Independent School District No. 271
Bloomington, Minnesota

Financial Statements

June 30, 2017

bergan KDV
CPAS | ADVISORS

Independent School District No. 271
Table of Contents

Independent School District No. 271
Table of Contents

Independent School District No. 271
Board of Education and Administration
June 30, 2017

Board of Education	Position	Term Expires
Ric Oliva	Chair	January 1, 2018
Tom Bennett	Vice Chair	January 1, 2018
Nelly Korman	Clerk	January 6, 2020
Jim Sorum	Treasurer	January 1, 2018
Maureen Bartolotta	Director	January 6, 2020
Dick Bergstrom	Director	January 6, 2020
Dawn Steigauf	Director	January 1, 2018

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

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

BerganKDV, Ltd.
bergankdv.com

berganKDV

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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 the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

bergankdv

Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
November 29, 2017

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

This section of the Independent School District No. 271, Bloomington Public Schools' (the "District") annual financial report presents the Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The MD&A is required supplementary information specified in the GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999*. Certain comparative information is required to be presented in the MD&A between the current year (2016-2017) and the prior year (2015-2016).

FINANCIAL HIGHLIGHTS

- Total net position at June 30, 2017 was a negative $66.8 million, $38.2 million less than the prior year's balance.
- Overall program and general revenues were $181.8 million, $38.2 million less than related expenses of $220.8 million. The decline was due to new GASB 68 reporting requirements for booking future retirement benefits.
- Total General Fund balance (under the governmental fund presentation) increased $4.9 million from the prior year due to higher than expected state special education revenue, deferring restricted funding spending and transferring internal services fund balance to governmental fund.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts:

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

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

1. The government-wide financial statements provide both short-term and long-term information about the District's overall financial status. These include:
   - The Statement of Net Position
   - The Statement of Activities

2. The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

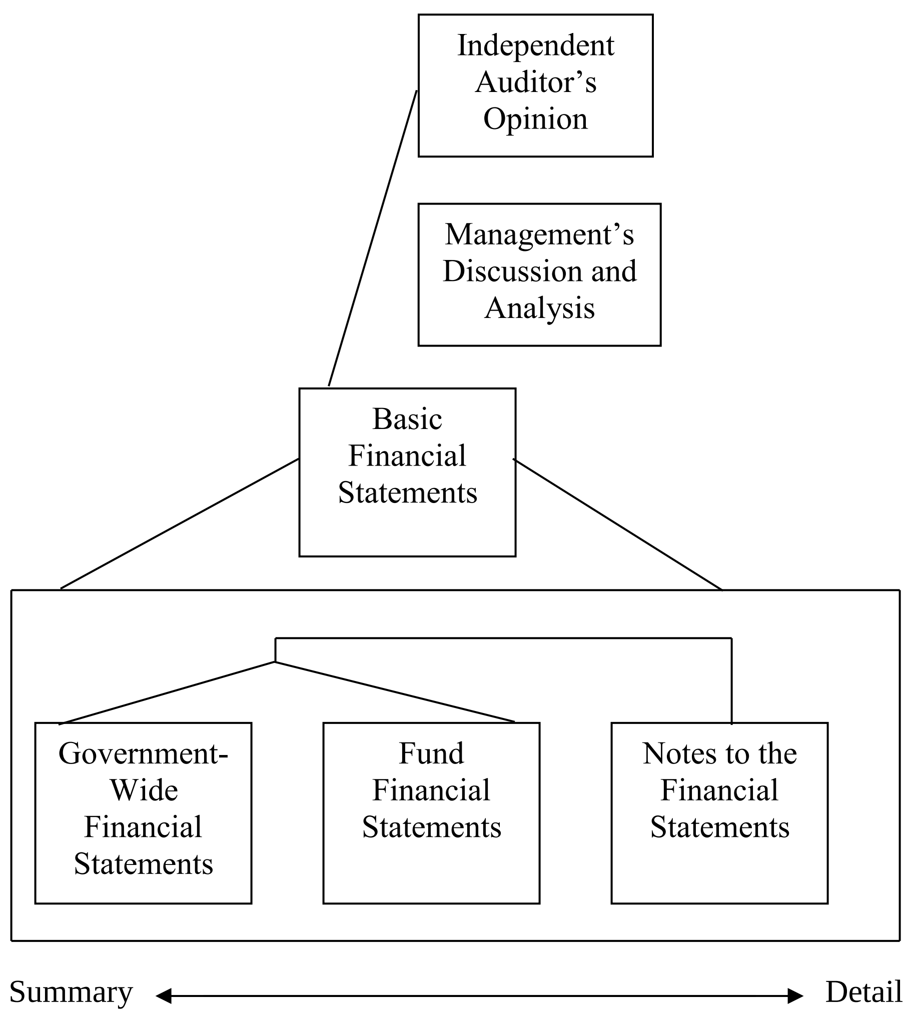
   - The governmental funds statements examine how basic services, such as regular and special education were financed in the short-term, as well as what remains for future spending.
   - Proprietary funds statements present short-term and long-term financial information about the activities the District operates like businesses, such as dental and medical self insurance, retiree severance and vacation funds.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. The District is the Agent for the Bloomington Education Cable Television Fund. The District is also holding funds to be paid to Bloomington Kennedy graduates for college scholarships.

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

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



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

Fund Financial Statements

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

In the government-wide financial statements, the District’s activities are presented in one category titled governmental activities.

- **Governmental Activities**: Most of the District’s basic services are included here, such as regular and special education, transportation and administration. State formula aid and property taxes finance most of these activities.

FUND FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS (CONTINUED)

The District has three kinds of funds:

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

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

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

FUND FINANCIAL STATEMENTS (CONTINUED)

Net Position: The District's combined net position on June 30, 2017 was $66.8 million, $38.2 million less than the prior year's balance. (See Figure A-3.) The decline was due to new GASB 68 reporting requirements for booking retirement benefits.

Figure A-3
Net Position - Governmental Activities

	Year Ended 2017	Year Ended 2016	Percentage Change
Assets			
Current and other assets	$ 162,026,393	$ 140,903,218	14.99%
Capital assets	118,601,726	117,767,322	0.71%
Total assets	280,628,119	258,670,540	8.49%
Deferred Outflows of Resources	207,209,372	21,241,015	875.52%
Total assets and deferred outflows of resources	$ 487,837,491	$ 279,911,555	74.28%
Liabilities			
Other liabilities	$ 30,709,164	$ 21,406,282	43.46%
Long-term liabilities	467,968,470	230,117,731	103.36%
Total liabilities	$ 498,677,634	$ 251,524,013	98.26%
Deferred Inflows of Resources	$ 55,957,160	$ 56,968,639	-1.78%
Net Position			
Net investment in capital assets	19,786,654	22,276,496	-11.18%
Restricted	14,123,248	8,901,935	58.65%
Unrestricted	(100,707,205)	(59,759,528)	-68.52%
Total net position	$ (66,797,303)	$ (28,581,097)	-133.71%

Changes in Net Position: The District's total revenues were $182.5 million for the year ended June 30, 2017. (See figure A-4.) Property taxes and state formula aid accounted for 68.4% of the District's revenue. (See Figure A-5.) Another 24.1% came from grants and contributions restricted for specific programs. The remainder came from fees charged for services and miscellaneous sources. The total cost of all programs and services was $220 million. The District's expenses are predominantly related to direct instruction, instructional, and pupil support services (73%). (See Figure A-6.) The District's administration and district support declined 1.0% to 5.3% of total costs.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-4
Change in Net Position

	Year Ended 2017	Year Ended 2016	Percentage Change
Revenues			
Program revenues			
Charges for services	$ 10,313,972	$ 10,468,370	-1.47%
Operating grants and contributions	43,899,303	38,778,820	13.20%
General revenues			
Property taxes	49,978,515	49,698,871	0.56%
State aid-formula grants	74,445,654	70,108,319	6.19%
Other	3,908,957	4,925,948	-20.65%
Total revenues	182,546,401	173,980,328	4.92%
Expenses			
Administration	6,625,683	5,761,695	15.00%
District support services	5,053,160	5,207,778	-2.97%
Elementary and secondary regular instruction	94,205,124	68,118,039	38.30%
Vocational education instruction	2,077,476	1,392,876	49.15%
Special education instruction	38,543,759	29,516,553	30.58%
Instructional support services	13,001,852	9,807,416	32.57%
Pupil support services	12,739,456	12,305,295	3.53%
Sites and buildings	18,382,764	12,776,433	43.88%
Fiscal and other fixed cost programs	339,803	303,514	11.96%
Food service	5,317,030	5,151,844	3.21%
Community education and services	12,958,479	12,222,971	6.02%
Unallocated depreciation	8,035,953	7,694,248	4.44%
Interest and fiscal charges on long-term debt	3,482,068	3,668,721	-5.09%
Total expenses	220,762,607	173,927,383	26.93%
Increase (decrease) in net position	(38,216,206)	52,945	-72280.95%
Net Position			
Beginning of year	(28,581,097)	(28,634,042)	0.18%
End of year	$ (66,797,303)	$ (28,581,097)	-133.71%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-5
Source of Revenues for Fiscal Year 2017

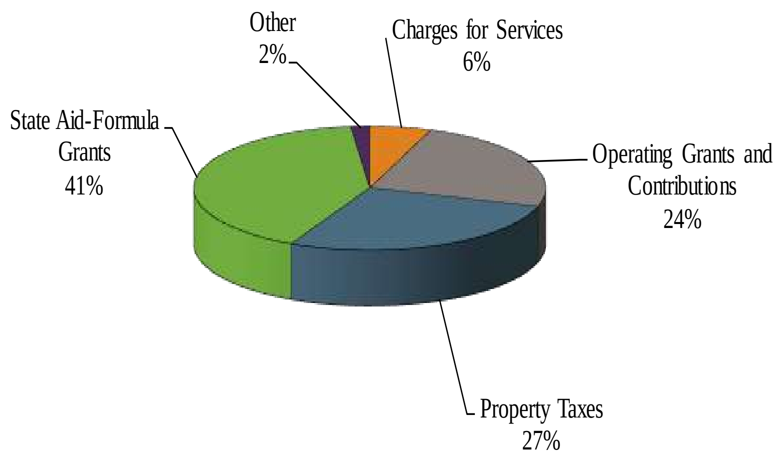
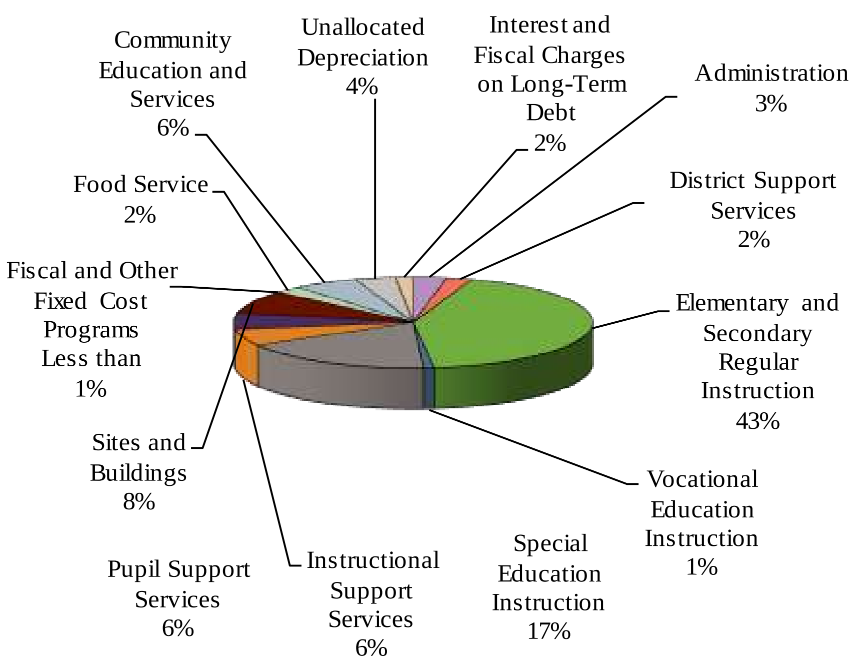


Figure A-6
Expenses for Fiscal Year 2017



GOVERNMENTAL ACTIVITIES

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

	Total Cost of Services	Net Cost of Services
Administrative	6,625,683	$ 6,625,683
District support services	5,053,160	5,053,160
Elementary and secondary regular instruction	94,205,124	77,603,043
Vocational education instruction	2,077,476	2,032,851
Special education instruction	38,543,759	17,898,258
Instructional support services	13,001,852	13,001,852
Pupil support services	12,739,456	12,364,530
Sites and buildings	18,382,764	18,198,009
Fiscal and other fixed cost programs	339,803	339,803
Food service	5,317,030	86,242
Community education and services	12,958,479	1,827,880
Unallocated depreciation	8,035,953	8,035,953
Interest and fiscal charges on long-term debt	3,482,068	3,482,068
Total	$ 220,762,607	$ 166,549,332

- Approximately 4.7% or $10.3 million, of expenses were paid by users of District services through various fees and charges.
- Other specific program costs are offset with grants and contributions totaling $43.9 million, or 19.9%, of expenses for 2016-2017.
- The net cost of District services ($166.5 million) was paid for with local property taxes, state aid, federal grants and from District fund balances when expenses exceed revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

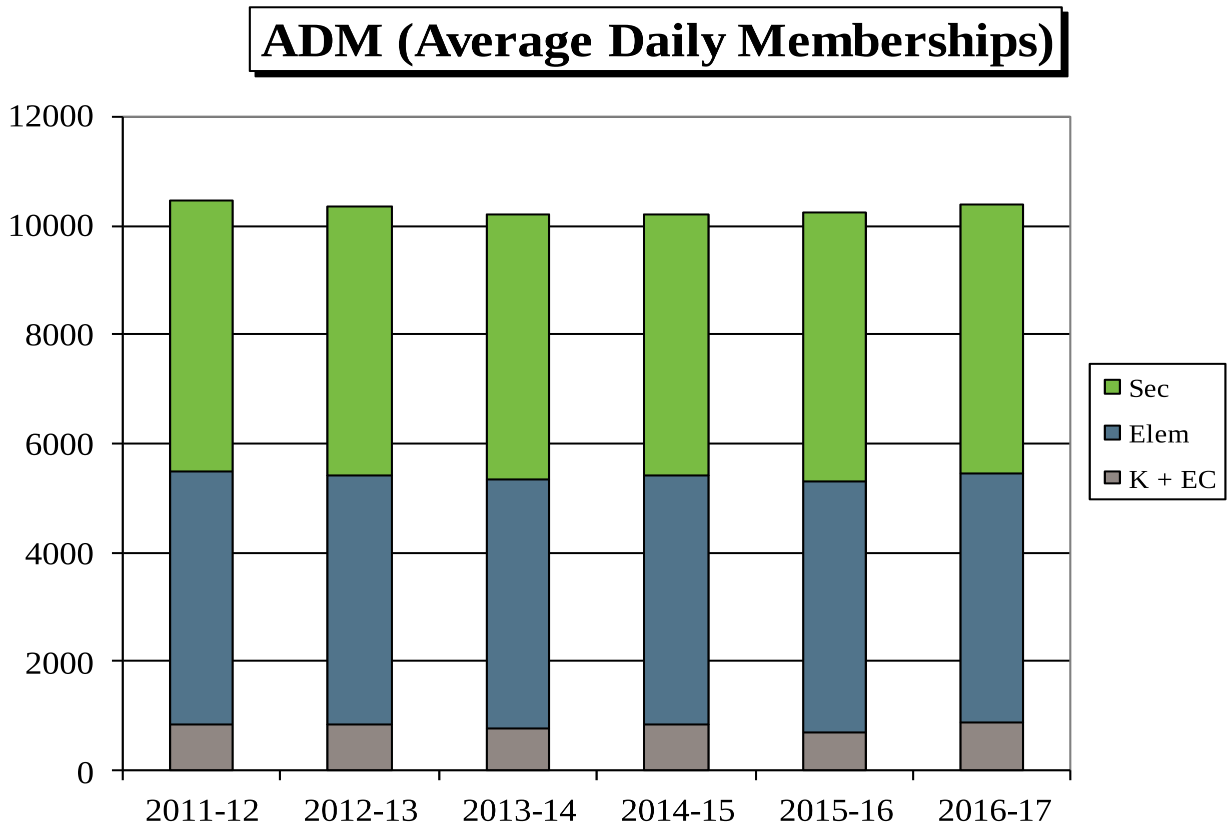
At the end of the 2016-2017 fiscal year, the District's governmental funds reported a combined fund balance of $60,484,900, an increase of $19,622,028 from the June 30, 2016, combined fund balance of $40,862,872. The increase is due to a $12.2 million surplus in the capital projects fund attributable to the unspent Alternative Facilities bond proceeds, higher than expected state special education revenue, deferring restricted funding spending and transferring internal services fund balance to governmental fund.

GENERAL FUND

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

School funding in Minnesota is driven largely by pupil enrollment. In 2016-2017, the District saw a decrease of 175 average daily membership (ADM) over 2015-2016. Current ADM is 10,402.

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



GENERAL FUND BUDGETARY HIGHLIGHTS

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

While the District's amended budget for the General Fund projected a net decrease in the fund balance of $3.0 million, the actual performance shows a net increase of $4.9 million. The majority of this difference was due to higher than expected state special education revenue, transferring internal services fund balance to the general fund and the District taking a conservative approach to spending restricted funding barring the results of the upcoming operating referendum (November 2017).

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Actual revenues were $143.4 million or $1.6 million over the budget of $141.8 million. Actual expenditures were $142.3 million, or $2.3 million under the budget of $144.6 million.

Figure A-8
General Fund Expenditures

	Final Budget	Net Actual Amounts	Variance with Final Budget - Over (Under)
Administrative	$ 5,780,352	$ 5,284,242	$ (496,110)
District support services	2,638,887	4,250,353	1,611,466
Elementary and secondary regular instruction	67,457,447	67,763,791	306,344
Vocational education instruction	1,647,752	1,606,623	(41,129)
Special education instruction	29,670,565	30,685,328	1,014,763
Instructional support services	7,570,003	8,633,125	1,063,122
Pupil support services	11,437,777	10,816,235	(621,542)
Sites and buildings	9,102,884	8,652,988	(449,896)
Fiscal and other fixed cost programs	387,000	339,803	(47,197)
Capital outlay	8,800,452	4,155,208	(4,645,244)
Debt service	69,844	69,844	-
Total	$ 144,562,963	$ 142,257,540	$ (2,305,423)

FOOD SERVICE FUND

The Food Service Fund is used to record financial activity for the purpose of preparation and service of milk, meals and snacks in connection with school and community service activities. The Food Service Fund revenues exceeded expenditures by $27,459 in 2016-2017.

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

COMMUNITY SERVICE FUND

The Community Service Fund is used to record financial activities of the Community Services Preschool to Senior Citizens Programs. The Community Service Fund balance increased $1,774,445 in 2016-2017. The increase is a result of increased revenue from participation and lower expenditures.

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

DEBT SERVICE FUND

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital or for initial or refunding bonds. The Debt Service Fund balance for 2016-2017 totaled $1,357,182. The fund balance was $675,609 in 2015-2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the District had invested $118.6 million in a broad range of capital assets, including school buildings, athletic facilities, computers and audio-visual equipment. (See Figure A-9.) (More detailed information about capital assets can be found in Note 5 to the financial statements.)

Figure A-9
Capital Assets

	Year Ended 2017	Year Ended 2016
Land	$ 2,085,954	$ 2,166,126
Construction in progress	162,028	3,098,675
Buildings and buildings improvement	111,800,345	107,957,967
Furniture and equipment	4,553,399	4,544,554
Total capital assets	$ 118,601,726	$ 117,767,322

DEBT ADMINISTRATION

Figure A-10
Outstanding Long-Term Liabilities

	Year Ended 2017	Year Ended 2016
General Obligation (G.O.) Bonds and Loans	$ 135,121,612	$ 118,062,916
Benefits Payable	1,582,674	1,712,908
Total Long-Term Liabilities	$ 136,704,286	$ 119,775,824

DEBT ADMINISTRATION (CONTINUED)

At year-end, the District had $136.7 million in long-term liabilities, including G.O. bonds, capital leases, severance benefits, and compensated absences. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements). The increase was due to the sales of Alternative Facility Maintenance Bonds in March 2017.

The June 30, 2017, Debt Service Fund balance of $1.4 million is available for meeting future debt service obligations, in addition to levied property taxes payable in 2017.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District continues to position itself financially for anticipated flat or limited funding in the future. The District's 2017-2018 budget required a $1.0 million budget cut. The District is not anticipating any additional budget cuts for 2018-2019.
- School District's residents approved an increase to the District's Operating Referendum of $5.0 million per year for 2018-2019 through 2027-2028 fiscal years. This increase allows the District to not have to make budget cuts in 2018-2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

(THIS PAGE LEFT BLANK INTENTIONALLY)

BASIC FINANCIAL STATEMENTS

Independent School District No. 271
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	$ 118,694,287
Current property taxes receivable	25,869,970
Delinquent property taxes receivable	304,917
Accounts receivable	215,360
Interest receivable	514,429
Due from Department of Education	10,333,654
Due from other Minnesota school districts	1,563,881
Due from Federal Government through Department of Education	3,774,263
Due from other governmental units	152,906
Inventory	392,451
Prepaid items	210,275
Capital assets not being depreciated	
Land	2,085,954
Construction in progress	162,028
Capital assets net of depreciation	
Buildings and building improvements	111,800,345
Furniture and equipment	4,553,399
Total assets	280,628,119
Deferred Outflows of Resources	
Deferred amount on refunding	313,119
Deferred outflows related to pensions	206,896,253
Total deferred outflows of resources	207,209,372
Total assets and deferred outflows of resources	$ 487,837,491
Liabilities	
Accounts and contracts payable	$ 3,888,943
Salaries and benefits payable	15,582,718
Interest payable	1,923,956
Due to other Minnesota school districts	927,609
Due to other governmental units	68,103
Unearned revenue	817,181
Net bond principal payable	
Due within one year	7,290,000
Due in more than one year	127,534,857
Loan payable	
Due within one year	52,387
Due in more than one year	244,368
Compensated absences payable	
Due within one year	116,126
Due in more than one year	1,045,139
Severance payable	
Due within one year	42,141
Due in more than one year	379,268
Net OPEB obligation	4,350,731
Net pension liability	334,414,107
Total liabilities	498,677,634
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	47,164,899
Deferred inflows related to pensions	8,792,261
Total deferred inflows of resources	55,957,160
Net Position	
Net investment in capital assets	19,786,654
Restricted for	
Other purposes	14,123,248
Unrestricted	(100,707,205)
Total net position	(66,797,303)
Total liabilities, deferred inflows of resources, and net position	$ 487,837,491

See notes to financial statements.

Independent School District No. 271
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 6,625,683	$ -	$ -	$ -	$ (6,625,683)
District support services	5,053,160	-	-	-	(5,053,160)
Elementary and secondary regular instruction	94,205,124	698,129	15,903,952	-	(77,603,043)
Vocational education instruction	2,077,476	-	44,625	-	(2,032,851)
Special education instruction	38,543,759	585,039	20,060,462	-	(17,898,258)
Instructional support services	13,001,852	-	-	-	(13,001,852)
Pupil support services	12,739,456	69,859	305,067	-	(12,364,530)
Sites and buildings	17,616,240	184,755	-	-	(17,431,485)
Fiscal and other fixed cost programs	339,803	-	-	-	(339,803)
Food service	5,317,030	1,883,934	3,346,854	-	(86,242)
Community education and services	12,958,479	6,892,256	4,238,343	-	(1,827,880)
Unallocated depreciation	8,035,953	-	-	-	(8,035,953)
Interest and fiscal charges on long-term debt	3,482,068	-	-	-	(3,482,068)
Total governmental activities	$ 219,996,083	$ 10,313,972	$ 43,899,303	$ -	(165,782,808)
General revenues					
Taxes					
Property taxes, levied for general purposes					33,992,726
Property taxes, levied for debt service					10,211,972
Property taxes, levied for community service					1,993,307
Property taxes, levied for capital projects					3,780,510
State aid-formula grants					74,445,654
Other general revenues					2,472,880
Investment income					669,553
Total general revenues					127,566,602
Change in net position					(38,216,206)
Net position - beginning					(28,581,097)
Net position - ending					$ (66,797,303)

See notes to financial statements.

Independent School District No. 271
Balance Sheet - Governmental Funds
June 30, 2017

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 47,762,520	$ 5,644,033	$ 26,812,046	$ 6,887,901	$ 87,106,500
Current property taxes receivable	20,105,031	4,464,845	-	1,300,094	25,869,970
Delinquent property taxes receivable	227,549	61,365	-	16,003	304,917
Accounts receivable	143,012	-	-	71,361	214,373
Interest receivable	180,338	-	37,316	-	217,654
Due from Department of Education	9,567,578	164,397	-	601,679	10,333,654
Due from Federal Government					
Through Department of Education	3,083,818	-	-	690,445	3,774,263
Due from other Minnesota school districts	646,966	-	-	916,915	1,563,881
Due from other governmental units	119,572	-	-	33,334	152,906
Inventory	262,087	-	-	130,364	392,451
Prepaid items	189,452	-	122	20,701	210,275
Total assets	$ 82,287,923	$ 10,334,640	$ 26,849,484	$ 10,668,797	$ 130,140,844
Liabilities					
Accounts payable	$ 819,038	$ -	$ 2,692,579	$ 115,832	$ 3,627,449
Contracts payable	27,799	-	219,046	-	246,845
Salaries and benefits payable	12,635,843	-	24,352	1,174,832	13,835,027
Due to other Minnesota school districts	922,060	-	5,549	-	927,609
Due to other governmental units	66,714	-	-	1,389	68,103
Interfund payable	2,308,894	-	4,415	249,540	2,562,849
Unearned revenue	454,301	-	-	362,880	817,181
Total liabilities	17,234,649	-	2,945,941	1,904,473	22,085,063
Deferred inflows of resources					
Property tax levied for subsequent year's expenditures	35,676,369	8,897,598	-	2,590,932	47,164,899
Unavailable revenue - delinquent property taxes	305,048	79,860	-	21,074	405,982
Total deferred inflows of resources	35,981,417	8,977,458	-	2,612,006	47,570,881
Fund Balances					
Nonspendable for					
Inventory	262,086	-	-	130,364	392,450
Prepaid items	189,452	-	122	20,701	210,275
Restricted for					
Capital projects levy	4,284,126	-	-	-	4,284,126
Operating capital	8,119,541	-	-	-	8,119,541
Medical assistance	573,886	-	-	-	573,886
State approved alternative program	1,145,695	-	-	-	1,145,695
Long-term Facilities Maintenance	-	-	23,903,421	-	23,903,421
Fund purpose	-	1,357,182	-	6,001,253	7,358,435
Committed for					
Wellness	90,965	-	-	-	90,965
Uniform and instrument replacement	106,324	-	-	-	106,324
Operating referendum	1,323,054	-	-	-	1,323,054
Transportation	4,235,550	-	-	-	4,235,550
Athletic activities	1,090,438	-	-	-	1,090,438
Site department carryover funds	757,824	-	-	-	757,824
Staff development	166,254	-	-	-	166,254
Unassigned	6,726,662	-	-	-	6,726,662
Total fund balances	29,071,857	1,357,182	23,903,543	6,152,318	60,484,900
Total liabilities, deferred inflows of resources, and fund balances	$ 82,287,923	$ 10,334,640	$ 26,849,484	$ 10,668,797	$ 130,140,844

Independent School District No. 271
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2017

Total fund balances - governmental funds	$ 60,484,900
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	250,221,845
Less accumulated depreciation	(131,620,119)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(128,680,000)
Loan payable	(296,755)
Bond premiums	(6,144,857)
Deferred amount on refunding	313,119
Compensated absences payable	(1,161,265)
Severance payable	(421,409)
Net OPEB obligation	(4,350,731)
Net pension liability	(334,414,107)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows related to pensions	206,896,253
Deferred inflows related to pensions	(8,792,261)
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.	405,982
The retiree benefit and OPEB internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	18,683,530
The dental and self insured medical benefit plans internal service funds are used by management to charge the costs of the self-insured plans. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position and interfund activity is removed.	14,002,528
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(1,923,956)
Total net position - governmental activities	$ (66,797,303)

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 34,004,202	$ 9,354,874	$ 3,780,510	$ 2,858,052	$ 49,997,638
Other local and county revenues	4,138,066	24,009	87,159	6,408,589	10,657,823
Revenue from state sources	100,879,780	1,643,966	-	3,599,075	106,122,821
Revenue from federal sources	4,408,142	-	-	3,685,752	8,093,894
Sales and other conversion of assets	8,099	-	-	1,881,723	1,889,822
Interdistrict revenue	-	-	-	945,051	945,051
Total revenues	143,438,289	11,022,849	3,867,669	19,378,242	177,707,049
Expenditures					
Current					
Administration	5,284,242	-	-	-	5,284,242
District support services	4,250,353	-	-	-	4,250,353
Elementary and secondary regular instruction	66,824,228	-	-	397,386	67,221,614
Vocational education instruction	1,606,623	-	-	-	1,606,623
Special education instruction	30,685,328	-	-	-	30,685,328
Instructional support services	9,572,688	-	-	-	9,572,688
Pupil support services	10,816,235	-	-	-	10,816,235
Sites and buildings	8,652,988	-	1,926,157	-	10,579,145
Fiscal and other fixed cost programs	339,803	-	-	-	339,803
Food service	-	-	-	5,215,672	5,215,672
Community education and services	-	-	-	11,360,076	11,360,076
Capital outlay					
Administration	1,082	-	-	-	1,082
District support services	70,802	-	-	-	70,802
Elementary and secondary regular instruction	261,882	-	-	-	261,882
Vocational education instruction	1,965	-	-	-	1,965
Special education instruction	90,125	-	-	-	90,125
Instructional support services	777,812	-	-	-	777,812
Pupil support services	349,804	-	-	-	349,804
Sites and buildings	2,601,736	-	13,594,976	-	16,196,712
Community education and services	-	-	-	41,615	41,615
Debt service					
Principal	49,308	6,990,000	-	290,000	7,329,308
Interest and fiscal charges	20,536	4,117,800	160,830	597,487	4,896,653
Total expenditures	142,257,540	11,107,800	15,681,963	17,902,236	186,949,539
Excess of revenues over (under) expenditures	1,180,749	(84,951)	(11,814,294)	1,476,006	(9,242,490)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	59,116	-	-	-	59,116
Bond issuance	-	766,524	24,148,476	11,470,000	36,385,000
Bond discount	-	-	(115,329)	(7,499)	(122,828)
Refunded bond payments	-	-	-	(11,456,770)	(11,456,770)
Transfers in	4,000,000	-	-	305,107	4,305,107
Transfers out	(305,107)	-	-	-	(305,107)
Total other financing sources (uses)	3,754,009	766,524	24,033,147	310,838	28,864,518
Net change in fund balances	4,934,758	681,573	12,218,853	1,786,844	19,622,028
Fund Balances					
Beginning of year	24,137,099	675,609	11,684,690	4,365,474	40,862,872
End of year	$ 29,071,857	$ 1,357,182	$ 23,903,543	$ 6,152,318	$ 60,484,900

See notes to financial statements.

Independent School District No. 271
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds
Year Ended June 30, 2017

Net change in fund balances - total governmental funds	$ 19,622,028
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the useful lives as depreciation expense.	
Capital outlays	10,203,924
Depreciation expense	(9,163,473)
Loss on disposal	(206,047)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	130,234
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(386,919)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	17,879,308
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(40,669,265)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	111,468
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	2,332,715
Proceeds from long-term debt are recognized as an other financing source, increasing fund balance in the governmental fund statements, but have no effect on net position in the Statement of Activities.	(36,385,000)
The retiree benefit internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities and obligations.	(4,358,969)
The dental and self-insured medical benefit plans internal service funds are used by management to charge the costs of the self insured plans. The increase in net position is reported within the governmental activities in the Statement of Activities.	2,692,913
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.	(19,123)
Change in net position - governmental activities	$ (38,216,206)

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 34,403,288	$ 34,400,165	$ 34,004,202	$ (395,963)
Other local and county revenues	4,617,316	5,319,289	4,138,066	(1,181,223)
Revenue from state sources	95,639,708	98,204,783	100,879,780	2,674,997
Revenue from federal sources	3,862,139	3,862,139	4,408,142	546,003
Sales and other conversion of assets	18,000	18,000	8,099	(9,901)
Total revenues	138,540,451	141,804,376	143,438,289	1,633,913
Expenditures				
Current				
Administration	5,717,769	5,780,352	5,284,242	(496,110)
District support services	3,533,823	2,638,887	4,250,353	1,611,466
Elementary and secondary regular instruction	65,249,812	67,457,447	66,824,228	(633,219)
Vocational education instruction	1,647,217	1,647,752	1,606,623	(41,129)
Special education instruction	29,316,238	29,670,565	30,685,328	1,014,763
Instructional support services	7,174,418	7,570,003	9,572,688	2,002,685
Pupil support services	11,256,154	11,437,777	10,816,235	(621,542)
Sites and buildings	9,102,884	9,102,884	8,652,988	(449,896)
Fiscal and other fixed cost programs	387,000	387,000	339,803	(47,197)
Capital outlay				
Administration	115,601	120,293	1,082	(119,211)
District support services	3,385,566	-	70,802	70,802
Elementary and secondary regular instruction	292,045	306,164	261,882	(44,282)
Vocational education instruction	6,000	6,000	1,965	(4,035)
Special education instruction	24,000	24,000	90,125	66,125
Instructional support services	914,501	4,902,694	777,812	(4,124,882)
Pupil support services	591,425	579,425	349,804	(229,621)
Sites and buildings	1,861,876	2,861,876	2,601,736	(260,140)
Debt service				
Principal	49,308	49,308	49,308	-
Interest and fiscal charges	20,536	20,536	20,536	-
Total expenditures	140,646,173	144,562,963	142,257,540	(2,305,423)
Excess of revenues over (under) expenditures	(2,105,722)	(2,758,587)	1,180,749	3,939,336
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	200,000	100,000	59,116	(40,884)
Transfers in	500,000	-	4,000,000	4,000,000
Transfers out	(794,529)	(294,529)	(305,107)	(10,578)
Total other financing sources (uses)	(94,529)	(194,529)	3,754,009	3,948,538
Net change in fund balance	$ (2,200,251)	$ (2,953,116)	4,934,758	$ 7,887,874
Fund Balance				
Beginning of year			24,137,099	
End of year			$ 29,071,857	

See notes to financial statements.

Independent School District No. 271
Statement of Net Position - Proprietary Funds
As of June 30, 2017

	Governmental Activities - Internal Service Funds
Assets	
Cash and cash equivalents	$ 17,928,328
Investments	13,659,459
Interfund receivable	2,563,836
Interest receivable	296,775
Total assets	$ 34,448,398
Liabilities and Net Position	
Liabilities	
Accounts payable	$ 14,649
Incurred but not reported claims	1,747,691
Benefits payable	1,161,265
Unearned revenue	5,373,452
Total liabilities	8,297,057
Net Position	
Unrestricted	26,151,341
Total liabilities and net position	$ 34,448,398

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2017

	Governmental Activities - Internal Service Funds
Operating Revenue	
Charges for services	$ 23,088,157
District contribution	465,228
Total revenue	23,553,385
Operating Expenses	
Salaries and benefits	33,000
Employee benefits	20,702,041
Administrative	1,457,312
Total operating expenses	22,192,353
Operating income	1,361,032
Nonoperating Revenue	
Investment income	269,925
Income before transfers	1,630,957
Transfers out	(4,000,000)
Change in net position	(2,369,043)
Net Position	
Beginning of year	28,520,384
End of year	$ 26,151,341

See notes to financial statements.

Independent School District No. 271
Statement of Cash Flows - Proprietary Funds
As of June 30, 2017

	Governmental Activities - Internal Service Funds
Cash Flows - Operating Activities	
Receipts from employee contributions	$ 23,039,729
Receipts from district contributions	333,450
Employee claims paid	(19,801,715)
Payments to employees	(916,326)
Payments to suppliers	(1,450,674)
Net cash flows - operating activities	1,204,464
Cash flows - Noncapital Financing Activites	
Transfers to Other Funds	(4,000,000)
Cash Flows - Investment Activities	
Investment purchases	288,805
Interest received	212,183
Net cash flows - investment activities	500,988
Net change in cash and cash equivalents	(2,294,548)
Cash and Cash Equivalents	
Beginning of year	20,222,876
End of year	$ 17,928,328
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	$ 1,361,032
Adjustments to reconcile operating income To net cash flows - operating activities	
Accounts payable	6,638
Benefits payable	(131,778)
Incurred but not reported dental claims	17,000
Interfund receivable	(883,193)
Unearned revenue	834,765
Net adjustments	(156,568)
Net cash flows - operating activities	$ 1,204,464

See notes to financial statements.

Independent School District No. 271
Statement of Fiduciary Net Position
Year Ended June 30, 2017

	Agency Fund	Private Purpose Trust Fund
Assets		
Current		
Cash and investments	$ 28,185	$ 91,426
Due from other governments	247,701	-
Total assets	$ 275,886	$ 91,426
Liabilities		
Accounts payable	$ 122,450	$ 1,000
Due to other governments	2,000	-
Salaries and benefits payable	7,969	-
Other liabilities	143,467	-
Total liabilities	$ 275,886	1,000
Net Position		
Held in trust		$ 90,426

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

	Private Purpose Trust Fund
Additions	
Interest revenue	$ 649
Deductions	
Scholarships	19,641
Change in net position	(18,992)
Net Position	
Beginning of year	109,418
End of year	$ 90,426

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

B. Basic Financial Statement Information

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

Description of Funds

Major Funds:

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

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

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

Nonmajor Funds:

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

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

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

Fiduciary Funds:

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

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

Proprietary Funds:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments

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

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

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

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

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

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

E. Property Tax Receivable

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following fiscal year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2016, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in 2017. 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. County are the collecting agency for the levy and remit the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $3,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)
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 Net 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 qualifies for reporting in this category. The first item is a deferred outflows of resources related to pensions which is recorded for various estimate differences that will be amortized and recognized over future years. The second item is a deferral on refunding bond transactions. This amount represents the difference between the net carrying amount of the old bonds and the reacquisition price. This amount is amortized over the remaining life of the new bonds or refunded bonds whichever is shorter.

In addition to liabilities, the Statement of Net 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 a deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

The District compensates most full-time classified employees upon termination of employment for unused vacation up to a set maximum. At June 30, 2017, the District recorded a liability of $1,161,265 for unused vacation in the Internal Service Fund. District employees are entitled to sick leave at various rates for each month of full-time service. Certain employees are compensated for unused sick leave upon termination of employment; unused sick leave also enters into the calculation of some employee's severance pay.

N. Pensions

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

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

O. Fund Equity

1. Classification

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Equity (Continued)

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

2. Minimum Fund Balance Policy

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

P. Net Position

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

Q. Use of Estimates

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

R. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: The District has a policy in place to address custodial credit risk for deposits, stating all deposits will be invested at financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) system and be willing and capable of posting collateral or private insurance for funds in excess of FDIC insurable limits and in amounts required by the District. The District had certificates of deposit of totaling $42,377,030 at June 30, 2017, the District was not exposed to custodial credit risk on deposits as it was fully insured by FDIC.

B. Investments

As of June 30, 2017, the District had the following investments:

Investment	Weighted Average Maturities (in Years)	Fair Value	Moody's/ S&P Rating
Pooled Investments			
MSDLAF+ Liquid Class	N/A	$ 8,407,755	AAAm
MSDLAF+ Max Class	N/A	1,567,963	AAAm
Minnesota Trust Investment Shares	N/A	18,685,720	AAAm
Negotiable Certificates of Deposit	0.13	1,877,103	N/A
Term Series	0.09	20,000,000	AAAm
Limited Term Series	N/A	4,999,500	AAAm
Total pooled investments		55,538,041	
OPEB Investments			
Minnesota Trust Investment Shares	N/A	1,110,517	AAAm
Negotiable Certificates of Deposit	0.10	2,333,274	N/A
Local Government Obligations	0.17	1,964,555	AA-, AA, AA+
Total OPEB investments		5,408,346	
Capital Project Investments			
Minnesota Trust Investment Shares	N/A	3,599,882	AAAm
Local Governmental Obligations	0.06	638,549	AA, AAA, AA3
Term Series	0.08	11,250,000	AAAm
Total capital projects investments		15,488,431	
Total investments		$ 76,434,818	

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

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

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

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

The District has the following recurring fair value measurements as of June 30, 2017:

- Investments of $6,813,481 are significant other observable inputs (Level 2 inputs)

C. Deposits and Investments

Summary of cash, deposits, and investments as of June 30, 2017:

Deposits	$ 42,377,030
Investments (Note 3.B.)	76,434,818
Petty cash	2,050
Total deposits and investments	$ 118,813,898

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments (Continued)

Cash, deposits, and investments are presented in the June 30, 2017, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 118,694,287
Statement of Fiduciary Net Position	
Agency fund	28,185
Private purpose trust fund	91,426
Total	$ 118,813,898

NOTE 3 – INTERFUND TRANSACTIONS

A. Interfund Transfers

	Transfers in		
	General	Other Nonmajor	Total
Transfers out			
General Fund	$ -	$ 305,107	$ 305,107
Internal Service Fund	4,000,000	-	4,000,000
Total	$ 4,000,000	$ 305,107	$ 4,305,107

A transfer was made from the General Fund to the other nonmajor funds to subsidize certain costs at the Pond and Southwood Early Learning Centers. A transfer was made from the Internal Service Fund to the General Fund for capital needs.

B. Interfund Receivable/Payable

	Interfund Payable		
	General	Other Nonmajor	Total
Interfund receivable			
Internal service fund	$ 2,308,894	$ 249,540	$ 2,558,434

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

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, follows:

	Beginning Balance	Reclassifications	Increases	Decreases	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land and land improvements	$ 2,166,126	$ (80,172)	$ -	$ -	$ 2,085,954
Construction in progress	3,098,675	-	162,028	3,098,675	162,028
Total capital assets not being depreciated	5,264,801	(80,172)	162,028	3,098,675	2,247,982
Capital assets being depreciated					
Buildings and building	219,828,435	(385,921)	12,365,140	-	231,807,654
Improvements, furniture, and equipment	15,805,901	466,093	775,431	881,216	16,166,209
Total capital assets being depreciated	235,634,336	80,172	13,140,571	881,216	247,973,863
Less accumulated Depreciation for					
Buildings and building improvements	111,870,468	238,649	7,898,192	-	120,007,309
Furniture and equipment	11,261,347	(238,649)	1,265,281	675,169	11,612,810
Total accumulated depreciation	123,131,815	-	9,163,473	675,169	131,620,119
Total capital assets being depreciated, net	112,502,521	80,172	3,977,098	206,047	116,353,744
Governmental activities, capital assets, net	$ 117,767,322	$ -	$ 4,139,126	$ 3,304,722	$ 118,601,726

Depreciation expense for the year ended June 30, 2017, was charged to the following functions:

Administration	$ 2,625
District support services	200,016
Elementary and secondary regular instruction	172,057
Vocational education instruction	2,320
Special education instruction	9,439
Community service	16,469
Instructional support	39,467
Pupil support	646,559
Food service	38,568
Unallocated	8,035,953
Total depreciation expense	$ 9,163,473

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2009A OPEB Bonds	04/15/09	4.00%-5.25%	$ 12,545,000	02/01/25	$ 620,000	$ 300,000
2013A Alternative Faclities Bonds	06/04/13	3.00%-5.00%	16,275,000	02/01/34	16,175,000	-
2013B School Refunding Bonds	06/04/13	1.50%-2.00%	11,780,000	02/01/20	6,025,000	2,085,000
2014A School Refunding Bonds	12/30/14	1.08%	23,490,000	02/01/20	14,610,000	4,605,000
2014B Alternative Facilities Bonds	12/30/14	3.47%	25,965,000	02/01/38	25,965,000	-
2015A School Refunding Bonds	12/30/15	2.00-5.00%	29,390,000	02/01/24	28,900,000	-
2017A Facility Maintenance Bonds	03/23/17	3.375-4.00%	24,915,000	02/01/41	24,915,000	-
2017B Taxable Refunding OPEB Bonds	03/23/17	0.85-2.70%	11,470,000	02/01/25	11,470,000	300,000
Build America Bonds	09/29/10	6.15%	600,000	05/15/22	296,755	52,387
Total G.O. bonds					128,976,755	7,342,387
Unamortized bond premiums					6,144,857	
Other long-term liabilities						
Compensated absences payable					1,161,265	116,126
Severance payable					421,409	42,141
Total long-term liabilities					$ 136,704,286	$ 7,500,654

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

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

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

B. Minimum Debt Payments for Bonds and Loans

Year Ending	G.O. Bonds			Build America Bonds		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2018	$ 7,290,000	$ 5,297,823	$ 12,587,823	$ 52,387	$ 17,457	$ 69,844
2019	7,305,000	5,179,221	12,484,221	55,658	14,186	69,844
2020	7,695,000	4,332,440	12,027,440	59,134	10,710	69,844
2021	8,195,000	4,026,270	12,221,270	62,827	7,018	69,845
2022	8,890,000	3,619,670	12,509,670	66,749	3,095	69,845
2023-2027	24,365,000	12,936,348	37,301,348	-	-	-
2028-2032	7,055,000	10,844,913	17,899,913	-	-	-
2033-2037	30,940,000	8,475,077	39,415,077	-	-	-
2038-2041	26,945,000	2,291,001	29,236,001	-	-	-
Total	$128,680,000	$ 57,002,761	$185,682,761	$ 296,755	$ 52,466	$ 349,222

NOTE 5 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

	Beginning Balance, Restated	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 110,125,000	$ 36,385,000	$ 17,830,000	$ 128,680,000
Unamortized bond premiums	7,591,853	-	1,446,996	6,144,857
Loans	346,063	-	49,308	296,755
Compensated absence payable	1,293,043	734,002	865,780	1,161,265
Severance benefits payable	419,865	1,544	-	421,409
Total long-term liabilities	$ 119,775,824	$ 37,120,546	$ 20,192,084	$ 136,704,286

NOTE 6 – FUND BALANCES

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

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

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

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

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

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

NOTE 6 – FUND BALANCES (CONTINUED)

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

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

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

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

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

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statues* 124D.16). The balance as of June 30, 2017 is a deficit (negative) $35,232, which is presented within the Restricted/Reserved for Community Education Programs Fund balance for purposes of reporting in accordance with generally accepted accounting principles.

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

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

Committed for Operating Referendum – This balance represents resources committed from the operating referendum.

Committed for Transportation – This balance represents the accumulation of the activity to provide the district transportation.

NOTE 6 – FUND BALANCES (CONTINUED)

B. Committed Fund Equity (Continued)

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

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

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

C. Government-Wide Restrictions

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017, was $51,922,059. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits

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

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

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2015, June 30, 2016, and June 30, 2017, were:

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 354,961,140
Deduct Employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in schedule of employer and non-employer pension allocations	$ 390,131,928

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, 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, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rat calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
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 set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
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.

E. Discount Rate

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. 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 2052 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 was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at the prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2017, the District reported a liability of $300,182,278 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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. District proportionate share was 1.2585% at the end of the measurement period and 1.3409% 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	$ 300,182,278
State's proportionate share of the net pension liability associated with the District	30,130,021

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the District recognized pension expense of $48,104,862. It recognized $4,207,160 as an increase to this pension expense for the support provided by direct aid.

On June 30, 2017, 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	$ 3,145,757	$ 8,370
Net difference between projected and actual earnings on plan investments	12,727,767	-
Changes of assumptions	171,484,355	-
Changes in proportion	1,443,631	4,247,710
Contributions to TRA subsequent to the measurement date	4,945,144	-
Total	$ 193,746,654	$ 4,256,080

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)
$4,945,144 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018	$ 36,654,275
2019	36,654,302
2020	41,282,581
2021	37,514,325
2022	32,439,947
Total	$ 184,545,430

G. Pension Liability Sensitivity
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1 percent lower and 1 percent higher.

District proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
$ 386,709,803	$ 300,182,278	$ 229,708,430

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.

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

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.

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.

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

Public Employees' Retirement Association (Continued)

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 2017. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were $1,967,184. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2017, the District reported a liability of $34,231,829 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 2016. 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 $447,074. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.4216%, which was a decrease of 0.0305% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $3,817,197 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $133,306 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.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)
At June 30, 2017, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 113,926	$ 2,833,956
Changes in actuarial assumptions	7,467,696	-
Difference between projected and actual investments earnings	3,600,793	-
Change in proportion	-	1,702,225
Contributions paid to PERA subsequent to the measurement date	1,967,184	-
Total	$ 13,149,599	$ 4,536,181

$1,967,184 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, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	$ 1,670,413
2019	791,399
2020	2,947,924
2021	1,236,498
Total	$ 6,646,234

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, 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. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

- 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, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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.

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	100%	

F. Discount Rates

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 48,619,342	$ 34,231,829	$ 22,380,434

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

Public Employees' Retirement Association (Continued)

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

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

B. Funding Policy
Retirees contribute to the healthcare plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Corporate Health. Resolution assigned the authority to establish and amend benefit provisions to the School Board. Some employee groups also receive a direct payment from the District toward insurance after retirement. Also, by definition some severance benefits provided by the District are included in the Other Post Employment Benefits (OPEB) liability calculation. The required contributions are based on projected pay-as-you-go financing requirements. For 2017, the District contributed $1,087,844 to the plan. As of June 30, 2016, the District decided to pay retiree benefits on a pay-as-you-go basis rather than draw from the OPEB Plan. Administrative costs of the plan are financed through investment earnings. As of July 1, 2016, the most recent actuarial valuation date, there were approximately 38 retirees receiving health benefits from the District's health plan. The plan has a total of 1,865 active participants and dependents.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual Other Post Employment Benefits Cost and Net Other Post Employment Benefits Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

ARC	$ 1,551,548
Interest on net OPEB obligation	138,733
Adjustment to ARC	(215,518)
Annual OPEB cost (expense)	1,474,763
Contributions made	(1,087,844)
Increase in net OPEB obligation	386,919
Net OPEB obligation - beginning of year	3,963,812
Net OPEB obligation - end of year	$ 4,350,731

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015, 2016, and 2017 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	$ 1,474,763	$ 1,087,844	73.8%	$ 4,350,731
6/30/2016	2,038,965	1,020,618	50.1%	3,963,812
6/30/2015	2,021,323	1,088,567	53.9%	2,945,465

D. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $11,105,040 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $11,105,040. The covered payroll (annual payroll of active employees covered by the plan) was $95,200,000 and the ratio of the UAAL to the covered payroll was 11.7%.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

On July 1, 2016, the actuarial valuation date, the projected unit credit with 30-year amortization of the unfunded liability method was used. The actuarial assumptions included a 3.5% discount rate. At the time of the actuarial study, the District was not planning on prefunding for this benefit. At this actuarial valuation date, the annual healthcare cost trend rate was calculated to be 6.6% initially, reduced incrementally to an ultimate rate of 4.4% after eight years. The UAAL is being amortized as a level dollar amount on an open basis.

On April 15, 2009, the District issued $12,545,000 G.O. Taxable OPEB Bonds, Series 2009A to fund the OPEB liability. Since these proceeds were placed in a revocable trust, the funding of the obligation does not qualify as funding the liability under GASB Statement No. 45. On March 23, 2017, the District issued $11,470,000 G.O. Taxable OPEB Refunding Bonds, Series 2017B to refund the 2009A bonds. The activity related to the OPEB revocable trust can be noted in the OPEB Internal Service Fund. As of June 30, 2017, the ending market value of these assets was $14,769,976.

NOTE 9 – CONTINGENCIES

A. Lawsuits

There are several lawsuits pending in which the District is involved. The District estimates the potential claims against the District, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the District.

B. Program Compliance

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

NOTE 10 – RISK MANAGEMENT

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

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

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Dental Insurance Internal Service Fund includes a reserve of $1,167,764 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2017, is $37,000 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

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

	Balance Beginning of Year	Claims, Expense, and Estimates	Claims Payments	Balance End of Year
2014-2015	$ 22,500	$ 1,080,404	$ (1,076,904)	$ 26,000
2015-2016	26,000	1,093,998	(1,099,998)	20,000
2016-2017	20,000	1,148,187	(1,131,187)	37,000

NOTE 10 – RISK MANAGEMENT (CONTINUED)

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

The General, Food Service, Community Service, and Agency Funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2017 is $1,710,691 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

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

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2014-2015	$ 1,378,835	$ 14,571,178	$ (14,371,178)	$ 1,578,835
2015-2016	1,578,835	17,042,601	(16,910,745)	1,710,691
2016-2017	1,710,691	18,670,528	(18,670,528)	1,710,691

NOTE 11 – COMMITMENTS

At June 30, 2017, the District had various construction contract commitments for projects outstanding totaling $4,022,071.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

Accounting Standards Board (GASB) has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

(THIS PAGE LEFT BLANK INTENTIONALLY)

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 271
Schedule of Funding Progress - Other Post Employment Benefits
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2016	$ -	$ 11,105,040	$ 11,105,040	0.0%	$ 95,200,000	11.7%
7/1/2014	-	15,275,357	15,275,357	0.0%	95,047,759	16.1%
7/1/2012	-	10,095,492	10,095,492	0.0%	82,247,255	12.3%

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

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

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

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

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

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

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 1,804,559	$ 1,804,559	$ -	$ 24,890,469	7.25%
2015	1,959,747	1,959,747	-	26,129,960	7.50%
2016	1,962,014	1,962,014	-	26,160,187	7.50%
2017	1,967,184	1,967,184	-	26,229,120	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 Funds
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 4,302,335	$ 4,302,335	$ -	$ 61,461,929	7.00%
2015	5,104,212	5,104,212	-	68,056,160	7.50%
2016	4,909,723	4,909,723	-	65,462,973	7.50%
2017	4,945,144	4,945,144	-	65,935,253	7.50%

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

2016 Changes
Changes in Actuarial Assumptions

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

2015 Changes
Changes of Benefit Terms

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

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

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.

General Employees Fund (Continued)

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. 271
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and investments	$ 1,520,809	$ 4,762,323	$ 6,283,132
Current property taxes receivable	-	883,699	883,699
Delinquent property taxes receivable	-	10,500	10,500
Accounts receivable	21,361	50,000	71,361
Due from Department of Education	-	601,679	601,679
Due from other Minnesota school districts	-	916,915	916,915
Due from Federal Government through Department of Education	83,971	606,474	690,445
Due from other governmental units	-	33,334	33,334
Inventory	130,364	-	130,364
Prepaid items	14,336	6,365	20,701
Total assets	$ 1,770,841	$ 7,871,289	$ 9,642,130
Liabilities			
Accounts payable	$ 26,929	$ 88,903	$ 115,832
Salaries and benefits payable	351,133	823,699	1,174,832
Due to other governmental units	-	1,389	1,389
Interfund payable	127,024	122,516	249,540
Unearned revenue	94,103	268,777	362,880
Total liabilities	599,189	1,305,284	1,904,473
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	1,761,092	1,761,092
Unavailable revenue - delinquent property taxes	-	13,761	13,761
Total deferred inflows of resources	-	1,774,853	1,774,853
Fund Balances			
Nonspendable			
Inventory	130,364	-	130,364
Prepaid items	14,336	6,365	20,701
Restricted			
Community education programs	-	2,959,661	2,959,661
Adult basic education	-	761,370	761,370
Early childhood family and education programs	-	519,013	519,013
School readiness	-	495,563	495,563
Fund purpose	1,026,952	49,180	1,076,132
Total fund balances	1,171,652	4,791,152	5,962,804
Total liabilities, deferred inflows of resources, and fund balances	$ 1,770,841	$ 7,871,289	$ 9,642,130

OPEB Debt Service	Total Nonmajor Funds
$ 604,769	$ 6,887,901
416,395	1,300,094
5,503	16,003
-	71,361
-	601,679
-	916,915
-	690,445
-	33,334
-	130,364
-	20,701
$ 1,026,667	$ 10,668,797
$ -	$ 115,832
-	1,174,832
-	1,389
-	249,540
-	362,880
-	1,904,473
829,840	2,590,932
7,313	21,074
837,153	2,612,006
-	130,364
-	20,701
-	2,959,661
-	761,370
-	519,013
-	495,563
189,514	1,265,646
189,514	6,152,318
$ 1,026,667	$ 10,668,797

Independent School District No. 271
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenues			
Local property taxes	$ -	$ 1,994,213	$ 1,994,213
Other local and county revenues	11,456	6,394,276	6,405,732
Revenue from state sources	303,822	3,295,253	3,599,075
Revenue from federal sources	3,046,130	639,622	3,685,752
Sales and other conversion of assets	1,881,723	-	1,881,723
Interdistrict revenue	-	945,051	945,051
Total revenues	5,243,131	13,268,415	18,511,546
Expenditures			
Current			
Elementary and secondary regular			
Instruction	-	397,386	397,386
Food service	5,215,672	-	5,215,672
Community education and services	-	11,360,076	11,360,076
Capital outlay			
Community education and services	-	41,615	41,615
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	5,215,672	11,799,077	17,014,749
Excess of revenues over (under) expenditures	27,459	1,469,338	1,496,797
Other Financing Source			
Bond issuance	-	-	-
Bond discount	-	-	-
Refunded bond payments	-	-	-
Transfers in	-	305,107	305,107
Total other financing sources (uses)	-	305,107	305,107
Net change in fund balances	27,459	1,774,445	1,801,904
Fund Balances			
Beginning of year	1,144,193	3,016,707	4,160,900
End of year	$ 1,171,652	$ 4,791,152	$ 5,962,804

OPEB Debt Service	Total Nonmajor Funds
$ 863,839	$ 2,858,052
2,857	6,408,589
-	3,599,075
-	3,685,752
-	1,881,723
-	945,051
866,696	19,378,242
-	397,386
-	5,215,672
-	11,360,076
-	41,615
290,000	290,000
597,487	597,487
887,487	17,902,236
(20,791)	1,476,006
11,470,000	11,470,000
(7,499)	(7,499)
(11,456,770)	(11,456,770)
-	305,107
5,731	310,838
(15,060)	1,786,844
204,574	4,365,474
$ 189,514	$ 6,152,318

Independent School District No. 271
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local and county revenues	$ 179,998	$ 163,797	$ 11,456	$ (152,341)
Revenue from state sources	304,652	304,652	303,822	(830)
Revenue from federal sources	2,768,233	2,768,233	3,046,130	277,897
Sales and other conversion of assets	1,932,832	1,932,832	1,881,723	(51,109)
Total revenues	5,185,715	5,169,514	5,243,131	73,617
Expenditures				
Current				
Food service	5,292,255	5,292,255	5,215,672	(76,583)
Excess of revenues over (under) expenditures	$ (106,540)	$ (122,741)	27,459	$ 150,200
Fund Balance				
Beginning of year			1,144,193	
End of year			$ 1,171,652	

Independent School District No. 271
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 2,014,516	$ 2,008,603	$ 1,994,213	$ (14,390)
Other local and county revenues	5,668,608	6,211,260	6,394,276	183,016
Revenue from state sources	3,349,317	3,306,026	3,295,253	(10,773)
Revenue from federal sources	415,839	268,533	639,622	371,089
Interdistrict revenue	1,032,683	965,972	945,051	(20,921)
Total revenues	12,480,963	12,760,394	13,268,415	508,021
Expenditures				
Current				
Elementary and secondary regular Instruction	161,102	20,393	397,386	376,993
Community education and services	12,557,812	12,341,865	11,360,076	(981,789)
Capital outlay				
Community education and services	80,131	65,234	41,615	(23,619)
Total expenditures	12,799,045	12,427,492	11,799,077	(628,415)
Excess of revenues over (under) expenditures	(318,082)	332,902	1,469,338	1,136,436
Other Financing Sources				
Transfers in	294,529	294,529	305,107	10,578
Net change in fund balance	$ (23,553)	$ 627,431	1,774,445	$ 1,147,014
Fund Balance				
Beginning of year			3,016,707	
End of year			$ 4,791,152	

Independent School District No. 271
Combining Statement of
Net Position - Internal Service Funds
June 30, 2017

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Assets					
Cash and cash equivalents	$ 3,616,779	$ 1,351,709	$ 11,849,323	$ 1,110,517	$ 17,928,328
Investments	-	-	-	13,659,459	13,659,459
Interfund receivable	-	131,304	2,432,532	-	2,563,836
Interest receivable	-	-	-	296,775	296,775
Total assets	$ 3,616,779	$ 1,483,013	$ 14,281,855	$ 15,066,751	$ 34,448,398
Liabilities					
Accounts payable	$ -	$ 1,760	$ 12,889	$ -	$ 14,649
Incurred but not reported claims	-	37,000	1,710,691	-	1,747,691
Benefits Payable	1,161,265	-	-	-	1,161,265
Unearned revenue	-	276,489	5,096,963	-	5,373,452
Total liabilities	1,161,265	315,249	6,820,543	-	8,297,057
Net Position					
Unrestricted	2,455,514	1,167,764	7,461,312	15,066,751	26,151,341
Total liabilities and net position	$ 3,616,779	$ 1,483,013	$ 14,281,855	$ 15,066,751	$ 34,448,398

Independent School District No. 271
Combining Statement of Revenues, Expenses. and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2017

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Operating revenues					
Charges for services	$ -	$ 1,233,584	$ 21,854,573	$ -	$ 23,088,157
Contribution	465,228	-	-	-	465,228
Total revenue	465,228	1,233,584	21,854,573	-	23,553,385
Operating expenses					
Salaries and benefits	-	33,000	-	-	33,000
Employee benefits	883,326	1,148,187	18,670,528	-	20,702,041
Administrative	-	86,047	1,371,015	250	1,457,312
Total operating expenses	883,326	1,267,234	20,041,543	250	22,192,353
Operating income (loss)	(418,098)	(33,650)	1,813,030	(250)	1,361,032
Nonoperating revenues					
Investment income	51,894	8,006	70,762	139,263	269,925
Income before transfers	(366,204)	(25,644)	1,883,792	139,013	1,630,957
Transfers out	(4,000,000)	-	-	-	(4,000,000)
Change in net position	(4,366,204)	(25,644)	1,883,792	139,013	(2,369,043)
Net position					
Beginning of year	6,821,718	1,193,408	5,577,520	14,927,738	28,520,384
End of year	$ 2,455,514	$ 1,167,764	$ 7,461,312	$ 15,066,751	$ 26,151,341

Independent School District No. 271
Combining Statement of Cash Flows -
Internal Service Funds
As of June 30, 2017

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Cash Flows - Operating Activities					
Receipts from employee contributions	$ -	$ 1,223,288	$ 21,816,441	$ -	$ 23,039,729
Receipts from district contributions	333,450	-	-	-	333,450
Employee claims paid	-	(1,131,187)	(18,670,528)	-	(19,801,715)
Payments to employees	(883,326)	(33,000)	-	-	(916,326)
Payments to suppliers	-	(85,727)	(1,364,697)	(250)	(1,450,674)
Net cash flows - operating activities	(549,876)	(26,626)	1,781,216	(250)	1,204,464
Cash Flows - Noncapital Financing Activities					
Transfer to other funds	(4,000,000)	-	-	-	(4,000,000)
Cash Flows - Investment Activities					
Investment purchases	-	-	-	288,805	288,805
Interest received	51,894	8,006	70,762	81,521	212,183
Net cash flows - investment activities	51,894	8,006	70,762	370,326	500,988
Net change in cash and cash equivalents	(4,497,982)	(18,620)	1,851,978	370,076	(2,294,548)
Cash and Cash Equivalents					
Beginning of year	8,114,761	1,370,329	9,997,345	740,441	20,222,876
End of year	$ 3,616,779	$ 1,351,709	$ 11,849,323	$ 1,110,517	$ 17,928,328
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities					
Operating income (loss)	$ (418,098)	$ (33,650)	$ 1,813,030	$ (250)	$ 1,361,032
Adjustments to reconcile operating income (loss) to net cash flows - operating activities					
Accounts payable	-	320	6,318	-	6,638
Benefits payable	(131,778)	-	-	-	(131,778)
Incurred but not reported claims	-	17,000	-	-	17,000
Interfund receivable	-	(41,254)	(841,939)	-	(883,193)
Unearned revenue	-	30,958	803,807	-	834,765
Net adjustments	(131,778)	7,024	(31,814)	-	(156,568)
Net cash flows - operating activities	$ (549,876)	$ (26,626)	$ 1,781,216	$ (250)	$ 1,204,464

Independent School District No. 271
Statement of Changes in Agency Fund
Assets and Liabilities
Year Ended June 30, 2017

	June 30, 2016	Additions	Deductions	June 30, 2017
Assets				
Cash and investments	$ 278,873	$ 390,603	$ (641,291)	$ 28,185
Due from other governments	-	247,701	-	247,701
Total assets	$ 278,873	$ 638,304	$ (641,291)	$ 275,886
Liabilities				
Accounts payable	$ 109,729	$ 291,184	$ (278,463)	$ 122,450
Due to other governments	-	2,000	-	2,000
Salaries and benefits payable	4,961	103,930	(100,922)	7,969
Other liabilities	164,183	155,498	(176,214)	143,467
Total liabilities	$ 278,873	$ 552,612	$ (555,599)	$ 275,886

Independent School District No. 271
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2017

	Audit	UFARS	Audit-UFARS
01 General Fund			
Total revenue	$ 143,438,289	$ 143,438,289	$ -
Total expenditures	142,257,540	142,257,538	2
Nonspendable:			
460 Nonspendable fund balance	451,538	451,538	-
Restricted/reserved:			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Projects Levy	4,284,126	4,284,126	-
408 Cooperative Programs	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	8,119,541	8,119,541	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	1,145,695	1,145,695	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluation	-	-	-
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration Revenue	-	-	-
449 Safe School Crime	-	-	-
450 Transition to Pre-Kindergarten	-	-	-
451 QZAB and QSCB Payments	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-
467 Long-term Facilities Maintenance	-	-	-
472 Medical Assistance	573,886	573,886	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Committed for separation	-	-	-
461 Committed	7,770,409	7,770,409	-
Assigned:			
462 Assigned fund balance	-	-	-
Unassigned:			
422 Unassigned fund balance	6,726,662	6,726,662	-
02 Food Services Fund			
Total revenue	$ 5,243,131	$ 5,243,131	$ -
Total expenditures	5,215,672	5,215,669	3
Nonspendable:			
460 Nonspendable fund balance	144,700	144,701	(1)
Restricted/reserved:			
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	1,026,952	1,026,953	(1)
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ 13,268,415	$ 13,268,413	$ 2
Total expenditures	11,799,077	11,799,074	3
Nonspendable:			
460 Nonspendable fund balance	6,365	6,365	-
Restricted/reserved:			
426 $25 Taconite	-	-	-
431 Community Education	2,959,661	2,959,663	(2)
432 ECFE	519,013	519,013	-
440 Teacher Development and Evaluation	-	-	-
444 School Readiness	495,563	495,563	-
447 Adult Basic Education	761,370	761,370	-
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted fund balance	49,180	49,180	-
Unassigned:			
463 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 Building Construction Fund			
Total revenue	$ 3,867,669	$ 3,867,669	$ -
Total expenditures	15,681,963	15,681,963	-
Nonspendable:			
460 Nonspendable fund balance	122	122	-
Restricted/reserved:			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
467 Long-term Facilities Maintenance	23,903,421	23,903,420	1
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ 11,022,849	$ 11,022,850	$ (1)
Total expenditures	11,107,800	11,107,800	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/Reserved:			
425 Bond refunding	-	-	-
451 QZAB and QSCB payments	-	-	-
Restricted:			
464 Restricted fund balance	1,357,182	1,357,182	-
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ 649	$ 649	$ -
Total expenditures	19,641	19,641	-
Unassigned:			
422 Unassigned fund balance (net position)	90,426	90,425	1
20 Internal Service Fund			
Total revenue	$ 23,684,047	$ 23,684,047	$ -
Total expenditures	22,192,103	22,192,101	2
Unassigned:			
422 Unassigned fund balance (net position)	11,084,590	11,084,590	-
25 OPEB Revocable Trust			
Total revenue	$ 139,263	$ 139,264	$ (1)
Total expenditures	250	250	-
Unassigned:			
422 Unassigned fund balance (net position)	15,066,751	15,066,751	-
45 OPEB Irrevocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
47 OPEB Debt Service			
Total revenue	$ 866,696	$ 866,696	$ -
Total expenditures	887,487	887,487	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted:			
425 Bond refundings	-	-	-
464 Restricted fund balance	189,514	189,514	-
Unassigned:			
463 Unassigned fund balance	-	-	-

Independent School District No. 271
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child nutrition cluster		
Commodities programs (noncash assistance)	10.555	$ 342,956
School breakfast	10.553	616,799
Summer food service	10.559	86,637
Type a lunch	10.555	1,955,829
After school snack	10.555	43,909
Total child nutrition cluster and U.S. Department of Agriculture		3,046,130
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	1,922,191
Title II, Part A - improving teacher quality	84.367	167,098
Title III, Part A - language enhancement	84.365	135,792
Special education cluster		
Special education	84.027	2,316,460
Handicapped early education	84.173	89,684
Total special education cluster		2,406,144
Infants and toddlers	84.181	74,750
Adult basic education		
Adult basic education	84.002	152,929
Adult basic education literacy	84.002A	85,974
Total adult basic education		238,903
Education for homeless children and youth	84.196	14,496
Through Independent School District No. 273		
Carl Perkins	84.048A	40,270
Direct from federal government		
Indian elementary and secondary school assistance	84.060	30,208
Total U.S. Department of Education		5,029,852
Total federal expenditures		$ 8,075,982

See notes to Schedule of Expenditures of Federal Awards.

Independent School District No. 271
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

NOTE 4 – INDIRECT COST RATE

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

bergankdv

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of and for the year ending June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 29, 2017.

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

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

BerganKDV, Ltd.
bergankdv.com

Internal Control over Financial Reporting (Continued)
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as audit finding 2017-001 that we consider to be a material weakness.

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

Bergan KDV Ltd.

Minneapolis, Minnesota
November 29, 2017

bergankdv

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program
We have audited the compliance of Independent School District No. 271, Bloomington, Minnesota, with the types of compliance requirements described in the 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, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the compliance of Independent School District No. 271.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 271, Bloomington, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily 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 a material weakness. 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.

Bergan KDV Ltd.

Minneapolis, Minnesota
November 29, 2017

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2017-001
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2017-001 – Material Audit Adjustments

Criteria or Specific Requirement:
Internal control that assures all material adjustments are identified and prepared by District personnel should be established.

Condition:
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 properly adjust cash and investments, debt, and contracts payable.

Context:
This finding impacts the District's internal control over financial reporting.

Effect:
Internal controls that fail to identify necessary adjustments could result in material misstatements to the financial statements.

Cause:
A complete and accurate reconciliation of cash and investments, debt, and contracts was not performed sufficiently resulting in material audit adjustments.

Recommendation:
We recommend management review all accounts closely at year-end to detect and correct misstatements of balances.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the finding.

2. Actions Planned in Response to Finding
   The District will develop a process for ensuring that all standard year-end entries and reconciliations are completed and reviewed before the auditors begin their fieldwork.

3. Official Responsible for Ensuring CAP
   Executive Director Finance and Support Services

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2017-001 – Material Audit Adjustments (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (CONTINUED)

4. Planned Completion Date for CAP
   Ongoing review and monitoring will take place throughout the year and at fiscal year-end.

5. Plan to Monitor Completion of CAP
   Executive Director of Finance and Support Services will be monitoring the corrective action plan.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs noted.

(THIS PAGE LEFT BLANK INTENTIONALLY)

bergankdv

Report on Legal Compliance

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated November 29, 2017.

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
November 29, 2017

BerganKDV, Ltd.
bergankdv.com