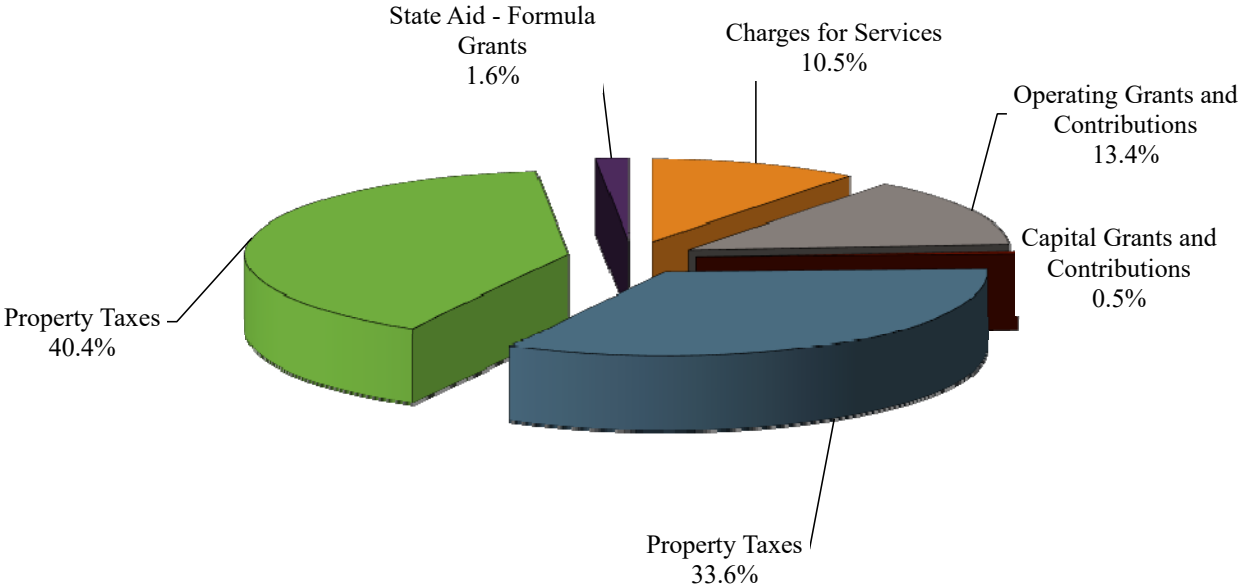
**Independent School District No. 277
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position – The District's total revenues were \$38,963,322 for the year ended June 30, 2018. Property taxes and state formula aid accounted for 74.0% of total revenue for the year (see Figure A). Another 26.0% came from other general revenues combined with interest earnings and the remainder from program revenues.

Total expenses surpassed revenues, decreasing net position \$4,620,980 over last year.

**Figure A
Sources of the District's Revenues for Fiscal Year 2018**

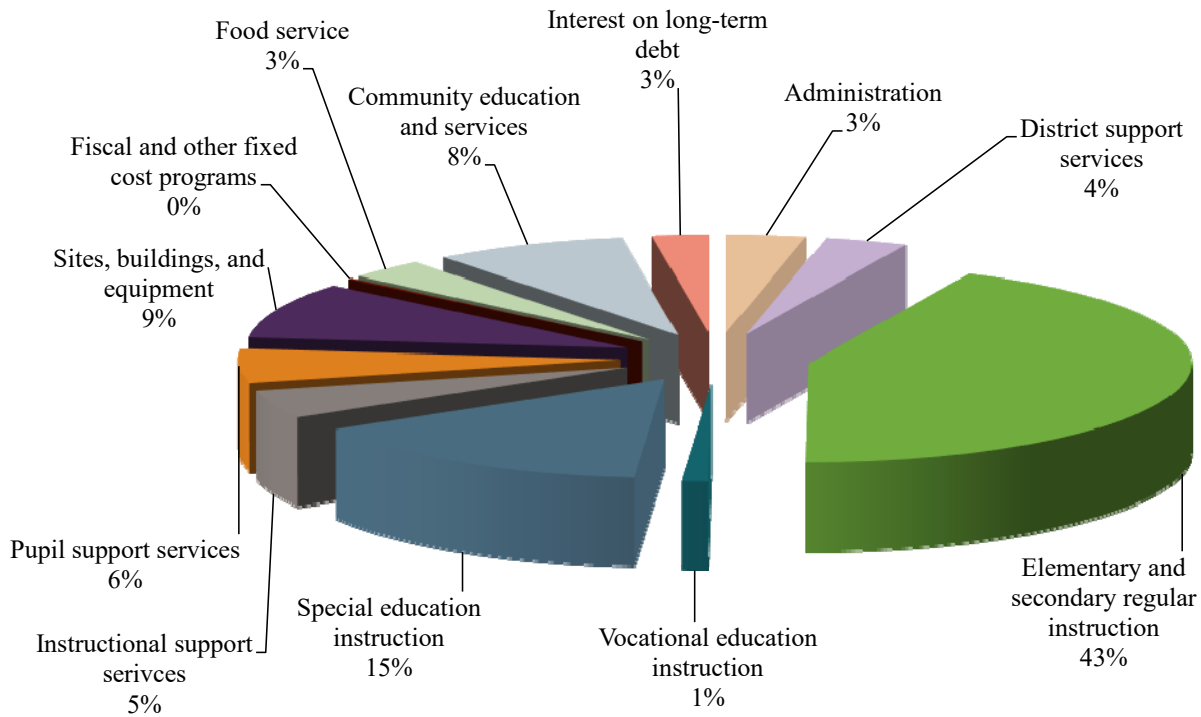


**Independent School District No. 277
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$43,584,302. The District's expenses predominately related to the educating and caring for students (regular instructional programs, vocational instruction, special education programs and instructional and pupil support) were 74.4% of expenses incurred; see Figure B. The purely administrative activities of the District accounted for just 3.4% of total costs.

**Figure B
The District's Expenses for Fiscal Year 2018**



**Independent School District No. 277
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Table 3
Net Cost of Governmental Activities**

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2017	2018	Change 2017-18	2017	2018	Change 2017-18
Administration	\$ 1,490,910	\$ 1,469,848	-1.4%	\$ 1,490,910	\$ 1,469,848	-1.4%
District support services	1,237,003	1,525,609	23.3%	1,178,569	1,475,116	25.2%
Elementary and secondary regular						
Elementary and secondary regular in:	17,996,384	18,857,092	4.8%	15,956,955	16,861,006	5.7%
Vocational education instruction	496,454	492,828	-0.7%	479,348	481,984	0.5%
Special education instruction	6,341,103	6,635,899	4.6%	3,356,030	3,408,747	1.6%
Instructional support services	1,993,237	2,031,915	1.9%	1,941,572	1,981,120	2.0%
Pupil support services	2,402,246	2,426,500	1.0%	2,352,910	2,384,984	1.4%
Sites, buildings, and equipment	3,549,901	4,034,481	13.7%	3,298,629	3,750,131	13.7%
Fiscal and other fixed cost programs	76,288	91,334	19.7%	76,288	91,334	19.7%
Community education and services	2,984,228	3,551,115	19.0%	785,034	1,142,903	45.6%
Food service	1,346,818	1,430,284	6.2%	(6,418)	(870)	-86.4%
Interest on long-term debt	1,071,685	1,037,397	-3.2%	1,071,685	1,037,397	-3.2%
Total	\$ 40,986,257	\$ 43,584,302	6.3%	\$ 31,981,512	\$ 34,083,700	6.6%

The cost of all governmental activities for 2017-18 was \$43,584,302.

- Some of the cost was paid by the users of the District's programs was \$4,079,925.
- The federal and state governments subsidized certain programs with grants and contributions was \$5,236,327.
- Most of the District's costs were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$13,079,116 in property taxes and \$15,758,585 of state aid based on the statewide education aid formula. In addition, \$625,019 of investment earnings and other general revenues was recognized.

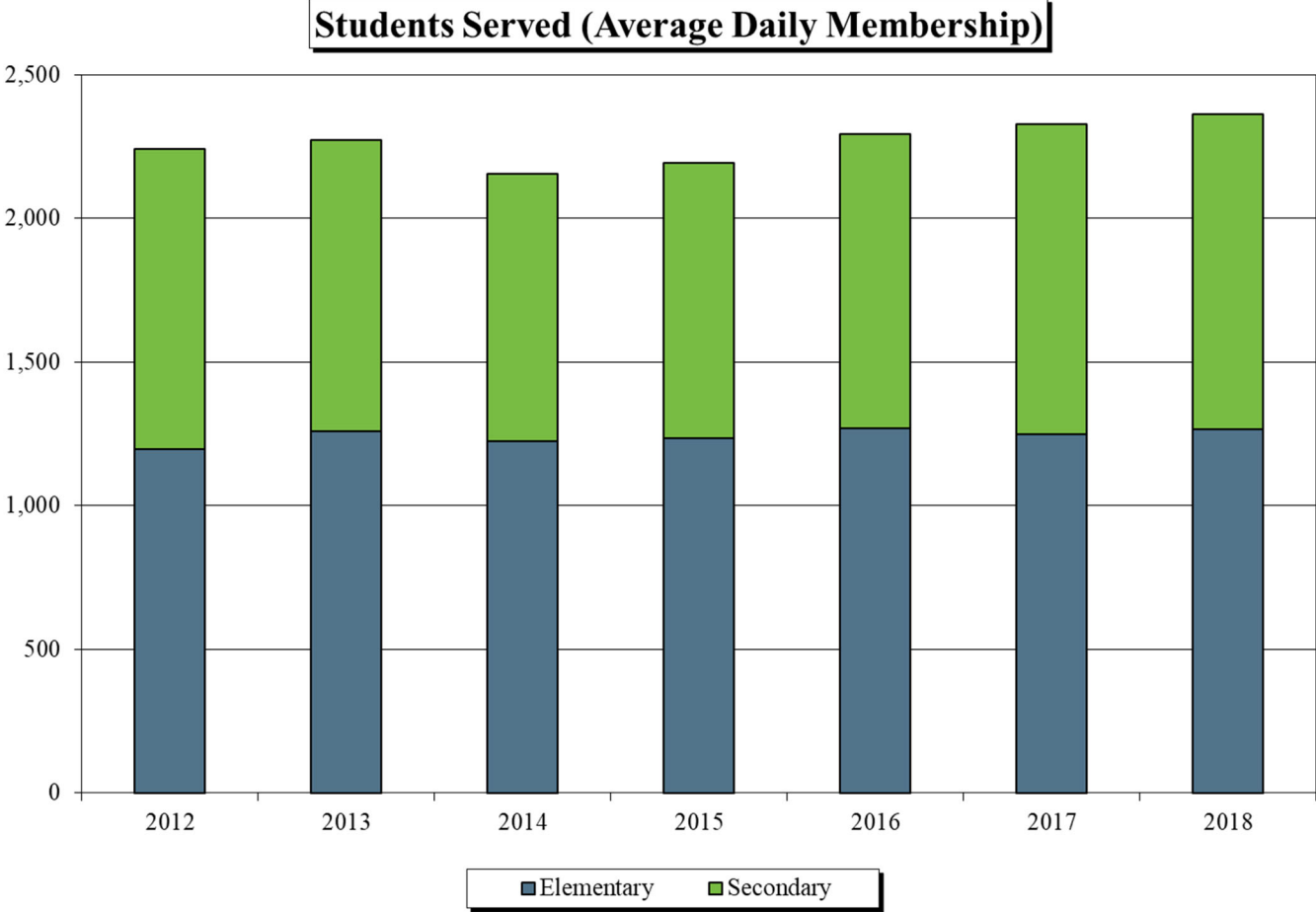
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. When the District completed the year, the governmental funds reported a combined fund balance of \$11,895,994, a decrease of \$15,386,543 from last year's ending fund balance of \$27,282,537. This decrease is primarily due to the 2016 Bond construction expenses.

**Independent School District No. 277
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

Revenues for the District's governmental funds were \$38,879,184 while total expenditures were \$56,290,624, resulting in \$17,411,440 of expenditures over revenues. The following graph shows the number of students served by the District.



During 2017-18, the District's total enrollment increased from the previous fiscal year. Enrollment projections predict that a trend of stable to increasing enrollment will occur based on new housing construction occurring and planned in the District. During the year, the District served more students than projected in the budget.

GENERAL FUND

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

**Independent School District No. 277
Management's Discussion and Analysis**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30, 2017	Year Ended June 30, 2018	Percentage Change 2017-18
Local sources			
Property taxes	\$ 7,962,866	\$ 8,645,723	8.6%
Other	1,344,051	1,394,938	3.8%
State sources	18,534,216	19,405,861	4.7%
Federal sources	785,160	787,762	0.3%
 Total	 <u>\$ 28,626,293</u>	 <u>\$ 30,234,284</u>	 5.6%

Total General Fund revenue increased by \$1,607,991 or 5.6%, from the previous year. This is primarily due to an increase in students versus prior year, as well as an increase in property taxes.

Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2017	Year Ended June 30, 2018	Percentage Change 2017-18
Salaries	\$ 15,498,057	\$ 16,788,912	8.3%
Benefits	5,023,429	5,493,393	9.4%
Purchased services	5,081,375	4,927,284	-3.0%
Supplies, materials, and equipment	2,724,980	3,211,977	17.9%
Other expenses	177,681	284,492	60.1%
 Total	 <u>\$ 28,505,523</u>	 <u>\$ 30,706,058</u>	 7.7%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Total General Fund expenditures increased \$2,200,535, or 7.7%, from the previous year primarily due to increases in wages and benefits and general inflation of purchased services, capital improvements, as well as technology initiatives including a one-to-one device for students.

**Independent School District No. 277
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

In 2017-18, General Fund revenues and other financing sources were under expenditures and other financing uses by \$458,629.

After deducting statutory reserves, the unassigned fund balance was \$3,100,046 at June 30, 2017. The unassigned fund balance is \$3,030,798 at June 30, 2018.

General Fund Budget Highlights

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

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

While the District's final budget for the General Fund anticipated that expenditures and other financing sources would exceed revenues and other financing uses by \$541,983; the actual results for the year show expenditures exceed revenues and other financing sources by \$458,629.

- Actual revenues were \$23,289 less than expected, about a 0.1% variance.
- The actual expenditures were \$98,826 less than budgeted, about a 0.4% variance.

COMMUNITY SERVICE AND DEBT SERVICE FUNDS

The Community Service Fund experienced a current year fund balance decrease of \$478,045 due to increased expenditures for early childhood, activity center site and recreation programs. The Community Service fund balance was \$161,197 as of June 30, 2018. From the standpoint of maintaining current operating expenditures within the range of annual revenue, the Community Services Fund continues to operate on a sound financial basis.

The Debt Service Fund revenues exceeded expenditures by \$96,031 in 2017-2018. The remaining fund balance of \$513,952 at June 30, 2018, is available for meeting future debt service obligations.

NONMAJOR FUNDS

The Food Service Fund had negative operations of \$76,958 due to changes in meal regulations and upgrading equipment. It has a restricted fund balance of \$115,187 and nonspendable fund balance of \$12,865 on June 30, 2018. This balance will be used to offset future operating losses and to fund equipment improvements.

**Independent School District No. 277
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018, the District had invested \$59,172,498 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table 4). Total depreciation expense for the year was \$318,358. More detailed information can be found in Note 3 of the financial statements.

**Table 4
Capital Assets - Governmental Activities**

	2017	2018	Total Percent Change 2017-18
Land	\$ 1,645,835	\$ 1,645,835	0.0%
Construction in progress	4,462,097	17,739,251	297.6%
Land improvements	4,600,962	4,600,962	0.0%
Buildings	43,850,148	47,270,407	7.8%
Furniture and equipment	9,063,465	9,162,723	1.1%
Vehicles	108,413	212,877	96.4%
Less accumulated depreciation	<u>(21,250,490)</u>	<u>(21,459,557)</u>	1.0%
Total	<u>\$ 42,480,430</u>	<u>\$ 59,172,498</u>	39.3%

Long-Term Liabilities

At year-end, the District had \$45,665,588 in G.O. bonds and capital leases payable outstanding, a decrease of 1.5% from last year, as shown in Table 5. The District also had \$57,259 in compensated absences payable at June 30, 2018. Finally, the District had \$55,293,686 in long-term Pension/OPEB liability. Total long-term liability decreased by 10.8%. More detailed information can be found in Note 4 of the financial statements.

**Table 5
Outstanding Long-Term Liabilities**

	2017	2018	Total Percent Change 2017-18
G.O. bonds payable	\$ 43,725,000	\$ 43,065,000	-1.5%
Capital leases payable	2,852,454	2,600,588	-8.8%
Compensated absences	55,639	57,259	2.9%
Net pension liability	60,797,385	50,983,021	-16.1%
Net OPEB obligation/liability	<u>1,216,965</u>	<u>4,310,665</u>	254.2%
Total	<u>\$ 108,647,443</u>	<u>\$ 101,016,533</u>	-7.0%

Independent School District No. 277 Management's Discussion and Analysis

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendum and building bond 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 2017 legislative sessions provided a 2% increase in the basic education funding formula allowance for the 2017-18 and 2018-19 years. The District will strive to maximize resources available through efficient and effective management of its operations.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunities for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have questions about this report or need additional financial information, contact: Business Services Office, Westonka Public Schools, Independent School District No. 277, Educational Service Center, 5901 Sunnyfield Road East, Minnetrista, Minnesota 55364, (952) 491-8021.

BASIC FINANCIAL STATEMENTS

Independent School District No. 277
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash and investments	\$ 23,858,470
Current property taxes receivable	5,864,996
Delinquent property taxes receivable	74,588
Accounts receivable	36,355
Interest receivable	76,747
Due from Department of Education	1,626,537
Due from Federal Government through Department of Education	180,141
Due from other Minnesota school districts	63,790
Inventory	47,739
Prepaid items	13,928
Capital assets (net of accumulated depreciation)	
Land	1,645,835
Construction in progress	17,739,251
Land improvements	3,020,960
Buildings	33,967,366
Equipment	2,675,384
Vehicles	123,702
Total assets	91,015,789
Deferred Outflows of Resources	
Deferred outflows related to pensions	28,350,918
Deferred outflows related to OPEB	165,557
Total deferred outflows of resources	28,516,475
 Total assets and deferred outflows of resources	 \$ 119,532,264
Liabilities	
Accounts payable	\$ 2,754,293
Salaries and benefits payable	178,678
Interest payable	519,603
Due to other Minnesota school districts	47,567
Unearned revenue	106,397
Bond principal payable, net	
Payable within one year	2,640,000
Payable after one year	43,051,513
Capital lease payable	
Payable within one year	215,220
Payable after one year	2,385,368
Compensated absences payable	
Payable within one year	45,792
Payable after one year	11,467
Net OPEB liability	4,310,665
Net pension liability	50,983,021
Total liabilities	107,249,584
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	12,180,521
Deferred inflows related to pensions	8,698,035
Total deferred inflows of resources	20,878,556
Net Position	
Net investment in capital assets	15,504,781
Restricted	2,956,906
Unrestricted	(27,057,563)
Total net position	(8,595,876)
 Total liabilities, deferred inflows of resources, and net position	 \$ 119,532,264

Independent School District No. 277
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
Governmental activities					Governmental Activities
Administration	\$ 1,469,848	\$ -	\$ -	\$ -	\$ (1,469,848)
District support services	1,525,609	50,493	-	-	(1,475,116)
Elementary and secondary regular instruction	18,857,092	794,643	1,201,443	-	(16,861,006)
Vocational education instruction	492,828	-	10,844	-	(481,984)
Special education instruction	6,635,899	-	3,227,152	-	(3,408,747)
Instructional support services	2,031,915	20,795	30,000	-	(1,981,120)
Pupil support services	2,426,500	18,569	22,947	-	(2,384,984)
Sites and buildings	4,034,481	-	100,000	184,350	(3,750,131)
Fiscal and other fixed cost programs	91,334	-	-	-	(91,334)
Food service	1,430,284	997,623	433,531	-	870
Community education and services	3,551,115	2,197,802	210,410	-	(1,142,903)
Interest and fiscal charges on long-term debt	1,037,397	-	-	-	(1,037,397)
Total governmental activities	\$ 43,584,302	\$ 4,079,925	\$ 5,236,327	\$ 184,350	(34,083,700)
General revenues					
Taxes					
					8,676,394
					561,776
					3,840,946
					15,758,585
					320,057
					304,412
					550
					<u>29,462,720</u>
Change in net position					(4,620,980)
Net position - beginning					<u>(1,103,249)</u>
Change in accounting principle (Note 10)					<u>(2,871,647)</u>
Net position - beginning, as restated					<u>(3,974,896)</u>
Net position - ending					<u>\$ (8,595,876)</u>

☞ See notes to financial statements.

Independent School District No. 277
Balance Sheet - Governmental Funds
June 30, 2018

	General	Debt Service
Assets		
Cash and investments	\$ 6,316,597	\$ 2,494,847
Current property taxes receivable	3,903,911	1,468,324
Delinquent property taxes receivable	47,978	20,214
Accounts receivable	34,855	-
Interest receivable	11,160	-
Due from Department of Education	1,615,106	71
Due from Federal Government through Department of Education	166,724	-
Due from other Minnesota school districts	50,000	-
Inventory	34,874	-
Prepaid items	11,303	-
	\$ 12,192,508	\$ 3,983,456
Liabilities		
Accounts payable	\$ 351,356	\$ -
Salaries and benefits payable	74,766	-
Due to other Minnesota school districts	47,567	-
Unearned revenue	17,000	-
Total liabilities	490,689	-
Deferred Inflows of Resources		
Unavailable revenue - delinquent property taxes	56,267	23,386
Property taxes levied for subsequent year's expenditures	7,577,905	3,446,118
Total deferred inflows of resources	7,634,172	3,469,504
Fund Balances		
Nonspendable	46,177	-
Restricted	-	513,952
Committed	143,018	-
Assigned	847,654	-
Unassigned	3,030,798	-
Total fund balances	4,067,647	513,952
Total liabilities, deferred inflows of resources, and fund balances	\$ 12,192,508	\$ 3,983,456

Community Service	Building Construction	Other Nonmajor Funds	Total Governmental Funds
\$ 652,845	\$ 9,097,810	\$ 613,136	\$ 19,175,235
260,326	-	232,435	5,864,996
3,354	-	3,042	74,588
1,500	-	-	36,355
-	20,198	-	31,358
11,348	-	12	1,626,537
-	-	13,417	180,141
13,790	-	-	63,790
-	-	12,865	47,739
2,625	-	-	13,928
<u>\$ 945,788</u>	<u>\$ 9,118,008</u>	<u>\$ 874,907</u>	<u>\$ 27,114,667</u>
\$ 51,112	\$ 2,210,567	\$ 5,348	\$ 2,618,383
93,988	-	9,924	178,678
-	-	-	47,567
24,615	-	64,782	106,397
<u>169,715</u>	<u>2,210,567</u>	<u>80,054</u>	<u>2,951,025</u>
3,897	-	3,577	87,127
610,979	-	545,519	12,180,521
<u>614,876</u>	<u>-</u>	<u>549,096</u>	<u>12,267,648</u>
2,625	-	12,865	61,667
158,572	6,907,441	232,892	7,812,857
-	-	-	143,018
-	-	-	847,654
-	-	-	3,030,798
<u>161,197</u>	<u>6,907,441</u>	<u>245,757</u>	<u>11,895,994</u>
<u>\$ 945,788</u>	<u>\$ 9,118,008</u>	<u>\$ 874,907</u>	<u>\$ 27,114,667</u>

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**Independent School District No. 277
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2018**

Total fund balances - governmental funds	\$ 11,895,994
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>	
Cost of capital assets	80,632,055
Less accumulated depreciation	(21,459,557)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:</p>	
Bond principal payable	(43,065,000)
Capital lease payable	(2,600,588)
Compensated absences payable	(57,259)
Net pension liability	(50,983,021)
Net OPEB obligation	(4,310,665)
<p>Bond premiums are reported as a liability within the Statement of Net Position and are reported as an other financing source in the year the debt is issued in governmental funds.</p>	
	(2,626,513)
<p>Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.</p>	
Deferred outflows of resources related to pensions	28,350,918
Deferred inflows of resources related to pensions	(8,698,035)
Deferred Outflows related to OPEB liability	165,557
<p>Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.</p>	
	87,127
<p>The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.</p>	
	4,592,714
<p>Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.</p>	
	(519,603)
Total net position - governmental activities	\$ (8,595,876)

Independent School District No. 277
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018

	General	Debt Service	Community Service
Revenues			
Local property taxes	\$ 8,645,723	\$ 3,275,124	\$ 559,742
Other local and county revenues	1,307,282	27,735	2,228,822
Revenue from state sources	19,405,861	715	192,780
Revenue from federal sources	787,762	-	-
Sales and other conversion of assets	87,656	-	-
Total revenues	<u>30,234,284</u>	<u>3,303,574</u>	<u>2,981,344</u>
Expenditures			
Current			
Administration	1,090,190	-	-
District support services	1,457,865	-	-
Elementary and secondary regular instruction	14,054,514	-	-
Vocational education instruction	373,420	-	-
Special education instruction	5,272,272	-	-
Instructional support services	1,687,146	-	-
Pupil support services	2,212,129	-	-
Sites and buildings	2,491,813	-	-
Fiscal and other fixed cost programs	91,334	-	-
Food service	-	-	-
Community education and services	-	-	3,197,256
Capital outlay			
District support services	19,289	-	-
Elementary and secondary regular instruction	460,889	-	-
Special education instruction	9,419	-	-
Instructional support services	-	-	-
Sites and buildings	1,485,778	-	-
Food service	-	-	-
Community education and services	-	-	262,133
Debt service			
Principal	-	1,990,000	-
Interest and fiscal charges	-	1,217,543	-
Total expenditures	<u>30,706,058</u>	<u>3,207,543</u>	<u>3,459,389</u>
Excess of revenues over (under) expenditures	(471,774)	96,031	(478,045)
Other Financing Sources			
Proceeds from sale of capital assets	550	-	-
Bond issuance	-	2,121	-
Bond premium	-	-	-
Issuance of capital lease	7,267	-	-
Insurance recovery	5,328	-	-
Total other financing sources	<u>13,145</u>	<u>2,121</u>	<u>-</u>
Net change in fund balances	(458,629)	98,152	(478,045)
Fund Balances			
Beginning of year	<u>4,526,276</u>	<u>415,800</u>	<u>639,242</u>
End of year	<u>\$ 4,067,647</u>	<u>\$ 513,952</u>	<u>\$ 161,197</u>

See notes to financial statements.

Building Construction	Other Nonmajor Funds	Total Governmental Funds
\$ -	\$ 552,894	\$ 13,033,483
311,664	64,239	3,939,742
-	56,893	19,656,249
-	376,759	1,164,521
-	997,533	1,085,189
<u>311,664</u>	<u>2,048,318</u>	<u>38,879,184</u>
-	-	1,090,190
-	-	1,457,865
-	-	14,054,514
-	-	373,420
-	-	5,272,272
-	-	1,687,146
-	-	2,212,129
53,189	-	2,545,002
-	-	91,334
-	1,415,670	1,415,670
-	-	3,197,256
-	-	19,289
-	-	460,889
-	-	9,419
-	-	-
16,740,878	-	18,226,656
-	156,591	156,591
-	-	262,133
-	505,000	2,495,000
-	46,306	1,263,849
<u>16,794,067</u>	<u>2,123,567</u>	<u>56,290,624</u>
(16,482,403)	(75,249)	(17,411,440)
-	-	550
1,832,879	-	1,835,000
176,752	-	176,752
-	-	7,267
-	-	5,328
<u>2,009,631</u>	<u>-</u>	<u>2,024,897</u>
(14,472,772)	(75,249)	(15,386,543)
<u>21,380,213</u>	<u>321,006</u>	<u>27,282,537</u>
<u>\$ 6,907,441</u>	<u>\$ 245,757</u>	<u>\$ 11,895,994</u>

Independent School District No. 277
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 8,709,615	\$ 8,618,437	\$ 8,645,723	\$ 27,286
Other local and county revenues	1,057,899	1,219,843	1,307,282	87,439
Revenue from state sources	19,368,073	19,557,102	19,405,861	(151,241)
Revenue from federal sources	789,189	774,606	787,762	13,156
Sales and other conversion of assets	111,283	87,585	87,656	71
Total revenues	<u>30,036,059</u>	<u>30,257,573</u>	<u>30,234,284</u>	<u>(23,289)</u>
Expenditures				
Current				
Administration	1,112,024	1,106,493	1,090,190	(16,303)
District support services	1,309,548	1,340,848	1,457,865	117,017
Elementary and secondary regular instruction	13,673,696	13,850,295	14,054,514	204,219
Vocational education instruction	384,250	337,266	373,420	36,154
Special education instruction	5,360,273	5,382,815	5,272,272	(110,543)
Instructional support services	1,551,747	1,673,976	1,687,146	13,170
Pupil support services	2,244,749	2,262,370	2,212,129	(50,241)
Sites and buildings	2,469,248	2,638,465	2,491,813	(146,652)
Fiscal and other fixed cost programs	109,287	108,824	91,334	(17,490)
Capital outlay				
District support services	39,560	30,560	19,289	(11,271)
Elementary and secondary regular instruction	662,615	493,950	460,889	(33,061)
Special education instruction	143,692	14,363	9,419	(4,944)
Instructional support services	550	550	-	(550)
Sites and buildings	1,133,307	1,564,109	1,485,778	(78,331)
Total expenditures	<u>30,194,546</u>	<u>30,804,884</u>	<u>30,706,058</u>	<u>(98,826)</u>
Excess of revenues over (under) expenditures	(158,487)	(547,311)	(471,774)	75,537
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	550	550
Issuance of capital lease	-	-	7,267	7,267
Insurance recovery	-	5,328	5,328	-
Total other financing sources (uses)	<u>-</u>	<u>5,328</u>	<u>13,145</u>	<u>7,817</u>
Net change in fund balance	<u>\$ (158,487)</u>	<u>\$ (541,983)</u>	(458,629)	<u>\$ 83,354</u>
Fund Balance				
Beginning of year			<u>4,526,276</u>	
End of year			<u>\$ 4,067,647</u>	

Independent School District No. 277
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 8,709,615	\$ 8,618,437	\$ 8,645,723	\$ 27,286
Other local and county revenues	1,057,899	1,219,843	1,307,282	87,439
Revenue from state sources	19,368,073	19,557,102	19,405,861	(151,241)
Revenue from federal sources	789,189	774,606	787,762	13,156
Sales and other conversion of assets	111,283	87,585	87,656	71
Total revenues	<u>30,036,059</u>	<u>30,257,573</u>	<u>30,234,284</u>	<u>(23,289)</u>
Expenditures				
Current				
Administration	1,112,024	1,106,493	1,090,190	(16,303)
District support services	1,309,548	1,340,848	1,457,865	117,017
Elementary and secondary regular instruction	13,673,696	13,850,295	14,054,514	204,219
Vocational education instruction	384,250	337,266	373,420	36,154
Special education instruction	5,360,273	5,382,815	5,272,272	(110,543)
Instructional support services	1,551,747	1,673,976	1,687,146	13,170
Pupil support services	2,244,749	2,262,370	2,212,129	(50,241)
Sites and buildings	2,469,248	2,638,465	2,491,813	(146,652)
Fiscal and other fixed cost programs	109,287	108,824	91,334	(17,490)
Capital outlay				
District support services	39,560	30,560	19,289	(11,271)
Elementary and secondary regular instruction	662,615	493,950	460,889	(33,061)
Special education instruction	143,692	14,363	9,419	(4,944)
Instructional support services	550	550	-	(550)
Sites and buildings	1,133,307	1,564,109	1,485,778	(78,331)
Total expenditures	<u>30,194,546</u>	<u>30,804,884</u>	<u>30,706,058</u>	<u>(98,826)</u>
Excess of revenues under expenditures	(158,487)	(547,311)	(471,774)	75,537
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	-	550	550
Issuance of capital lease	-	-	7,267	7,267
Insurance recovery	-	5,328	5,328	-
Total other financing sources (uses)	<u>-</u>	<u>5,328</u>	<u>13,145</u>	<u>7,817</u>
Net change in fund balance	<u>\$ (158,487)</u>	<u>\$ (541,983)</u>	(458,629)	<u>\$ 83,354</u>
Fund Balance				
Beginning of year			<u>4,526,276</u>	
End of year			<u>\$ 4,067,647</u>	

Independent School District No. 277
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 560,568	\$ 560,568	\$ 559,742	\$ (826)
Other local and county revenues	1,953,901	1,974,901	2,228,822	253,921
Revenue from state sources	168,521	168,521	192,780	24,259
Total revenues	<u>2,682,990</u>	<u>2,703,990</u>	<u>2,981,344</u>	<u>277,354</u>
Expenditures				
Current				
Community education and services	2,711,459	2,768,559	3,197,256	428,697
Capital outlay				
Community education and services	331,750	342,745	262,133	(80,612)
Total expenditures	<u>3,043,209</u>	<u>3,111,304</u>	<u>3,459,389</u>	<u>348,085</u>
Excess of revenues under expenditures	<u>\$ (360,219)</u>	<u>\$ (407,314)</u>	(478,045)	<u>\$ (70,731)</u>
Fund Balance				
Beginning of year			<u>639,242</u>	
End of year			<u>\$ 161,197</u>	

Independent School District No. 277
Statement of Net Position - Proprietary Funds
June 30, 2018

	Governmental Activities - Internal Service Funds
Assets	
Cash and cash equivalents	\$ 1,042,230
Investments	3,641,005
Interest receivable	45,389
Total assets	\$ 4,728,624
 Liabilities and Net Position	
Liabilities	
Accounts payable	\$ 135,910
 Net position	
Unrestricted	4,592,714
Total liabilities and net position	\$ 4,728,624

Independent School District No. 277
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2018

	Governmental Activities - Internal Service Funds
Operating Revenue	
Charges for services	\$ 3,853,702
Operating Expenses	
Employee benefits	3,774,365
Professional services	250
Total operating expenses	3,774,615
Operating income	79,087
Nonoperating Revenue	
Investment income	41,047
Change in net position	120,134
Net Position	
Beginning of year	4,472,580
End of year	\$ 4,592,714

Independent School District No. 277
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2018

	Governmental Activities - Internal Service Funds
Cash Flows - Operating Activities	
Receipts from employee contributions	\$ 3,853,702
Payments to employees	(3,789,485)
Payments to vendors	(250)
Net cash flows - operating activities	<u>63,967</u>
 Cash Flows - Investment Activities	
Investment sales	98,811
Interest received	112,686
Net cash flows - investment activities	<u>211,497</u>
 Net change in cash and cash equivalents	 275,464
 Cash and Cash Equivalents	
Beginning of year	<u>766,766</u>
End of year	<u>\$ 1,042,230</u>
 Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	\$ 79,087
Adjustments to reconcile operating income To net cash flows - operating activities	
Accounts payable	(15,120)
Net adjustments	<u>(15,120)</u>
Net cash flows - operating activities	<u>\$ 63,967</u>
 Non-Cash Activities	
Change in fair value of investments	<u>\$ (72,999)</u>

**Independent School District No. 277
Statement of Fiduciary Net Position
Year Ended June 30, 2018**

	Private Purpose Trust Fund
Assets	
Cash and investments (including cash equivalents)	\$ 77,301
Total assets	\$ 77,301
Net Position	
Held in trust for scholarships	\$ 77,301

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

	Private Purpose Trust Fund
Additions	
Contributions	\$ 27,793
Interest revenue	36
Total additions	27,829
Deductions	
Administrative expense	250
Scholarships	376,381
Total deductions	376,931
Change in net position	(349,102)
Net Position	
Beginning of year	426,403
End of year	\$ 77,301

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

B. Basic Financial Statement Information

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

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

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

Description of Funds:

Major Funds:

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

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

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

Building Construction Fund – Capital Projects – This fund is used to account for financial resources used for the maintenance projects authorized with the School Building Bonds.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this Fund to specifically support the food service program.

Post Employment Benefits Debt Service Fund – This fund is used to account for levy proceeds and the payment of G.O. Taxable OPEB Bonds principal, interest and related costs.

Fiduciary Fund:

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

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Proprietary Fund:

Post Employment Benefits Revocable Trust Internal Service Fund – This fund is used to account for the accumulation of resources to fund post employment benefits.

Self-Insured Benefits Internal Service Fund – This fund is used to account for the activity of the self-insured employee health and dental plans.

D. Deposits and Investments

All governmental and fiduciary funds of the District participate in a government-wide investment pool. Cash and investment balances from all funds are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Deposits and investments in the OPEB Internal Service Fund and the Building Construction Capital Projects Fund are not pooled with the rest of the District's deposits and investments.

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

Cash and investments at June 30, 2018, were comprised of deposits, brokered certificates of deposits and money market accounts, and government securities.

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

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

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventory

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

H. Prepaid Items

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

I. Property Taxes

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

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

J. Capital Assets

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

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

Capital assets are defined by the District as assets with an initial individual cost of more than \$2,000. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 40 years for land improvements and buildings, and 5 to 20 years for equipment.

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows related to pension activity reported in the government-wide Statement of Net Position. A deferred outflow relating to pension activity results from the difference between actual and expected economic experience, changes in actuarial assumptions and employer contributions subsequent to the measurement date. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

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

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Unearned Revenue

Unearned revenue represents monies received prior to June 30, 2018, but earned subsequent to year end.

M. Long-Term Obligations

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

Bonds payable are reported net of the applicable bond premium or discount.

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

N. Compensated Absences

The District compensates administration, clerical, and custodial employees upon termination of employment for unused vacation. Vacation accrual may be carried over up to five days for school service employees while ten days may be carried over for other employees.

Employees are not compensated for unused sick leave upon termination of employment. Sick leave pay is shown as an expenditure in the year paid.

O. Pensions

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

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

P. Risk Management

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

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balances – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.
- Assigned Fund Balances – The School Board delegates the Superintendent and Director of Finance the power to assign balances for specific purposes.
- Unassigned Fund Balances – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.
- Minimum Fund Balance Policy – The District's annual budget will be developed to maintain a minimum unassigned General Fund balance of 8% of the prior year's expenditures and a maximum of 15% of the prior year's expenditures.

R. Net Position

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

S. Use of Estimates

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

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* 118A.03.

As of June 30, 2018, the District's bank balances were not exposed to custodial credit risk as they were insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

At June 30, 2018, the District had the following deposits:

Certificates of deposit	\$ <u>2,493,700</u>
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B. Investments

Investments at June 30, 2018, were comprised of shares in MnTrust, including brokered money markets, brokered certificates of deposits, municipal securities and term series.

Independent School District No. 277
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

Investment	Weighted Average Maturities in Years	Amount
Brokered Money Markets	N/A	\$ 6,321,388
Brokered Money Markets - OPEB	N/A	45,692
Brokered Money Markets - Building Bonds	N/A	1,883,715
Brokered Money Markets - Abatement	N/A	1,956,852
Negotiable Certificates of Deposits - OPEB	0.26	548,897
Municipal Securities	0.06	118,175
Municipal Securities - OPEB	5.51	2,572,111
Municipal Securities - Building	0.06	1,994,866
Term Series	0.07	5,000,000
Term Series- Building Bonds	0.01	1,000,000
Total		<u>\$ 21,441,696</u>

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes 118A.04 and 118A.05 limit investments to the top two rating issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those specified in the above statutes. As of June 30, 2018, the District's investments in MnTrust Term Series and Money Market were rated AAA by Standard & Poor's (S&P). The District's investments in certificates of deposit are not rated. The District's investments in municipal securities were rated Ba1 or higher by Moody's. The remaining investment types are unrated and, therefore, not subject to credit risk.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will diversify its investment to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District's investments were exposed to credit risk at June 30, 2018, as FHLB and treasury bills represented more than 5% of total investments.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy states the District's investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account cash flow requirements.

Independent School District No. 277
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

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

- Investments of \$10,194,440 are valued using a quoted market prices (Level 1 inputs)
- Investments of \$11,234,049 are valued using a matrix pricing model (Level 2 inputs)

Following is a summary of deposits and investments at June 30, 2018:

Deposits (Note 3.A.)	\$ 2,493,700
Petty Cash	375
Investments - pooled	18,274,996
Investments - non-pooled OPEB & building	<u>3,166,700</u>
 Total deposits and investments	 <u><u>\$ 23,935,771</u></u>

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

Statement of Net Position	
Cash and investments	\$ 23,858,470
Statement of Fiduciary Net Position	
Private Purpose Trust Fund - cash and investments	<u>77,301</u>
 Total deposits and investments	 <u><u>\$ 23,935,771</u></u>

Independent School District No. 277
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS

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

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,645,835	\$ -	\$ -	\$ 1,645,835
Construction in progress	4,462,097	16,665,834	(3,388,680)	17,739,251
Total capital assets not being depreciated	<u>6,107,932</u>	<u>16,665,834</u>	<u>(3,388,680)</u>	<u>19,385,086</u>
Capital assets being depreciated				
Land improvements	4,600,962	-	-	4,600,962
Buildings	43,850,148	3,420,259	-	47,270,407
Equipment	9,063,465	208,549	(109,291)	9,162,723
Vehicles	108,413	104,464	-	212,877
Total capital assets being depreciated	<u>57,622,988</u>	<u>3,733,272</u>	<u>(109,291)</u>	<u>61,246,969</u>
Less accumulated	1,508,834	71,168	-	1,580,002
Land improvements	13,148,298	154,743	-	13,303,041
Buildings	6,509,732	86,898	(109,291)	6,487,339
Equipment	83,626	5,549	-	89,175
Vehicles	<u>21,250,490</u>	<u>318,358</u>	<u>(109,291)</u>	<u>21,459,557</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>36,372,498</u>	<u>3,414,914</u>	<u>-</u>	<u>39,787,412</u>
Governmental activities, capital assets, net	<u>\$ 42,480,430</u>	<u>\$ 20,080,748</u>	<u>\$ (3,388,680)</u>	<u>\$ 59,172,498</u>

Depreciation expense of \$318,358 for the year ended June 30, 2018, was charged to the following governmental functions:

Administration	\$ 764
District support services	1,294
Elementary and secondary regular instruction	22,193
Pupil support services	332
Sites and buildings	289,216
Food service	3,198
Community education and services	<u>1,361</u>
Total depreciation expense	<u>\$ 318,358</u>

Independent School District No. 277
Notes to Financial Statements

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2009A taxable OPEB bonds	04/21/09	2.25%-4.55%	\$ 4,095,000	02/01/19	\$ 525,000	\$ 525,000
G.O. School building bonds, Series 2012A	03/01/12	1.00%-3.00%	29,925,000	02/01/27	19,890,000	2,025,000
G. O. School building bonds Series 2016A	08/04/16	3.00%-4.00%	20,815,000	02/01/32	20,815,000	90,000
G.O. Tax Abatement Bonds Series 2018A	06/27/18	3.00%-5.00%	1,835,000	02/01/29	<u>1,835,000</u>	<u>-</u>
Total G.O. bonds					43,065,000	2,640,000
Unamortized bond premium					2,626,513	-
Capital leases					2,600,588	215,220
Compensated Absences payable					<u>57,259</u>	<u>45,792</u>
Total all long-term liabilities					<u>\$ 48,349,360</u>	<u>\$ 2,901,012</u>

The long-term bond and lease liabilities listed above were issued to finance acquisition and construction of capital facilities and to finance OPEB obligations. Other long-term liabilities such as compensated absences payable are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire G.O. bonds are as follows:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2019	\$ 2,640,000	\$ 1,238,822	\$ 3,878,822
2020	2,870,000	1,199,819	4,069,819
2021	2,960,000	1,134,369	4,094,369
2022	3,035,000	1,059,769	4,094,769
2023	3,110,000	983,219	4,093,219
2024-2028	16,255,000	3,520,219	19,775,219
2029-2031	<u>12,195,000</u>	<u>922,749</u>	<u>13,117,749</u>
Total	<u>\$ 43,065,000</u>	<u>\$ 10,058,966</u>	<u>\$ 53,123,966</u>

Independent School District No. 277
Notes to Financial Statements

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Capital Lease Obligations

On August 31, 2015, the District entered into a capital lease agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$41,374. The capital lease agreement includes annual principal and interest payments of \$14,188. On May 19, 2016, the District entered into a lease purchase agreement for building improvements. The capital lease totaled \$2,803,400. The capital lease agreement includes annual principal and interest payments of \$224,996. On October 1, 2015, the District entered into a capital lease agreement for the acquisition of copier equipment. The capital lease obligation and corresponding equipment totaled \$251,974. The capital lease agreement includes annual principal and interest payments of \$45,578. On September 1, 2016, the District entered into a lease purchase agreement for LED Scoreboards. The capital lease totaled \$74,547. The capital lease agreement included annual principal and interest payments of \$38,271 and \$36,276 in 2017 and 2018, respectively.

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

Year Ending June 30,	
2019	\$ 285,975
2020	285,975
2021	245,162
2022	224,996
2023	224,996
2024-2028	1,124,978
2029-2031	674,986
Total minimum lease payments	<u>3,067,068</u>
Less amount representing interest	<u>(466,480)</u>
Present value of minimum lease payments	<u><u>\$ 2,600,588</u></u>

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	\$ 43,725,000	\$ 1,835,000	\$ 2,495,000	\$ 43,065,000
Unamortized bond premium	2,649,337	176,753	199,577	2,626,513
Capital leases	2,852,454	7,267	259,133	2,600,588
Compensated Absences payable	55,639	131,207	129,587	57,259
Total long-term liabilities	<u>\$ 49,282,430</u>	<u>\$ 2,150,227</u>	<u>\$ 3,083,297</u>	<u>\$ 48,349,360</u>

Independent School District No. 277
Notes to Financial Statements

NOTE 5 – FUND BALANCES/NET POSITION

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

A. Fund Balances

Fund balances are classified as listed on the following page to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service	Community Service	Building Construction	Nonmajor Funds	Total
Nonspendable						
Inventory	\$ 34,874	\$ -	\$ -	\$ -	\$ 12,865	\$ 47,739
Prepaid items	<u>11,303</u>	<u>-</u>	<u>2,625</u>	<u>-</u>	<u>-</u>	<u>13,928</u>
Total nonspendable	<u>46,177</u>	<u>-</u>	<u>2,625</u>	<u>-</u>	<u>12,865</u>	<u>61,667</u>
Restricted/reserved for						
Community Education	-	-	103,576	-	-	103,576
Early Childhood and Family Education	-	-	36,943	-	-	36,943
School Readiness	-	-	882	-	-	882
Community Service	-	-	17,171	-	-	17,171
Food Service	-	-	-	-	115,187	115,187
Debt Service	-	513,952	-	-	117,705	631,657
Building Projects Funded by COP/LP	-	-	-	-	-	-
Building Projects	-	-	-	6,907,441	-	6,907,441
Total restricted/reserved	<u>-</u>	<u>513,952</u>	<u>158,572</u>	<u>6,907,441</u>	<u>232,892</u>	<u>7,812,857</u>
Committed for						
Separation/retirement benefits	<u>143,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,018</u>
Total committed	<u>143,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,018</u>
Assigned for						
Special education	200,000	-	-	-	-	200,000
Class size reduction	200,000	-	-	-	-	200,000
Technology repairs	38,982	-	-	-	-	38,982
Early childhood building	-	-	-	-	-	-
Student activities	<u>408,672</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>408,672</u>
Total assigned	<u>847,654</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>847,654</u>
Unassigned	<u>3,030,798</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,030,798</u>
Total fund balance	<u>\$ 4,067,647</u>	<u>\$ 513,952</u>	<u>\$ 161,197</u>	<u>\$ 6,907,441</u>	<u>\$ 245,757</u>	<u>\$ 11,895,994</u>

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the District on expenses for the next fiscal year.

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

Independent School District No. 277
Notes to Financial Statements

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

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

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

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

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the debt service funds.

Restricted/Reserved for Building Projects Funded by Certificates of Participation/Lease Purchase Agreement with Related Lease Levy Authority – This balance represents available resources in the Building Construction Fund for projects funded by certificates of participation/lease purchase agreements with related lease levy authority under *Minnesota Statutes*, Section 126C.40.

Restricted/Reserved for Building Projects – This balance represents available resources from the issuance of the 2012A and 2016A school building bonds.

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Assigned – This balance represents estimated amounts that are set aside for special education, technology repairs, class size reduction, the early childhood building, as well as the balance of the student activity accounts that are under board control.

B. Net Position

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service, and Debt Service Funds, and the effects of the conversion to the government-wide statements.

**Independent School District No. 277
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2018 was \$8,481,394. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

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

B. Benefits Provided

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

Tier I Benefits

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

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

Independent School District No. 277
Notes to Financial Statements

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

B. Benefits Provided (Continued)

Tier I Benefits (Continued)

With these provisions:

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

Tier II Benefits

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

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

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

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

Independent School District No. 277
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

C. Contribution Rate

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

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

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

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

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

**Independent School District No. 277
Notes to Financial Statements**

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

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

Mortality Assumption

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

Independent School District No. 277
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions since the 2016 valuation:

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

**Independent School District No. 277
Notes to Financial Statements**

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

Teachers' Retirement Association (Continued)

E. Discount Rate

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

F. Net Pension Liability

On June 30, 2018, the District reported a liability of \$46,590,874 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.2334% at the end of the measurement period and 0.2313% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 46,590,874
State's proportionate share of the net pension liability associated with the District	4,504,458

For the year ended June 30, 2018, the District recognized pension expense of \$8,022,266. It recognized \$86,392 as an increase to pension expense for the support provided by direct aid.

Independent School District No. 277
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 374,130	\$ 327,157
Net difference between projected and actual earnings on plan investments	-	463,685
Changes of actuarial assumptions	25,096,865	6,526,646
Changes in proportionate share	602,997	312,056
District's contributions to TRA subsequent to the measurement date	1,006,571	-
Total	\$ 27,080,563	\$ 7,629,544

\$1,006,571 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a relation of the net pension liability in the year ended June 30, 2019.

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

2019	\$ 4,722,068
2020	5,588,364
2021	5,169,533
2022	4,251,515
2023	(1,287,032)
Total	\$ 18,444,448

**Independent School District No. 277
Notes to Financial Statements**

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

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

District proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
\$ 61,490,676	\$ 46,590,874	\$ 34,028,275

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

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

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

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

B. Benefits Provided

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

Independent School District No. 277
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

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

General Employees Plan Benefits

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

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2018. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were \$391,113. The District's contributions were equal to the required contributions for each year as set by state statute.

Independent School District No. 277
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of \$4,392,147 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$55,244. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion share was 0.0688%, which was a decrease of 0.0005% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$459,128 for its proportionate share of General Employees Plan's pension expense. The District recognized \$1,595 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 144,752	\$ 285,568
Changes in actuarial assumptions	734,490	440,313
Difference between projected and actual investments earnings	-	207,325
Changes in proportion	-	135,285
District's contributions to PERA subsequent to the measurement date	<u>391,113</u>	<u>-</u>
Total	<u>\$ 1,270,355</u>	<u>\$ 1,068,491</u>

Independent School District No. 277
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

\$391,113 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2019		\$ (146,308)
2020		235,358
2021		(91,860)
2022		<u>(186,439)</u>
 Total		 <u><u>\$ (189,249)</u></u>

E. Actuarial Assumptions

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

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

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

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

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

**Independent School District No. 277
Notes to Financial Statements**

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

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

F. Discount Rates

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

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
District's proportionate share of the PERA net pension liability	\$ 6,812,546	\$ 4,392,147	\$ 2,410,610

**Independent School District No. 277
Notes to Financial Statements**

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

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

B. Benefits Provided

The District provides retiree health insurance for substantially all teachers and other selected bargaining groups as well as certain employees under individual contracts for a specific period of time under contract provisions. The District recognized expenditures on a pay-as-you-go basis.

School service employees hired before July 1, 2000, have completed 15 years of service and are at least 55 years old are eligible for severance. They shall receive an amount equal to 50% of 75 days of pay based on the employee's daily rate of pay at retirement paid into a health savings account (HSA).

All teachers who have concluded their fifteenth year of teaching prior to January 1, 1994, are eligible to participate in the Deferred Compensation Matching Program or the "old severance" provision as outlined in the Union Contract. Teachers who elect to participate in the Deferred Compensation Matching Program may receive a total maximum matching contribution of \$ 18,500 or \$ 26,000 from the District based on where they fall in the provisions as outlined in the Union Contract. Teachers who have not reached the maximum will receive the remainder of the \$ 18,500 or \$ 26,000 in a lump sum payment based on where they fall in the provisions as outlined in the Union Contract. These payments are paid into an HSA.

C. Members

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

Inactive employees or beneficiaries currently receiving benefits	12
Active employees	285
	<hr/>
Total	297
	<hr/> <hr/>

Independent School District No. 277
Notes to Financial Statements

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Health Partners. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2018, the District contributed \$165,557 to the plan.

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Salary increases	3.00%, including inflation
Inflation	2.50%
Healthcare cost trend increases	6.75% in 2016 grading to 5.00% over 7 years
Mortality Assumption	
	RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale

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

The discount rate used to measure the total OPEB liability was 3.4%.

F. Total OPEB Liability

The District's total OPEB liability of \$4,310,665 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date.

Independent School District No. 277
Notes to Financial Statements

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2017	<u>\$ 4,088,612</u>
Changes for the year	
Service cost	272,018
Interest	144,975
Differences between expected and actual economic experience	-
Employer contributions	-
Net investment income	-
Benefit payments	(194,940)
Administrative expense	-
Other charges	-
	<u>222,053</u>
Net changes	<u>222,053</u>
Balances at June 30, 2018	<u><u>\$ 4,310,665</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.0% in 2017 to 3.4% in 2018.

H. OPEB Liability Sensitivity

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

	<u>1% decrease (2.4%)</u>	<u>Current (3.4%)</u>	<u>1% increase (4.4%)</u>
Total OPEB Liability (Asset)	\$ 4,633,304	\$ 4,310,665	\$ 3,999,649

**Independent School District No. 277
Notes to Financial Statements**

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Liability Sensitivity (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% lower and 1% higher than the current healthcare cost trend rates.

	1% decrease (5.75% decreasing to 4.00%)	Current (6.75% decreasing to 5.00%)	1% increase (7.75% decreasing to 6.00%)
Total OPEB Liability (Asset)	\$ 3,814,606	\$ 4,310,665	\$ 4,901,829

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$416,993. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ -
Differences between expected and actual economic experience	-	-
Changes of assumptions	-	-
Contributions made subsequent to the measurement date	165,557	-
Total	\$ 165,557	\$ -

\$165,557 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

NOTE 8 – RISK MANAGEMENT

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

Independent School District No. 277
Notes to Financial Statements

NOTE 8 – RISK MANAGEMENT (CONTINUED)

On July 1, 2013, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of \$2,000 of benefit per covered person per calendar year. The General, Food Service, and Community Service Funds of the District participate in the program and make payments to the dental insurance plan recorded in the General Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Self-Insured Dental Benefits Internal Service Fund includes a reserve of \$75,103 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2018, is \$4,764 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

On July 1, 2016, the District began to self-insure for health insurance. A stop-loss policy was purchased that limits the District's loss to \$100,000 of claims per person at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 115% of the current year's total expected annual claims at which point the reinsurance coverage is available.

The General, Food Service, Community Service, and Agency Funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2018, is \$131,146 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

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

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2015-2016	\$ 2,428	\$ 183,407	\$ (183,187)	\$ 2,648
2016-2017	2,648	2,910,777	(2,762,395)	151,030
2017-2018	151,030	3,608,810	(3,623,930)	135,910

Independent School District No. 277
Notes to Financial Statements

NOTE 9 – COMMITMENTS

The District has two multi-year construction projects in process that were not completed in the current fiscal year. As of June 30, 2018, outstanding commitments for these multi-year projects totaled \$3,903,521.

NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2018, the District implemented GASB Statement 74, Financial Reporting for Postemployment Benefit Plans Other than Pension Plans and GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. This resulted in an adjustment to the beginning net position on the Statement of Activities of \$2,871,647 to add the beginning net OPEB liability.

NOTE 11 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending December 31, 2019.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending December 31, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 277
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2018
Total OPEB Liability	
Service cost	\$ 272,018
Interest	144,975
Differenced between expected and actual experience	-
Changes of assumptions	-
Changes of benefit terms	-
Benefit payments	(194,940)
Other changes	-
Net change in total OPEB Liability	222,053
Beginning of year	4,088,612
End of Year	\$ 4,310,665
Covered payroll	\$ 15,532,150
Total OPEB Liability as a percentage of covered-employee payroll	27.75%

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

Independent School District No. 277
Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0769%	\$ 3,612,377	\$ -	\$ 3,612,377	\$ 4,035,806	89.5%	78.7%
2016	0.0704%	3,648,493	-	3,648,493	4,068,400	89.7%	78.2%
2017	0.0693%	5,626,816	73,483	5,700,299	4,298,253	130.9%	68.9%
2018	0.0688%	4,392,147	55,244	4,447,391	4,433,560	99.1%	75.9%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.2494%	\$ 11,492,172	\$ 808,323	\$ 12,300,495	\$ 11,385,303	100.9%	81.5%
2016	0.2268%	14,029,823	1,720,762	15,750,585	11,509,427	121.9%	76.8%
2017	0.2313%	55,170,569	5,537,327	60,707,896	12,032,907	458.5%	44.9%
2018	0.2334%	46,590,874	4,504,458	51,095,332	12,562,613	370.9%	51.6%

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

**Independent School District No. 277
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2014	\$ 292,596	\$ 292,596	\$ -	\$ 4,035,806	7.25%
2015	305,130	305,130	-	4,068,400	7.50%
2016	322,369	322,369	-	4,298,253	7.50%
2017	332,517	332,517	-	4,433,560	7.50%
2018	391,113	391,113	-	5,214,840	7.50%

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

**Schedule of District Contributions
TRA Retirement Fund
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2014	\$ 796,971	\$ 796,971	\$ -	\$ 11,385,303	7.00%
2015	863,207	863,207	-	11,509,427	7.50%
2016	902,469	902,468	-	12,032,907	7.50%
2017	942,196	942,196	-	12,562,613	7.50%
2018	1,006,571	1,006,571	-	13,420,947	7.50%

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

Independent School District No. 277
Notes to the Required Supplementary Information

TRA Retirement Funds

2017 Changes

Changes in Actuarial Assumptions

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

2016 Changes

Changes in Actuarial Assumptions

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

Independent School District No. 277
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

General Employees Fund

2017 Changes

Changes in Actuarial Assumptions

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

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

SUPPLEMENTARY INFORMATION

**Independent School District No. 277
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018**

	Special Revenue Fund	Debt Service Fund Post Employment Benefits Debt Service	Total Nonmajor Funds
	Food Service		
Assets			
Cash and investments	\$ 181,824	\$ 431,312	\$ 613,136
Current property taxes receivable	-	232,435	232,435
Delinquent property taxes receivable	-	3,042	3,042
Due from Department of Education	-	12	12
Due from Federal Government through Department of Education	13,417	-	13,417
Inventory	12,865	-	12,865
Total assets	\$ 208,106	\$ 666,801	\$ 874,907
Liabilities			
Accounts payable	\$ 5,348	\$ -	\$ 5,348
Salaries and benefits payable	9,924	-	9,924
Unearned revenue	64,782	-	64,782
Total liabilities	80,054	-	80,054
Deferred Inflows of Resources			
Unavailable revenue - delinquent property taxes	-	3,577	3,577
Property taxes levied for subsequent Year's expenditures	-	545,519	545,519
Total deferred inflows of resources	-	549,096	549,096
Fund Balances			
Reserved			
Nonspendable	12,865	-	12,865
Restricted	115,187	117,705	232,892
Total fund balances	128,052	117,705	245,757
Total liabilities, deferred inflows of resources, and fund balances	\$ 208,106	\$ 666,801	\$ 874,907

Independent School District No. 277
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2018

	<u>Special Revenue Fund</u>	<u>Debt Service Fund Post Employment Benefits Debt Service</u>	<u>Total Nonmajor Funds</u>
	Food Service		
Revenues			
Local property taxes	\$ -	\$ 552,894	\$ 552,894
Other local and county revenues	64,239	-	64,239
Revenue from state sources	56,772	121	56,893
Revenue from federal sources	376,759	-	376,759
Sales and other conversion of assets	997,533	-	997,533
Total revenues	<u>1,495,303</u>	<u>553,015</u>	<u>2,048,318</u>
Expenditures			
Current			
Food service	1,415,670	-	1,415,670
Capital outlay			
Food service	156,591	-	156,591
Debt service			
Principal	-	505,000	505,000
Interest and fiscal charges	-	46,306	46,306
Total expenditures	<u>1,572,261</u>	<u>551,306</u>	<u>2,123,567</u>
Excess of revenues over (under) expenditures	(76,958)	1,709	(75,249)
Fund Balances			
Beginning of year	<u>205,010</u>	<u>115,996</u>	<u>321,006</u>
End of year	<u>\$ 128,052</u>	<u>\$ 117,705</u>	<u>\$ 245,757</u>

**Independent School District No. 277
Combining Statement of
Net Position - Internal Service Funds
June 30, 2018**

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Self-Insured Benefits	Total
Assets			
Cash and cash equivalents	\$ 45,692	\$ 996,538	\$ 1,042,230
Investments	3,641,005	-	3,641,005
Interest receivable	45,389	-	45,389
Total assets	\$ 3,732,086	\$ 996,538	\$ 4,728,624
Liabilities and Net Position			
Liabilities			
Accounts payable	\$ -	\$ 135,910	\$ 135,910
Net Position			
Unrestricted	3,732,086	860,628	4,592,714
Total liabilities and net position	\$ 3,732,086	\$ 996,538	\$ 4,728,624

Independent School District No. 277
Combining Statement of Revenues, Expenses, and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2018

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Self-Insured Benefits	Total
Operating revenues			
Charges for services	\$ -	\$ 3,853,702	\$ 3,853,702
Operating expenses			
Employee benefits	165,555	3,608,810	3,774,365
Professional services	250	-	250
Total operating expenses	<u>165,805</u>	<u>3,608,810</u>	<u>3,774,615</u>
Operating loss	(165,805)	244,892	79,087
Nonoperating revenues			
Investment income	<u>41,047</u>	<u>-</u>	<u>41,047</u>
Change in net position	(124,758)	244,892	120,134
Net position			
Beginning of year	<u>3,856,844</u>	<u>615,736</u>	<u>4,472,580</u>
End of year	<u>\$ 3,732,086</u>	<u>\$ 860,628</u>	<u>\$ 4,592,714</u>

Independent School District No. 277
Combining Statement of Cash Flows -
Internal Service Funds
Year Ended June 30, 2018

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Self-Insured Benefits	Total
Cash Flows - Operating Activities			
Receipts from employee contributions	\$ -	\$ 3,853,702	\$ 3,853,702
Payments to employees	(165,555)	(3,623,930)	(3,789,485)
Payments to vendors	(250)	-	(250)
Net cash flows - operating activities	<u>(165,805)</u>	<u>229,772</u>	<u>63,967</u>
Cash Flows - Investment Activities			
Sale/(Purchase) of investments	98,811	-	98,811
Interest received	112,686	-	112,686
Net cash flows - investment activities	<u>211,497</u>	<u>-</u>	<u>211,497</u>
Net change in cash and cash equivalents	45,692	229,772	275,464
Cash and Cash Equivalents			
Beginning of year	<u>-</u>	<u>766,766</u>	<u>766,766</u>
End of year	<u>\$ 45,692</u>	<u>\$ 996,538</u>	<u>\$ 1,042,230</u>
Reconciliation of Operating Income to Net Cash Flows - Operating Activities			
Operating loss	\$ (165,805)	\$ 244,892	\$ 79,087
Adjustments to reconcile operating loss to net cash flows - operating activities			
Accounts payable	<u>-</u>	<u>(15,120)</u>	<u>(15,120)</u>
Net adjustments	<u>-</u>	<u>(15,120)</u>	<u>(15,120)</u>
Net cash flows - operating activities	<u>\$ (165,805)</u>	<u>\$ 229,772</u>	<u>\$ 63,967</u>
Non-Cash Activity			
Changes in fair value of investments	<u>\$ (72,999)</u>	<u>\$ -</u>	<u>\$ (72,999)</u>

Independent School District No. 277
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2018

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 30,239,612	\$ 30,239,612	\$ -	Total revenue	\$ 311,664	\$ 311,664	\$ -
Total expenditures	30,706,058	30,706,058	-	Total expenditures	16,794,067	16,794,067	-
<i>Nonspendable</i>				<i>Nonspendable</i>			
460 Nonspendable fund balance	46,177	46,178	(1)	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved</i>				<i>Restricted/reserved</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted</i>			
409 Alternative Facility Program	-	-	-	464 Restricted fund balance	6,907,441	6,907,441	-
413 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned</i>			
414 Operating Debt	-	-	-	463 Unassigned fund balance	-	-	-
416 Levy Reduction	-	-	-	07 Debt Service Fund			
417 Taconite Building Maintenance	-	-	-	Total revenue	\$ 3,303,574	\$ 3,303,574	\$ -
423 Certain Teacher Programs	-	-	-	Total expenditures	3,207,543	3,207,544	(1)
424 Operating Capital	-	-	-	<i>Nonspendable</i>			
426 \$25 Taconite	-	-	-	460 Nonspendable fund balance	-	-	-
427 Disabled Accessibility	-	-	-	<i>Restricted/reserved</i>			
428 Learning and Development	-	-	-	425 Bond refunding	-	-	-
434 Area Learning Center	-	-	-	433 Maximum effort loan aid	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB payments	-	-	-
436 State Approved Alternative Program	-	-	-	<i>Restricted</i>			
438 Gifted and Talented	-	-	-	464 Restricted fund balance	513,952	513,952	-
440 Teacher Development and Evaluation	-	-	-	<i>Unassigned</i>			
441 Basic Skills Programs	-	-	-	463 Unassigned fund balance	-	-	-
445 Career Technical Programs	-	-	-	08 Trust Fund			
448 Achievement and Integration	-	-	-	Total revenue	\$ 27,829	\$ 27,828	\$ 1
449 Safe School Crime	-	-	-	Total expenditures	376,931	376,931	-
450 Transition for Pre-kindergarten	-	-	-	<i>Unassigned</i>			
451 QZAB Payments	-	-	-	422 Net position	77,301	77,301	-
452 OPEB Liabilities not Held in Trust	-	-	-	20 Internal Service Fund			
453 Unfunded Severance and Retirement Levy	-	-	-	Total revenue	\$ 3,853,702	\$ 3,853,702	\$ -
459 Basic Skills Extended Time	-	-	-	Total expenditures	3,608,810	3,608,810	-
475 Title VII - Impact Aid	-	-	-	<i>Unassigned</i>			
476 Payments in Lieu of Taxes	-	-	-	422 Net position	860,628	860,628	-
<i>Restricted</i>				25 OPEB Revocable Trust			
464 Restricted fund balance	-	-	-	Total revenue	\$ 41,047	\$ 41,047	\$ -
<i>Committed</i>				Total expenditures	165,805	165,807	(2)
418 Committed for separation/Retirement benefits	143,018	143,018	-	<i>Unassigned</i>			
461 Committed	-	-	-	422 Net position	3,732,086	3,732,085	1
<i>Assigned</i>				45 OPEB Irrevocable Trust			
462 Assigned fund balance	847,654	847,654	-	Total revenue	\$ -	\$ -	\$ -
<i>Unassigned</i>				Total expenditures	-	-	-
422 Unassigned fund balance	3,030,798	3,030,798	-	<i>Unassigned</i>			
02 Food Service Fund				422 Net position	-	-	-
Total revenue	\$ 1,495,303	\$ 1,495,304	\$ (1)	47 OPEB Debt Service			
Total expenditures	1,572,261	1,572,261	-	Total revenue	\$ 553,015	\$ 553,015	\$ -
<i>Nonspendable</i>				Total expenditures	551,306	551,305	1
460 Nonspendable fund balance	12,865	12,865	-	<i>Nonspendable</i>			
<i>Restricted/reserved</i>				460 Nonspendable fund balance	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Restricted</i>			
<i>Restricted</i>				464 Restricted fund balance	117,705	117,705	-
464 Restricted fund balance	115,187	115,188	(1)	<i>Unassigned</i>			
<i>Unassigned</i>				463 Unassigned fund balance	-	-	-
463 Unassigned fund balance	-	-	-	04 Community Service Fund			
04 Community Service Fund				Total revenue	\$ 2,981,344	\$ 2,981,342	\$ 2
Total revenue	\$ 2,981,344	\$ 2,981,342	\$ 2	Total expenditures	3,459,389	3,459,388	1
Total expenditures	3,459,389	3,459,388	1	<i>Nonspendable</i>			
<i>Nonspendable</i>				460 Nonspendable fund balance	2,625	2,625	-
460 Nonspendable fund balance	2,625	2,625	-	<i>Restricted/reserved</i>			
<i>Restricted/reserved</i>				426 \$25 Taconite	-	-	-
426 \$25 Taconite	-	-	-	431 Community Education	95,101	95,101	-
431 Community Education	95,101	95,101	-	432 ECFE	36,943	36,943	-
432 ECFE	36,943	36,943	-	440 Teacher Development and Evaluation	-	-	-
440 Teacher Development and Evaluation	-	-	-	444 School Readiness	882	882	-
444 School Readiness	882	882	-	447 Adult Basic Education	-	-	-
447 Adult Basic Education	-	-	-	452 OPEB Liabilities not Held in Trust	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Restricted</i>			
<i>Restricted</i>				464 Restricted fund balance	25,646	25,646	-
464 Restricted fund balance	25,646	25,646	-	<i>Unassigned</i>			
<i>Unassigned</i>				463 Unassigned fund balance	-	-	-
463 Unassigned fund balance	-	-	-				

**Independent School District No. 277
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
Through Minnesota Department of Education			
USDOA	10.555	Commodities programs (cluster)	\$ 78,856
USDOA	10.553	School breakfast program (cluster)	30,940
USDOA	10.555	Child nutrition type a lunch (cluster)	232,805
USDOA	10.559	Summer food service program (cluster)	34,158
Total Child Nutrition Cluster			<u>376,759</u>
USDOED	84.010	Title I, Part A	185,554
USDOED	84.027	Special education (cluster)	499,705
USDOED	84.173	Special education early childhood (cluster)	15,091
USDOED	84.173A	Special education early childhood (cluster)	9,300
Total Federal Special Education Cluster			<u>524,096</u>
USDOED	84.367	Title II, Part A - improving teacher quality	57,369
Through Independent School District No. 284			
USDOED	84.181	Infants and toddlers	6,424
Through Intermediate District No. 287			
USDOED	84.048A	Carl Perkins	<u>10,844</u>
Total Federal Expenditures			<u><u>\$ 1,161,046</u></u>

Independent School District No. 277
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 4 – INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ending June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. 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.



Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as audit finding 2018-01, that we consider to be significant deficiencies.

Compliance and Other Matters

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

District's Response to the Findings

The District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 8, 2018



Report on Compliance for each Major Federal Program and on Internal Control over Compliance Required By the Uniform Guidance

Independent Auditor's Report

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

Report on Compliance for each Major Federal Program

We have audited Independent School District No. 277's, Minnetrista, Minnesota compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 of Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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



Opinion on Each Major Federal Program

In our opinion, Independent School District No. 277 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 8, 2018

**Independent School District No. 277
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 2018-001
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	84.027, 84.173, 84.173A
Name of Federal Program or Cluster:	Special Education
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	No

Independent School District No. 277
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2018-001

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the year ended June 30, 2018, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected, on a timely basis. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Finance has access to all areas of the accounting system.
- Deposits are made through the Activities Office without proper review or approval.
- The District Accountant inputs employees' hours, generates direct deposit checks, and sends the transfer amount to the bank.
- The Director of Finance records and maintains all capital asset records.
- The District Accountant records the deposits and prepares the bank reconciliation.
- The Director of Finance records and maintains state, federal, and tax revenues and receivables.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Because of this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Questioned Costs:

None

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

**Independent School District No. 277
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2018-001 (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.
3. Official Responsible for Ensuring CAP
Kathy Miller, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2019.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.

**Independent School District No. 277
Schedule of Findings and Questioned Costs
in Accordance with Uniform Guidance**

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Audit Finding 2016-01

During the course of our audit, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements. In order to ensure financial statements were free from material misstatement, audit adjustments were required to remove revenue for a lease purchase agreement and related receivables.

Corrective Action Taken

The District will reviewed all areas before fieldwork and no material audit adjustments were proposed.



Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 277
Minnetrista, 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. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, and have issued our report thereon dated October 8, 2018.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 8, 2018