

INDEPENDENT SCHOOL DISTRICT NO. 273  
EDINA, MINNESOTA

Financial Statements  
and Supplemental Information

Year Ended  
June 30, 2017

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INDEPENDENT SCHOOL DISTRICT NO. 273

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## INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 273

School Board and Administration  
Year Ended June 30, 2017

**SCHOOL BOARD**

	<u>Position</u>
Leny Wallen-Friedman	Chair
Sarah Patzloff	Vice Chair
David Goldstein	Treasurer
Regina Neville	Clerk
Amir Gharbi	Assistant Treasurer
Randy Meyer	Assistant Clerk
Lisa O'Brien	Assistant Clerk

**ADMINISTRATION**

Dr. Ric Dressen	Superintendent
Margo Bauck	Director of Business Services
Ra Chhoth	Controller
Matthew Hippen	Assistant Controller

## FINANCIAL SECTION

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**INDEPENDENT AUDITOR'S REPORT**

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

**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

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

**AUDITOR'S RESPONSIBILITY**

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

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

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

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 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.

## **EMPHASIS OF MATTER**

As described in Note 1 of the notes to the basic financial statements, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*, during the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

## **OTHER MATTERS**

### **Required Supplementary Information**

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

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements.

(continued)

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

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

### **Prior Year Comparative Information**

We have previously audited the District's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated October 18, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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.

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

Minneapolis, Minnesota  
October 17, 2017

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## INDEPENDENT SCHOOL DISTRICT NO. 273

### Management's Discussion and Analysis Fiscal Year Ended June 30, 2017

This section of Independent School District No. 273, Edina, Minnesota's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the other components of the District's annual financial statements.

#### FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2017 by \$41,435,554 (net position deficit). The District's total net position decreased by \$23,140,487 during the fiscal year ended June 30, 2017, excluding the change in accounting principle reported in the current year as discussed below.
- The District recorded a change in accounting principle in the current year with the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*, and *Amendments to GASB Statement Nos. 67 and 68*. The change reflects standards established for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures as they relate to pension plans not within the scope of GASB Statement No. 68. The implementation of this standard reduced beginning net position in the government-wide statements by \$6,212,614.
- Government-wide revenues totaled \$140,831,507 and were \$23,140,487 less than expenses of \$163,971,994.
- The General Fund's total fund balance (under the governmental fund presentation) decreased \$706,687 from the prior year, compared to a \$3,600,016 decrease planned in the budget.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

#### GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

In the government-wide financial statements, the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

## **FUND FINANCIAL STATEMENTS**

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

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

The District maintains the following kinds of funds:

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

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

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

<b>Table 1</b> <b>Summary Statement of Net Position</b> <b>as of June 30, 2017 and 2016</b>		
	2017	2016
Assets		
Current and other assets	\$ 157,845,853	\$ 202,508,826
Capital assets, net of depreciation	198,629,498	125,984,284
Total assets	<u>\$ 356,475,351</u>	<u>\$ 328,493,110</u>
Deferred outflows of resources		
Pension plan deferments	<u>\$ 154,419,207</u>	<u>\$ 13,797,274</u>
Liabilities		
Current and other liabilities	\$ 30,005,633	\$ 20,939,316
Long-term liabilities, including due within one year	470,492,621	276,402,507
Total liabilities	<u>\$ 500,498,254</u>	<u>\$ 297,341,823</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	\$ 48,293,154	\$ 47,512,788
Pension plan deferments	3,538,704	9,518,226
Total deferred inflows of resources	<u>\$ 51,831,858</u>	<u>\$ 57,031,014</u>
Net position		
Net investment in capital assets	\$ 47,480,908	\$ 43,418,286
Restricted	14,242,051	7,970,131
Unrestricted	(103,158,513)	(63,470,870)
Total net position	<u>\$ (41,435,554)</u>	<u>\$ (12,082,453)</u>

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

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

Total net position decreased by \$29,353,101 in 2017, which reflects a decrease of \$23,140,487 from current year operating results, along with a decrease of \$6,212,614 related to the implementation of GASB Statement No. 73. Much of the decrease from current year operating results is attributable to increases in the District's share of unfunded pension liabilities related to the state-wide Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) pensions plans.

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

<b>Table 2</b> <b>Summary Statement of Activities</b> <b>for the Years Ended June 30, 2017 and 2016</b>		
	2017	2016
Revenues		
Program revenues		
Charges for services	\$ 8,758,517	\$ 9,510,916
Operating grants and contributions	14,107,577	15,847,284
General revenues		
Property taxes	51,254,177	43,028,625
General grants and aids	63,759,959	59,099,180
All other	2,951,277	3,043,592
Total revenues	<u>140,831,507</u>	<u>130,529,597</u>
Expenses		
Administration	4,634,672	3,242,345
District support services	3,416,144	3,110,167
Elementary and secondary regular instruction	79,642,160	56,906,604
Vocational education instruction	296,086	402,701
Special education instruction	24,859,012	18,732,703
Instructional support services	7,553,915	5,460,656
Pupil support services	9,424,680	8,040,874
Sites and buildings	16,856,606	16,255,995
Fiscal and other fixed cost programs	319,454	248,613
Food service	2,770,229	2,727,737
Community service	8,010,769	7,280,463
Interest and fiscal charges on debt	6,188,267	6,657,060
Total expenses	<u>163,971,994</u>	<u>129,065,918</u>
Change in net position	(23,140,487)	1,463,679
Net position – beginning, as previously reported	(12,082,453)	(13,546,132)
Change in accounting principle	(6,212,614)	–
Net position – beginning, restated	<u>(18,295,067)</u>	<u>(13,546,132)</u>
Net position – ending	<u>\$ (41,435,554)</u>	<u>\$ (12,082,453)</u>

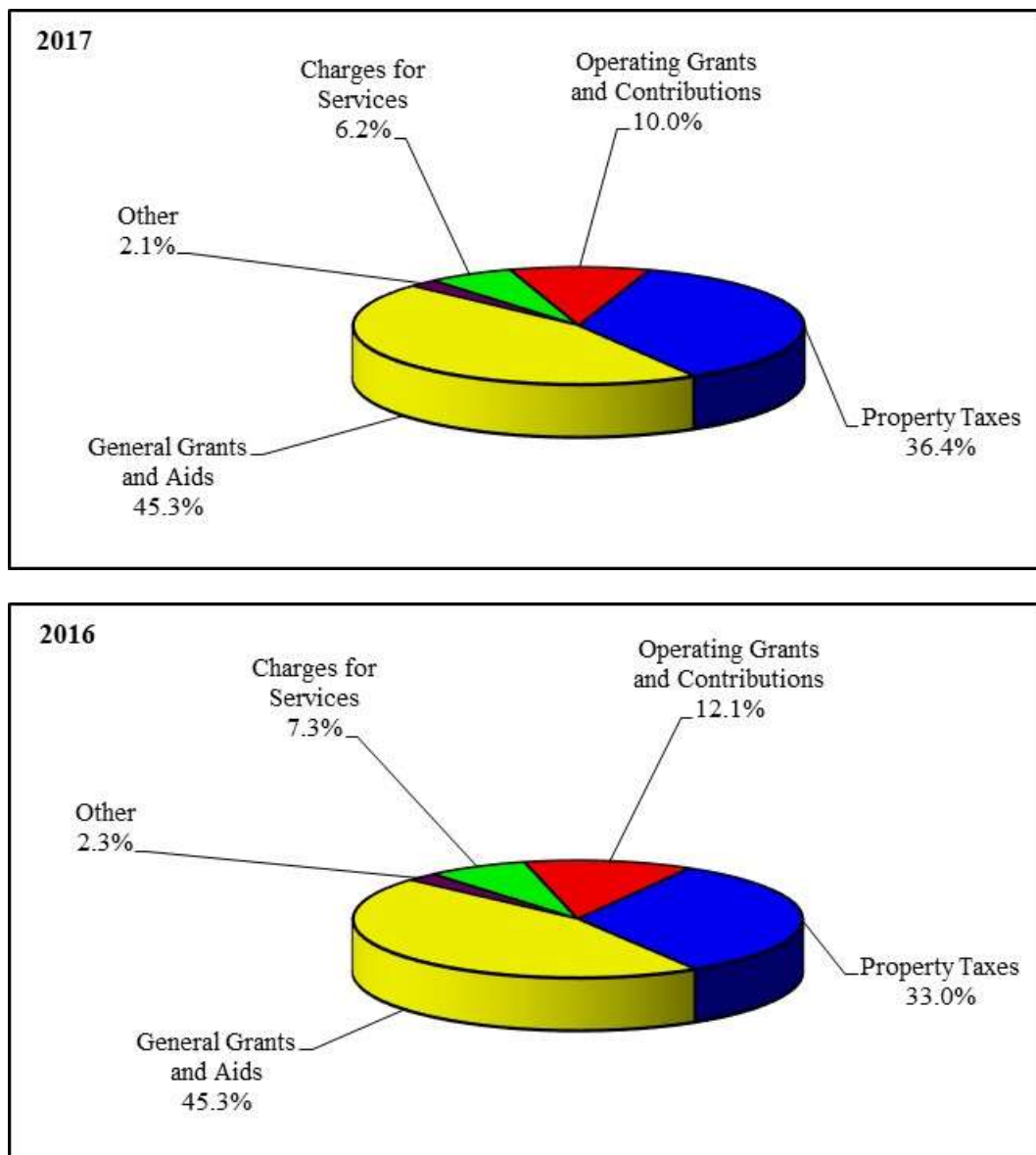
This format is similar to the fund financial statements, except it is presented on an accrual basis of accounting, and includes all governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt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

Total revenues for fiscal year 2017 were \$10,301,910 higher than the prior year, mainly due to an increase in taxes levied for debt service, and improvements in state general and special education funding. Expenses increased \$34,906,076 compared to fiscal year 2016 levels. The significant increase in expenses reflects natural inflationary increases along with the change in the PERA and the TRA multi-employer defined benefit pension plans mentioned earlier.



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

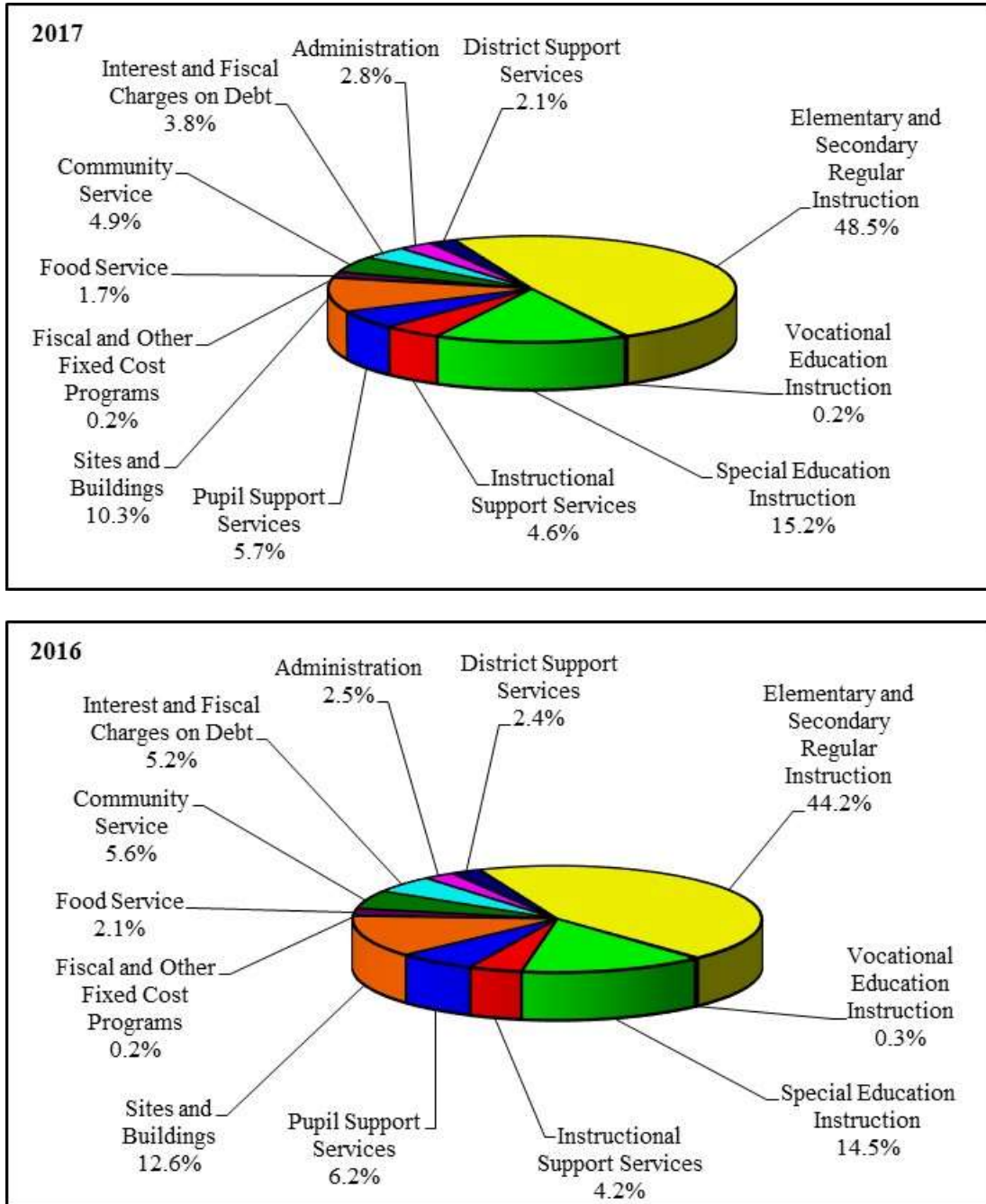
**Figure A – Sources of Revenues for Fiscal Years 2017 and 2016**



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

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

**Figure B – Expenses for Fiscal Years 2017 and 2016**



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

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

<b>Table 3</b> <b>Governmental Fund Balances</b> <b>as of June 30, 2017 and 2016</b>			
	<u>2017</u>	<u>2016</u>	<u>Increase (Decrease)</u>
Major funds			
General	\$ 18,692,155	\$ 19,398,842	\$ (706,687)
Capital Projects – Building Construction	60,606,714	114,832,404	(54,225,690)
Debt Service	732,774	200,151	532,623
Nonmajor funds			
Food Service Special Revenue	1,146,366	994,105	152,261
Community Service Special Revenue	<u>483,655</u>	<u>1,024,854</u>	<u>(541,199)</u>
Total governmental funds	<u>\$ 81,661,664</u>	<u>\$ 136,450,356</u>	<u>\$ (54,788,692)</u>

In the General Fund, nonspendable fund balances for prepaid items increased \$39,215. Fund balances restricted for various purposes (including restricted fund balance account deficits) increased \$1,484,551. A policy adopted by the District's School Board commits fund balance equal to 2 percent of unassigned General Fund expenditures for future cash flows, which decreased \$32,921. Fund balances assigned for various purposes decreased \$716,851, and unassigned fund balance (excluding restricted fund balance account deficits) decreased \$1,480,681 during the year. The initial General Fund budget adopted by the District for fiscal 2018 anticipates using a portion of unassigned fund balance to finance 2018 expenditures. However, as the District is in the process of exploring potential revenue sources and expenditure reductions to minimize the need to utilize fund balance, it has not reported an additional assignment of fund balance at June 30, 2017 related to the subsequent year budget.

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

## General Fund

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

Table 4 summarizes the amendments to the General Fund budget:

<b>Table 4</b> <b>General Fund</b> <b>Budget</b>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenue	<u>\$ 105,694,759</u>	<u>\$ 108,789,984</u>	<u>\$ 3,095,225</u>	<u>2.9 %</u>
Expenditures	<u>\$ 106,686,762</u>	<u>\$ 112,390,000</u>	<u>\$ 5,703,238</u>	<u>5.3 %</u>

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

Table 5 summarizes the operating results of the General Fund:

<b>Table 5</b> <b>General Fund</b> <b>Operating Results</b>					
	<u>2017 Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenue	\$ 108,324,003	\$ (465,981)	(0.4%)	\$ 6,882,748	6.8%
Expenditures	104,928,097	\$ (7,461,903)	(6.6%)	\$ 4,063,818	4.0%
Other financing uses	<u>(4,102,593)</u>	\$ (4,102,593)	(100.0%)	\$ (4,102,593)	(100.0%)
Net change in fund balances	<u>\$ (706,687)</u>				

Actual revenues for fiscal year 2017 were 0.4 percent under budget. The revenue variance was primarily in state aids, due to a change in the amount of revenue recognized for TRA direct aid. Expenditures were 6.6 percent under budget. The expenditure variance in 2017 was spread across several programs, with the largest savings occurring in sites and buildings, primarily due to the progress of construction projects budgeted for the current year, including site carryover, TRA pension calculation changes, and long-term facility maintenance coding change.

The GASB Statement No. 68 requirement for reporting of pension liabilities impacted both budget-to-actual and current-to-prior year comparisons for revenue and expenditures, while not having any impact on overall fund balance. The PERA and the TRA pension pass-through contributions were \$842,124 under budget in the current year. The District is required to recognize these on-behalf contributions, which increased 2016–2017 actual revenue and expenditures by \$377,676.

Revenue increases from the prior year were mainly due to additional general education aid from an increase to the per pupil general education formula allowance; and increases in special education state aid, investment income, and property taxes.

The increase in expenditures is due to the District spending Long-Term Facilities Maintenance Program resources, a portion of which were spent in the Capital Projects – Building Construction Fund in the prior year. The growth in remaining expenditures is consistent with regional inflationary trends.

### **Food Service Special Revenue Fund**

Food Service Special Revenue Fund revenue for fiscal year 2017 totaled \$2,918,736, and expenditures were \$2,766,475. The June 30, 2017 fund balance is \$1,146,366, an increase of \$152,261 from fiscal year 2016, slightly better than the budgeted increase of \$59,659.

### **Community Service Special Revenue Fund**

Community Service Special Revenue Fund revenue for fiscal year 2017 totaled \$6,722,749, and expenditures were \$7,263,948. The June 30, 2017 fund balance is \$483,655, a decrease of \$541,199 from fiscal year 2016, compared to a budgeted increase of \$9,444. Most of this variance was the result of salaries and benefits expenditures exceeding budget by \$547,299. Community service staff are making adjustments to future year budgets so as to not spend down additional fund balance. During this fiscal year, adjustments were made due to recess initiative moving from two schools to six schools. Additional staffing was hired to support the new model.

### **Capital Projects – Building Construction Fund**

Capital Projects – Building Construction Fund revenue and other financing sources for fiscal year 2017 totaled \$26,658,975, and expenditures were \$80,884,665. The June 30, 2017 fund balance is \$60,606,714, a decrease of \$54,225,690 from fiscal year 2016, compared to a planned decrease of \$64,201,546. This variance was mainly due to the timing of capital projects.

### **Debt Service Fund**

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital, or for initial or refunding bonds. Debt Service Fund revenue and other financing sources for fiscal year 2017 totaled \$14,060,482, and expenditures were \$13,527,859. The June 30, 2017 fund balance is \$732,774, an increase of \$532,623 from fiscal year 2016, as compared to a \$641,327 increase anticipated in the budget.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2017, the District had invested \$198,629,498 in a broad range of capital assets, including school buildings, athletic facilities, and technology and equipment (see Table 6). Total depreciation expense for this year was \$6,200,261.

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2017 and 2016.

<b>Table 6</b> <b>Capital Assets</b>			
	2017	2016	Change
Land	\$ 5,245,858	\$ 5,245,858	\$ —
Land improvements	7,549,331	5,556,063	1,993,268
Buildings	206,175,056	202,842,991	3,332,065
Furniture and equipment	15,733,935	15,603,308	130,627
Construction in progress	83,811,115	10,421,600	73,389,515
Less accumulated depreciation	(119,885,797)	(113,685,536)	(6,200,261)
Total	<u>\$ 198,629,498</u>	<u>\$ 125,984,284</u>	<u>\$ 72,645,214</u>
Depreciation expense	<u>\$ 6,200,261</u>	<u>\$ 6,069,236</u>	<u>\$ 131,025</u>

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2017. The most significant change from last year is in construction in progress related to previously issued building bonds and the 10-year long-term facilities maintenance plan.

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

## Long-Term Liabilities

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

<b>Table 7</b> <b>Outstanding Long-Term Liabilities</b>			
	2017	2016	Change
General obligation bonds payable	\$ 182,230,000	\$ 172,010,000	\$ 10,220,000
Certification of participation payable	1,155,000	1,255,000	(100,000)
Premiums on bonds payable	16,945,453	17,785,150	(839,697)
Capital leases payable	1,877,236	2,001,786	(124,550)
Severance benefits payable	529,956	362,320	167,636
Net pension liabilities	258,737,440	75,301,160	183,436,280
Net OPEB obligation	9,017,536	7,687,091	1,330,445
Total	<u>\$ 470,492,621</u>	<u>\$ 276,402,507</u>	<u>\$ 194,090,114</u>

The issuance of facilities maintenance and school building bonds, offset by scheduled principal payments account for the changes in general obligation bonds payable above. The decreases in certificates of participation and capital leases payable were due to scheduled principal repayments during fiscal year 2017. The difference in the net pension liabilities reflect the changes in the District's proportionate share of the state-wide PERA and TRA pension plans, along with the implementation of GASB Statement No. 73 in the current year.

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

<b>Table 8</b> <b>Limitations on Debt</b>	
District's market value	\$ 8,997,851,250
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 1,349,677,688</u>

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

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

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

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The Legislature has added \$121, or 2 percent, per pupil to the basic general education funding formula for fiscal year 2018 and an additional \$124, or 2 percent, per pupil to the formula for fiscal year 2019.

In June 2017, the School Board approved a 10-year alternative facilities plan. Goals of the plan are to support learning environment and initiatives for students, staff, and community; increase alternative facilities funding of annual deferred maintenance to meet ongoing needs; address backlog of deferred maintenance in buildings; improve energy efficiency; support strategic plan initiatives; and minimize impact to taxpayers. The plan invests \$15 million in the remaining years of the plan to improve mechanical systems, exterior envelope, and paving throughout the District.

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

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

In November 2017, the District is asking voters for an operating referendum renewal and increase. The current operating referendum is scheduled to sunset June 30, 2018.

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

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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



## BASIC FINANCIAL STATEMENTS

## INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position  
as of June 30, 2017  
(With Partial Comparative Information as of June 30, 2016)

	Governmental Activities	
	2017	2016
Assets		
Cash and temporary investments	\$ 121,237,893	\$ 164,285,432
Receivables		
Current taxes	25,849,978	25,661,095
Delinquent taxes	495,713	286,688
Accounts and interest	316,511	513,763
Due from other governmental units	9,789,381	11,656,796
Prepaid items	156,377	105,052
Capital assets		
Not depreciated	89,056,973	15,667,458
Depreciated, net of accumulated depreciation	109,572,525	110,316,826
Total capital assets, net of accumulated depreciation	198,629,498	125,984,284
Total assets	356,475,351	328,493,110
Deferred outflows of resources		
Pension plan deferments	154,419,207	13,797,274
Total assets and deferred outflows of resources	\$ 510,894,558	\$ 342,290,384
Liabilities		
Salaries and benefits payable	\$ 10,146,388	\$ 9,028,489
Accounts and contracts payable	16,126,877	7,056,412
Accrued interest payable	3,098,093	3,118,870
Due to other governmental units	188,990	1,174,789
Unearned revenue	445,285	560,756
Long-term liabilities		
Due within one year	7,592,500	6,414,415
Due in more than one year	462,900,121	269,988,092
Total long-term liabilities	470,492,621	276,402,507
Total liabilities	500,498,254	297,341,823
Deferred inflows of resources		
Property taxes levied for subsequent year	48,293,154	47,512,788
Pension plan deferments	3,538,704	9,518,226
Total deferred inflows of resources	51,831,858	57,031,014
Net position		
Net investment in capital assets	47,480,908	43,418,286
Restricted for		
Capital asset acquisition	12,654,777	5,930,241
Food service	1,146,366	994,105
Community service	440,908	1,006,949
Other state restrictions	—	38,836
Unrestricted	(103,158,513)	(63,470,870)
Total net position	(41,435,554)	(12,082,453)
Total liabilities, deferred inflows of resources, and net position	\$ 510,894,558	\$ 342,290,384

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Activities  
Year Ended June 30, 2017  
(With Partial Comparative Information for the Year Ended June 30, 2016)

Functions/Programs	2017			2016	
	Expenses	Program Revenues		Net (Expense)	Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position	Revenue and Changes in Net Position
Governmental activities					
Administration	\$ 4,634,672	\$ 61,368	\$ —	\$ (4,573,304)	\$ (3,193,919)
District support services	3,416,144	—	—	(3,416,144)	(3,110,167)
Elementary and secondary regular instruction	79,642,160	826,065	345,285	(78,470,810)	(54,444,324)
Vocational education instruction	296,086	—	—	(296,086)	(402,701)
Special education instruction	24,859,012	137,973	11,528,119	(13,192,920)	(6,745,752)
Instructional support services	7,553,915	—	—	(7,553,915)	(5,460,656)
Pupil support services	9,424,680	17,238	988,740	(8,418,702)	(6,713,487)
Sites and buildings	16,856,606	523,884	—	(16,332,722)	(15,617,797)
Fiscal and other fixed cost programs	319,454	—	—	(319,454)	(248,613)
Food service	2,770,229	2,148,743	760,143	138,657	274,875
Community service	8,010,769	5,043,246	485,290	(2,482,233)	(1,388,117)
Interest and fiscal charges	6,188,267	—	—	(6,188,267)	(6,657,060)
Total governmental activities	<u>\$ 163,971,994</u>	<u>\$ 8,758,517</u>	<u>\$ 14,107,577</u>	(141,105,900)	(103,707,718)
General revenues					
Taxes					
Property taxes, levied for general purposes				30,913,347	23,599,692
Property taxes, levied for community service				1,182,392	1,153,321
Property taxes, levied for capital projects				5,061,998	11,509,597
Property taxes, levied for debt service				14,096,440	6,766,015
General grants and aids				63,759,959	59,099,180
Other general revenues				2,112,923	2,308,284
Investment earnings				838,354	735,308
Total general revenues				<u>117,965,413</u>	<u>105,171,397</u>
Change in net position				(23,140,487)	1,463,679
Net position – beginning, as previously reported				(12,082,453)	(13,546,132)
Change in accounting principle				(6,212,614)	—
Net position – beginning, restated				<u>(18,295,067)</u>	<u>(13,546,132)</u>
Net position – ending				<u>\$ (41,435,554)</u>	<u>\$ (12,082,453)</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Balance Sheet  
Governmental Funds  
as of June 30, 2017  
(With Partial Comparative Information as of June 30, 2016)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	\$ 33,480,727	\$ 76,048,727	\$ 8,475,716
Receivables			
Current taxes	17,637,841	–	7,655,481
Delinquent taxes	365,953	–	117,000
Accounts and interest	178,384	108,925	–
Due from other governmental units	9,739,482	–	–
Prepaid items	128,765	10,853	–
Total assets	<u>\$ 61,531,152</u>	<u>\$ 76,168,505</u>	<u>\$ 16,248,197</u>
Liabilities			
Salaries and benefits payable	\$ 10,009,839	\$ 20,462	\$ –
Accounts and contracts payable	496,640	15,541,329	–
Due to other governmental units	180,678	–	–
Unearned revenue	10,826	–	–
Total liabilities	<u>10,697,983</u>	<u>15,561,791</u>	<u>–</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	31,775,061	–	15,398,423
Unavailable revenue – delinquent taxes	365,953	–	117,000
Total deferred inflows of resources	<u>32,141,014</u>	<u>–</u>	<u>15,515,423</u>
Fund balances (deficits)			
Nonspendable	128,765	10,853	–
Restricted	3,107,162	60,595,861	732,774
Committed	2,838,407	–	–
Assigned	5,773,902	–	–
Unassigned	6,843,919	–	–
Total fund balances	<u>18,692,155</u>	<u>60,606,714</u>	<u>732,774</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 61,531,152</u>	<u>\$ 76,168,505</u>	<u>\$ 16,248,197</u>

Nonmajor Funds	Total Governmental Funds	
	2017	2016
\$ 2,726,109	\$ 120,731,279	\$ 163,828,207
556,656	25,849,978	25,661,095
12,760	495,713	286,688
16,663	303,972	500,784
49,899	9,789,381	11,656,796
16,759	156,377	105,052
<u>\$ 3,378,846</u>	<u>\$ 157,326,700</u>	<u>\$ 202,038,622</u>
\$ 116,087	\$ 10,146,388	\$ 9,028,489
57,537	16,095,506	7,024,756
8,312	188,990	1,174,789
434,459	445,285	560,756
<u>616,395</u>	<u>26,876,169</u>	<u>17,788,790</u>
1,119,670	48,293,154	47,512,788
12,760	495,713	286,688
<u>1,132,430</u>	<u>48,788,867</u>	<u>47,799,476</u>
16,759	156,377	105,052
1,670,808	66,106,605	118,827,881
—	2,838,407	2,871,328
—	5,773,902	6,490,753
(57,546)	6,786,373	8,155,342
<u>1,630,021</u>	<u>81,661,664</u>	<u>136,450,356</u>
<u>\$ 3,378,846</u>	<u>\$ 157,326,700</u>	<u>\$ 202,038,622</u>

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INDEPENDENT SCHOOL DISTRICT NO. 273

Reconciliation of the Balance Sheet to the  
Statement of Net Position  
Governmental Funds  
as of June 30, 2017  
(With Partial Comparative Information as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
Total fund balances – governmental funds	\$ 81,661,664	\$ 136,450,356
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	318,515,295	239,669,820
Accumulated depreciation	(119,885,797)	(113,685,536)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(182,230,000)	(172,010,000)
Certificates of participation payable	(1,155,000)	(1,255,000)
Premium on bonds	(16,945,453)	(17,785,150)
Capital leases payable	(1,877,236)	(2,001,786)
Severance benefits payable	(529,956)	(362,320)
Net pension liabilities	(258,737,440)	(75,301,160)
Net OPEB obligation	(9,017,536)	(7,687,091)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Position.		
	487,782	438,548
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.		
	(3,098,093)	(3,118,870)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plans	154,419,207	13,797,274
Deferred inflows – pension plans	(3,538,704)	(9,518,226)
Deferred inflows – delinquent property taxes	495,713	286,688
Total net position – governmental activities	<u>\$ (41,435,554)</u>	<u>\$ (12,082,453)</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2017  
(With Partial Comparative Information for the Year Ended June 30, 2016)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	\$ 30,769,055	\$ 5,061,998	\$ 14,036,542
Investment earnings	156,482	634,353	21,013
Other	3,631,626	47,825	–
State sources	71,970,881	–	–
Federal sources	1,795,959	–	–
Total revenue	108,324,003	5,744,176	14,057,555
Expenditures			
Current			
Administration	3,542,398	–	–
District support services	3,097,417	–	–
Elementary and secondary regular instruction	53,688,788	–	–
Vocational education instruction	280,680	–	–
Special education instruction	18,431,801	–	–
Instructional support services	5,382,317	–	–
Pupil support services	8,118,389	–	–
Sites and buildings	11,733,576	–	–
Fiscal and other fixed cost programs	319,454	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	80,877,377	–
Debt service			
Principal	224,550	–	6,130,000
Interest and fiscal charges	108,727	7,288	7,397,859
Total expenditures	104,928,097	80,884,665	13,527,859
Excess (deficiency) of revenue over expenditures	3,395,906	(75,140,489)	529,696
Other financing sources (uses)			
Bonds issued	–	16,350,000	–
Premium on bonds issued	–	462,206	2,927
Transfers in	–	4,102,593	–
Transfers (out)	(4,102,593)	–	–
Total other financing sources (uses)	(4,102,593)	20,914,799	2,927
Net change in fund balances	(706,687)	(54,225,690)	532,623
Fund balances			
Beginning of year	19,398,842	114,832,404	200,151
End of year	\$ 18,692,155	\$ 60,606,714	\$ 732,774



Nonmajor Funds	Total Governmental Funds	
	2017	2016
\$ 1,177,557	\$ 51,045,152	\$ 43,034,354
26,506	838,354	735,308
7,191,989	10,871,440	11,819,200
604,175	72,575,056	72,452,309
641,258	2,437,217	2,494,155
9,641,485	137,767,219	130,535,326
—	3,542,398	3,281,563
—	3,097,417	3,093,531
—	53,688,788	52,518,801
—	280,680	402,746
—	18,431,801	18,601,905
—	5,382,317	5,508,758
—	8,118,389	7,922,598
—	11,733,576	8,954,875
—	319,454	248,613
2,748,269	2,748,269	2,693,974
7,211,986	7,211,986	7,201,847
70,168	80,947,545	24,590,991
—	6,354,550	4,841,995
—	7,513,874	5,916,089
10,030,423	209,371,044	145,778,286
(388,938)	(71,603,825)	(15,242,960)
—	16,350,000	113,385,000
—	465,133	12,843,824
—	4,102,593	—
—	(4,102,593)	—
—	16,815,133	126,228,824
(388,938)	(54,788,692)	110,985,864
2,018,959	136,450,356	25,464,492
\$ 1,630,021	\$ 81,661,664	\$ 136,450,356

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INDEPENDENT SCHOOL DISTRICT NO. 273

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2017  
(With Partial Comparative Information for the Year Ended June 30, 2016)

	2017	2016
Total net change in fund balances – governmental funds	\$ (54,788,692)	\$ 110,985,864
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital assets are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	78,845,475	19,739,261
Depreciation expense	(6,200,261)	(6,069,236)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.		
	49,234	31,594
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.		
General obligation bonds payable	(16,350,000)	(113,385,000)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds and certificates of participation	6,230,000	4,340,000
Capital leases payable	124,550	501,995
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.		
	20,777	(1,987,672)
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.		
	839,697	(11,597,123)
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Severance benefits payable	(167,636)	55,212
Net pension liabilities	(176,429,548)	(11,880,121)
Net OPEB obligation	(1,330,445)	(1,132,606)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plans	139,827,815	3,165,978
Deferred inflows – pension plans	5,979,522	8,701,262
Deferred inflows – delinquent property taxes	209,025	(5,729)
Change in net position – governmental activities	<u>\$ (23,140,487)</u>	<u>\$ 1,463,679</u>

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INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
General Fund  
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 29,429,253	\$ 29,609,593	\$ 30,769,055	\$ 1,159,462
Investment earnings	15,000	35,000	156,482	121,482
Other	2,396,783	3,852,614	3,631,626	(220,988)
State sources	73,178,203	73,532,912	71,970,881	(1,562,031)
Federal sources	675,520	1,759,865	1,795,959	36,094
Total revenue	105,694,759	108,789,984	108,324,003	(465,981)
Expenditures				
Current				
Administration	3,004,171	3,614,614	3,542,398	(72,216)
District support services	3,145,158	3,211,597	3,097,417	(114,180)
Elementary and secondary regular instruction	52,166,678	54,083,887	53,688,788	(395,099)
Vocational education instruction	306,153	380,253	280,680	(99,573)
Special education instruction	18,132,984	19,531,148	18,431,801	(1,099,347)
Instructional support services	5,079,435	5,452,163	5,382,317	(69,846)
Pupil support services	8,239,913	8,499,854	8,118,389	(381,465)
Sites and buildings	16,018,992	17,002,706	11,733,576	(5,269,130)
Fiscal and other fixed cost programs	260,000	280,500	319,454	38,954
Debt service				
Principal	224,550	224,550	224,550	—
Interest and fiscal charges	108,728	108,728	108,727	(1)
Total expenditures	106,686,762	112,390,000	104,928,097	(7,461,903)
Excess (deficiency) of revenue over expenditures	(992,003)	(3,600,016)	3,395,906	6,995,922
Other financing (uses)				
Transfers (out)	—	—	(4,102,593)	(4,102,593)
Net change in fund balances	\$ (992,003)	\$ (3,600,016)	(706,687)	\$ 2,893,329
Fund balances				
Beginning of year			19,398,842	
End of year			\$ 18,692,155	

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Net Position  
 Proprietary Fund  
 Internal Service Fund  
 as of June 30, 2017  
 (With Partial Comparative Information as of June 30, 2016)

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and temporary investments	\$ 506,614	\$ 457,225
Accounts receivable	<u>12,539</u>	<u>12,979</u>
Total assets	519,153	470,204
Liabilities		
Current liabilities		
Accounts and contracts payable	<u>31,371</u>	<u>31,656</u>
Net position		
Unrestricted	<u>\$ 487,782</u>	<u>\$ 438,548</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Revenue, Expenses, and Changes in Fund Net Position  
 Proprietary Fund  
 Internal Service Fund  
 Year Ended June 30, 2017  
 (With Partial Comparative Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Operating revenue		
Charges for services	\$ 879,492	\$ 855,693
Operating expenses		
Dental claims and expenses	<u>830,258</u>	<u>824,099</u>
Operating income	49,234	31,594
Net position		
Beginning of year	<u>438,548</u>	<u>406,954</u>
End of year	<u><u>\$ 487,782</u></u>	<u><u>\$ 438,548</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Statement of Cash Flows  
 Proprietary Fund  
 Internal Service Fund  
 Year Ended June 30, 2017  
 (With Partial Comparative Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Contributions from governmental funds	\$ 879,932	\$ 854,976
Dental claims and other expense payments	<u>(830,543)</u>	<u>(868,984)</u>
Net cash flows from operating activities	49,389	(14,008)
Cash and temporary investments		
Beginning of year	<u>457,225</u>	<u>471,233</u>
End of year	<u><u>\$ 506,614</u></u>	<u><u>\$ 457,225</u></u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 49,234	\$ 31,594
Adjustments to reconcile operating income to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts receivable	440	(717)
Accounts and contracts payable	<u>(285)</u>	<u>(44,885)</u>
Net cash flows from operating activities	<u><u>\$ 49,389</u></u>	<u><u>\$ (14,008)</u></u>



## INDEPENDENT SCHOOL DISTRICT NO. 273

### Notes to Basic Financial Statements June 30, 2017

#### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **A. Basis of Organization**

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

##### **B. Reporting Entity**

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

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

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2017, the District paid TIES \$504,278 for services provided.

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

##### **C. Government-Wide Financial Statement Presentation**

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

### **D. Fund Financial Statement Presentation**

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

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

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. An internal service fund accounts for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The principal operating revenue of the District's Internal Service Fund is charges to other district funds for service. Operating expenses for the Internal Service Fund includes the costs of providing services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Description of Funds**

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

### **Major Governmental Funds**

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

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

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

### **Nonmajor Governmental Funds**

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

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

### **Proprietary Funds**

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

## **E. Budgetary Information**

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. Actual expenditures for the year ended June 30, 2017 exceeded budgeted appropriations by \$522,011 and \$2,759 in the Community Service Special Revenue Fund and Debt Service Fund, respectively. Revenues and other financing sources in excess of budget, along with available fund balance, financed these variances.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **F. Cash and Temporary Investments**

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

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

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

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

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

### **G. Receivables**

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

### **H. Prepaid Items**

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

### **I. Property Taxes**

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

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift,” which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$3,702,079 of the property tax levy collectible in 2017 as revenue to the District in fiscal year 2016–2017. The remaining portion of the taxes collectible in 2017 is reported as a deferred inflow of resources (property taxes levied for subsequent year).

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

### **J. Capital Assets**

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

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

### **K. Long-Term Obligations**

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

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

### **L. Compensated Absences**

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

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **M. Severance Benefits**

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

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

### **N. Pensions**

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

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

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

### **O. Risk Management and Self-Insurance**

- 1. General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in the current fiscal year.
- 2. Self-Insurance** – The District established an Internal Service Fund to account for and finance its uninsured risk of loss for its employee dental plan. Under this plan, the District provides coverage to participating employees and their dependents for various dental costs as described in the plan.

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

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Fiscal Year Ended June 30,	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2016	\$ 76,541	\$ 824,099	\$ 868,984	\$ 31,656
2017	\$ 31,656	\$ 830,258	\$ 830,543	\$ 31,371

### P. Deferred Outflows/Inflows of Resources

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

The District reports deferred outflows and inflows of resources related to pensions in the government-wide Statement of Net Position. These deferred outflows and inflows result from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

Property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, are reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied, and in the governmental fund financial statements during the year for which they are levied, if available.

Unavailable revenue from property taxes arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

### Q. Interfund Transfers

The General Fund transferred \$4,102,593 to the Capital Projects – Building Construction Fund to allocate revenues received by the General Fund that will be expended by the Capital Projects – Building Construction Fund for long-term facilities maintenance projects. Such interfund transfers are reported in the fund financial statements, but are eliminated in the government-wide financial statements.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### R. Net Position

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

### S. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District’s superintendent and director of business services are authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

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

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



## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### T. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

### U. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

### V. Change in Accounting Principle

During the year ended June 30, 2017, the District implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statement Nos. 67 and 68*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for pension plans that are not within the scope of GASB Statement No. 68. Certain amounts necessary to fully restate fiscal year 2016 financial information are not determinable; therefore, prior year comparative amounts have not been restated. The implementation of this statement resulted in the following restatement of entity-wide net position as of June 30, 2016:

	Governmental Activities
Net position – beginning, as previously reported	\$ (12,082,453)
Change in accounting principle	
Net pension obligation, under previous reporting standards	3,944,526
Net pension liability, under current reporting standards	(10,951,258)
Deferred outflows of resources, under current reporting standards	794,118
Total change in accounting principle	<u>(6,212,614)</u>
Net position – beginning, restated	<u>\$ (18,295,067)</u>

## NOTE 2 – CASH AND INVESTMENTS

### A. Components of Cash and Investments

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

Deposits	\$ 19,267,235
Investments	<u>101,970,658</u>
Cash and temporary investments	<u>\$ 121,237,893</u>

## NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

### B. Deposits

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

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

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

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

At year-end, the carrying amount of the District’s deposits was \$19,267,235, while the balance on the bank records was \$19,267,235. At June 30, 2017, all deposits were fully covered by federal depository insurance or collateral held by the District’s agent in the District’s name.

### C. Investments

The District has the following investments at year-end:

Investment Type	Credit Rating	Rating Agency	Fair Value Measurements Using	Fair Value Measurements		Total
				Less Than 1	1 to 5	
U.S. agency securities	AA	S&P	Level 2	\$ 5,877,331	\$ 2,902,325	\$ 8,779,656
Commercial paper	A	S&P	Level 2	\$ 999,067	\$ –	999,067
Negotiable certificates of deposits	N/R	N/A	Level 2	\$ –	\$ 1,242,083	1,242,083
Investment pools						
Minnesota School District Liquid Asset Fund	AAA	S&P	NAV	N/A	N/A	55,682,014
MnTrust Investment Shares Portfolio	AAA	S&P	NAV	N/A	N/A	6,767,838
MnTrust Term Series	AAA	S&P	NAV	\$ 28,500,000	\$ –	28,500,000
Total investments						<u>\$ 101,970,658</u>

NAV – Net Asset Value

N/A – Not Applicable

N/R – Not Rated

The Minnesota School District Liquid Asset Fund (MSDLAF), MnTrust Investment Shares Portfolio, and MnTrust Term Series are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the regulatory rules of the SEC. The District’s investment is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. There are no unfunded commitments, redemption frequency is daily; and there is no redemption notice required.

## NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

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

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

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

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

### NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 5,245,858	\$ –	\$ –	\$ 5,245,858
Construction in progress	10,421,600	78,673,145	(5,283,630)	83,811,115
Total capital assets, not depreciated	15,667,458	78,673,145	(5,283,630)	89,056,973
Capital assets, depreciated				
Land improvements	5,556,063	1,993,268	–	7,549,331
Buildings	202,963,469	3,211,587	–	206,175,056
Furniture and equipment	15,482,830	251,105	–	15,733,935
Total capital assets, depreciated	224,002,362	5,455,960	–	229,458,322
Less accumulated depreciation for				
Land improvements	(3,659,537)	(310,247)	–	(3,969,784)
Buildings	(97,742,938)	(4,921,701)	–	(102,664,639)
Furniture and equipment	(12,283,061)	(968,313)	–	(13,251,374)
Total accumulated depreciation	(113,685,536)	(6,200,261)	–	(119,885,797)
Net capital assets, depreciated	110,316,826	(744,301)	–	109,572,525
Total capital assets, net	<u>\$ 125,984,284</u>	<u>\$ 77,928,844</u>	<u>\$ (5,283,630)</u>	<u>\$ 198,629,498</u>

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

Administration	\$ 10,021
Elementary and secondary regular instruction	3,728,908
Special education instruction	14,025
Instructional support services	25,905
Pupil support services	21,685
Sites and buildings	2,376,686
Community service	23,031
Total depreciation expense	<u>\$ 6,200,261</u>

## NOTE 4 – LONG-TERM LIABILITIES

### A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Alternative facilities bonds	05/08/2008	3.00–3.60%	\$ 4,500,000	02/01/2019	\$ 1,025,000
Refunding bonds	10/05/2011	4.00–5.00%	\$ 50,370,000	02/01/2024	35,500,000
Alternative facilities bonds	02/21/2013	2.00–3.00%	\$ 11,775,000	02/01/2026	11,575,000
Alternative facilities bonds	12/30/2014	3.00–3.50%	\$ 6,050,000	02/01/2035	6,050,000
Building bonds	07/22/2015	4.00–5.00%	\$ 113,385,000	02/01/2037	111,730,000
Facilities maintenance and building bonds	04/13/2017	2.50–4.00%	\$ 16,350,000	02/01/2031	16,350,000
Total general obligation bonds payable					<u>\$ 182,230,000</u>

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

### B. Certificates of Participation Payable

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
2011C Certificates of Participation	11/17/2011	2.00–3.75%	\$ 1,615,000	04/01/2027	<u>\$ 1,155,000</u>

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

### C. Capital Leases Payable

The District entered into two capital lease agreements to finance the construction of several building additions. The leases have an effective interest rate of 3.43 percent, and call for annual principal and interest payments through January 15, 2029. The leases are being paid through the General Fund and Capital Projects – Building Construction Fund. The leased assets were recorded at \$2,233,000 (the present value of future minimum lease payments as of the inception dates of the leases). Total accumulated depreciation on these assets at June 30, 2017 was \$139,154.

### D. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including: severance benefits, pension benefits, and other post-employment benefits (OPEB). The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are paid primarily from the General Fund.

#### NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

District employees participate in three defined benefit pension plans, including two state-wide cost-sharing multi-employer plans administered by the PERA and the TRA, and one single employer plan administered by the District. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2017:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
State-wide Multi-Employer – PERA	\$ 22,523,504	\$ 8,964,490	\$ 2,519,382	\$ 2,639,173
State-wide Multi-Employer – TRA	225,023,410	144,692,094	1,019,322	36,174,836
District Single Employer	11,190,526	762,623	–	1,033,386
Total	<u>\$ 258,737,440</u>	<u>\$ 154,419,207</u>	<u>\$ 3,538,704</u>	<u>\$ 39,847,395</u>

#### E. Minimum Debt Payments

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

Year Ending June 30,	General Obligation Bonds Payable		Certificates of Participation		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 7,180,000	\$ 7,508,595	\$ 100,000	\$ 38,125	\$ 128,860	\$ 63,294
2019	7,405,000	7,258,595	105,000	35,125	133,316	58,836
2020	8,140,000	6,895,625	105,000	31,975	137,929	54,224
2021	7,710,000	6,500,725	110,000	28,825	142,700	49,452
2022	8,365,000	6,128,725	110,000	25,525	147,636	44,516
2023–2027	42,445,000	25,741,731	625,000	69,425	818,419	142,342
2028–2032	52,805,000	15,931,238	–	–	368,376	15,928
2033–2037	48,180,000	5,695,725	–	–	–	–
	<u>\$ 182,230,000</u>	<u>\$ 81,660,959</u>	<u>\$ 1,155,000</u>	<u>\$ 229,000</u>	<u>\$ 1,877,236</u>	<u>\$ 428,592</u>

#### F. Changes in Long-Term Liabilities

	Beginning of Year Restated*	Additions	Retirements	End of Year	Due Within One Year
General obligation bonds payable	\$ 172,010,000	\$ 16,350,000	\$ 6,130,000	\$ 182,230,000	\$ 7,180,000
Certificates of participation payable	1,255,000	–	100,000	1,155,000	100,000
Unamortized premiums	17,785,150	465,133	1,304,830	16,945,453	–
Capital leases payable	2,001,786	–	124,550	1,877,236	128,860
Severance benefits payable	362,320	222,755	55,119	529,956	183,640
Net pension liabilities	82,307,892	183,991,957	7,562,409	258,737,440	–
Net OPEB obligation	7,687,091	2,283,810	953,365	9,017,536	–
	<u>\$ 283,409,239</u>	<u>\$ 203,313,655</u>	<u>\$ 16,230,273</u>	<u>\$ 470,492,621</u>	<u>\$ 7,592,500</u>

\*Net pension liabilities beginning balance was restated for the change in accounting principle described in Note 1.

## NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. Any such restrictions which have an accumulated deficit at June 30 are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. However, a description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

At June 30, 2017, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Prepaid items	\$ 128,765	\$ 10,853	\$ –	\$ 16,759	\$ 156,377
Restricted					
Health and safety	43,840	–	–	–	43,840
Operating capital	3,063,322	–	–	–	3,063,322
Capital projects levy	–	791,932	–	–	791,932
Long-term facilities maintenance	–	19,998,002	–	–	19,998,002
Capital projects	–	39,805,927	–	–	39,805,927
Debt service	–	–	732,774	–	732,774
Food service	–	–	–	1,129,607	1,129,607
Community education programs	–	–	–	449,015	449,015
School readiness	–	–	–	92,186	92,186
Total restricted	3,107,162	60,595,861	732,774	1,670,808	66,106,605
Committed					
Cash flow	1,943,586	–	–	–	1,943,586
Federal education jobs	894,821	–	–	–	894,821
Total committed	2,838,407	–	–	–	2,838,407
Assigned					
Separation/retirement benefits	2,626,646	–	–	–	2,626,646
Next generation program implementation	1,500,000	–	–	–	1,500,000
Bond operational costs	750,000	–	–	–	750,000
Carryover	765,914	–	–	–	765,914
Alternative compensation	131,342	–	–	–	131,342
Total assigned	5,773,902	–	–	–	5,773,902
Unassigned					
Early childhood family education programs restricted deficit	–	–	–	(49,866)	(49,866)
Community service restricted deficit	–	–	–	(7,680)	(7,680)
Unassigned	6,843,919	–	–	–	6,843,919
Total unassigned	6,843,919	–	–	(57,546)	6,786,373
Total	\$ 18,692,155	\$ 60,606,714	\$ 732,774	\$ 1,630,021	\$ 81,661,664

The School Board has formally adopted a fund balance policy regarding maintaining a minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance goal of 6.0 percent of the unassigned General Fund expenditures. At June 30, 2017, the unassigned fund balance of the General Fund (excluding restricted fund balance account deficits) was 6.1 percent of budgeted unassigned expenditures for fiscal 2018.

## **NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

### **A. Plan Descriptions**

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

#### **1. General Employees Retirement Fund (GERF)**

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

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

#### **2. Teachers Retirement Association (TRA)**

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

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

### **B. Benefits Provided**

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

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually.

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



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

### 1. GERS Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at age 66.

### 2. TRA Benefits

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

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

#### Tier I Benefits

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

With these provisions:

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

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

### Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members applies. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. 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.

### C. Contributions

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

#### 1. GERS Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2017; the District was required to contribute 7.5 percent for Coordinated Plan members. The District's contributions to the GERS for the year ended June 30, 2017 were \$1,398,478. The District's contributions were equal to the required contributions as set by state statutes.

#### 2. TRA Contributions

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

	Year Ended June 30,			
	2016		2017	
	Employee	Employer	Employee	Employer
<b>Basic Plan</b>	11.0 %	11.5 %	11.0 %	11.5 %
<b>Coordinated Plan</b>	7.5 %	7.5 %	7.5 %	7.5 %

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2017, were \$3,820,933. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

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

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	<u>(442,978)</u>
Total employer contributions	354,544,518
Total nonemployer contributions	<u>35,587,410</u>
Total contributions reported in Schedule of Employer and Nonemployer Pension Allocations	<u>\$ 390,131,928</u>

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

### D. Pension Costs

#### 1. GERF Pension Costs

At June 30, 2017, the District reported a liability of \$22,523,504 for its proportionate share of the GERF's 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 received by the 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 the PERA's participating employers. The District's proportionate share was 0.2774 percent at the end of the measurement period and 0.2742 percent for the beginning of the period.

The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund in 2017. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The amount recognized by the District as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of net pension liability	\$ 22,523,504
State's proportionate share of the net pension liability associated with the District	\$ 294,246

For the year ended June 30, 2017, the District recognized pension expense of \$2,551,468 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional \$87,705 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the GERF.

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

At June 30, 2017, the District reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 65,892	\$ 1,824,126
Changes in actuarial assumptions	4,852,612	–
Differences between projected and actual investment earnings	2,523,128	–
Changes in proportion	124,380	695,256
District's contributions to the GERF subsequent to the measurement date	1,398,478	–
Total	<u>\$ 8,964,490</u>	<u>\$ 2,519,382</u>

A total of \$1,398,478 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 1,264,428
2019	\$ 756,047
2020	\$ 2,212,568
2021	\$ 813,587

### 2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$225,023,410 for its proportionate share of the TRA's 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 the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.9434 percent at the end of the measurement period and 0.9238 percent for the beginning of the period.

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

District's proportionate share of net pension liability	\$ 225,023,410
State's proportionate share of the net pension liability associated with the District	\$ 22,586,637

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

For the year ended June 30, 2017, the District recognized pension expense of \$33,020,985. It also recognized \$3,153,851 as an increase to pension expense for the support provided by direct aid.

At June 30, 2017, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,319,140	\$ 6,274
Changes in actuarial assumptions	128,073,915	—
Difference between projected and actual investment earnings	9,271,463	—
Changes in proportion	1,206,643	1,013,048
District's contributions to the TRA subsequent to the measurement date	3,820,933	—
Total	<u>\$ 144,692,094</u>	<u>\$ 1,019,322</u>

A total of \$3,820,933 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 27,688,185
2019	\$ 27,688,185
2020	\$ 31,105,160
2021	\$ 28,213,658
2022	\$ 25,156,651

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per year	
Price inflation		2.75%
Wage growth rate		3.50%
Active member payroll	3.25% per year	3.50–9.50% based on years of service
Investment rate of return	7.50%	4.66%

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 percent per year for all future years for the GERF and 2 percent per year for all future years for the TRA.

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

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

The following changes in actuarial assumptions for the GERP occurred in 2016:

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

There was a change in actuarial assumptions that affected the measurement of the total liability for the TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0 percent annually, while in the previous measurement the cost of living adjustment increased to 2.5 percent in 2034.

The long-term expected rate of return on pension plan investments is 7.50 percent for the GERP and 4.66 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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 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 Rate

#### 1. GERP

The discount rate used to measure the total pension liability in 2016 was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2017 contribution rates. Based on these assumptions, the fiduciary net position of the GERP 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.

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

### 2. TRA

The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 percent. 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 the 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 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on fiduciary net position at prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

### G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 31,990,051	\$ 22,523,504	\$ 14,725,646
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	\$ 289,886,395	\$ 225,023,410	\$ 172,194,623

### H. Pension Plan Fiduciary Net Position

Detailed information about the GERF's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the PERA website at [www.mnpera.org](http://www.mnpera.org); by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103-4000; or by calling (651) 296-7460 or (800) 652-9026.

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

## **NOTE 7 – DEFINED BENEFIT PENSION PLAN – DISTRICT**

### **A. Plan Description**

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

### **B. Contributions and Funding Policy**

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

### **C. Membership**

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

Retirees and beneficiaries receiving benefits	37
Active plan members	<u>688</u>
Total members	<u><u>725</u></u>

### **D. Actuarial Assumptions**

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

Discount rate	2.90%
20-year municipal bond yield	2.90%
Inflation rate	2.50%
Salary increases	3.00%

Mortality rates were based on the RP-2014 white collar mortality tables with MP-2015 generational improvement scale. The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

### **E. Discount Rate**

The discount rate used to measure the total pension liability was 2.90 percent. The projection of cash flows used to determine the discount rate was determined by estimating the long-term investment yield on the employer funds that will be used to pay benefits as they come due. The District discount rate used in the prior measurement date was 4.00 percent.



**NOTE 7 – DEFINED BENEFIT PENSION PLAN – DISTRICT (CONTINUED)****F. Changes in the Net Pension Liability**

	<u>Total Pension Liability</u>
Beginning balance – July 1, 2016	\$ 10,951,258
Changes for the year	
Service cost	706,737
Interest	326,649
Benefit payments	<u>(794,118)</u>
Total net changes	<u>239,268</u>
Ending balance – June 30, 2017	<u><u>\$ 11,190,526</u></u>

Assumption changes since the prior measurement date include the following:

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

**G. Net Pension Liability Sensitivity to Discount Rate Changes**

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Pension discount rate	1.90%	2.90%	3.90%
Net pension liability	\$ 12,050,564	\$ 11,190,526	\$ 10,373,473

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

For the current year ended, the District recognized pension expense of \$1,033,386. As of year-end, the District reported the following deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
District contributions subsequent to the measurement date	<u>\$ 762,623</u>	<u>\$ —</u>

A total of \$762,623 reported as deferred outflows of resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018.

## NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

### A. Plan Descriptions

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

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

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

### B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined periodically by the District.

### C. Annual OPEB Cost and Net OPEB Obligation

The District’s annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs 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 for the year, the amount actually contributed to the plan, and the changes in the District’s net OPEB obligation to the plan:

ARC	\$ 2,442,527
Interest on net OPEB obligation	222,926
Adjustment to ARC	(381,643)
Annual OPEB cost (expense)	<u>2,283,810</u>
Contributions made	<u>953,365</u>
Increase in net OPEB obligation	1,330,445
Net OPEB obligation – beginning of year	<u>7,687,091</u>
Net OPEB obligation – end of year	<u>\$ 9,017,536</u>

**NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2015	\$ 2,228,391	\$ 968,037	43.4%	\$ 6,554,485
June 30, 2016	\$ 2,220,100	\$ 1,087,494	49.0%	\$ 7,687,091
June 30, 2017	\$ 2,283,810	\$ 953,365	41.7%	\$ 9,017,536

**D. Funded Status and Funding Progress**

As of July 1, 2016, the most recent actuarial valuation date, the actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) were both \$19,606,265, as the plan was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$61,156,058, and the ratio of the UAAL to the covered payroll was 32.1 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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 following the notes to basic 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.

**E. Actuarial Methods and Assumptions**

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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 2.90 percent investment rate of return (net of administrative expenses) based on the District's own investments; a 3.00 percent projected salary increase; an annual healthcare cost trend rate of 6.75 percent initially, reduced by decrements to an ultimate rate of 5.00 percent after 7 years for medical insurance; and an annual healthcare trend rate of 4.00 percent for dental insurance. All rates include a 2.50 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization periods at July 1, 2016 for the various amortization layers ranged from 26 to 30 years.

## **NOTE 9 – FLEXIBLE BENEFIT PLAN**

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

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

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

## **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

### **A. Federal and State Revenues**

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

### **B. Construction Commitments**

At June 30, 2017, the District had commitments totaling \$37,075,273 under various construction contracts for which the work was not yet completed.

### **C. Legal Claims**

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

### **D. Freeway Landfill**

In February 2017, the Environmental Protection Agency (EPA) sent letters to Potentially Responsible Parties (PRPs) related to the clean-up of the freeway landfill property under the federal Superfund Program. The District is working with other PRPs and the Minnesota Pollution Control Agency on legislation limiting the liability for PRPs and moving forward on clean-up under the state’s Closed Landfill Program. The liability for any individual PRP cannot be determined at this point in time as the EPA is in the investigative stage of the process.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Public Employees Retirement Association Pension Benefits Plan  
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability  
Year Ended June 30, 2017

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

Public Employees Retirement Association Pension Benefits Plan  
Schedule of District Contributions  
Year Ended June 30, 2017

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 1,195,515	\$ 1,195,515	\$ —	\$ 16,108,679	7.42%
06/30/2016	\$ 1,291,318	\$ 1,291,318	\$ —	\$ 17,218,336	7.50%
06/30/2017	\$ 1,398,478	\$ 1,398,478	\$ —	\$ 18,646,353	7.50%

Note 1: **Changes of Benefit Terms** – On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the GERF, 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.

Note 2: **Changes in Actuarial Assumptions** – (1) 2015 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter. (2) 2016 Changes – The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years. The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Teachers Retirement Association Pension Benefits Plan  
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability  
Year Ended June 30, 2017

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

Teachers Retirement Association Pension Benefits Plan  
Schedule of District Contributions  
Year Ended June 30, 2017

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

Note 1: **Changes of Benefit Terms** – The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

Note 2: **Changes in Actuarial Assumptions** – (1) 2015 Changes – The annual cost of living adjustment for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent with an increase to 2.50 percent commencing in 2034. The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent. (2) 2016 Changes – The discount rate used to measure the total pension liability was 4.66 percent. Details, if necessary, can be obtained from the TRA's CAFR.

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 273

Pension Benefits Plan  
Schedule of Changes in the District's Net  
Pension Liability and Related Ratios  
Year Ended June 30, 2017

	<u>2017</u>
Total pension liability	
Service cost	\$ 706,737
Interest	326,649
Benefit payments	<u>(794,118)</u>
Net change in total pension liability	239,268
Total pension liability – beginning of year	<u>10,951,258</u>
Total pension liability – end of year	<u><u>\$ 11,190,526</u></u>
Covered-employee payroll	<u><u>\$ 48,516,585</u></u>
Total pension liability as a percentage of covered-employee payroll	<u><u>23.07%</u></u>

Note 1: **Change of Assumptions** – The mortality table was updated from RP-2000 projected to 2014 with Scale BB to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale. The withdrawal table for all employees and the retirement table for only employees eligible to retire with Rule of 90 also were updated. The discount rate was changed from 4.00 percent to 2.90 percent.

Note 2: The District has not established a trust fund to finance GASB Statement No. 73 related benefits.

Note 3: The District implemented GASB Statement No. 73 for the year ended June 30, 2017. The schedules within the RSI section require a 10-year presentation. Additional years will be presented as they become available.



INDEPENDENT SCHOOL DISTRICT NO. 273

Other Post-Employment Benefits Plan  
Schedule of Funding Progress  
Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2012	\$ 15,827,290	\$ —	\$ 15,827,290	— %	\$ 54,243,749	29.2 %
July 1, 2014	\$ 18,548,273	\$ —	\$ 18,548,273	— %	\$ 57,774,854	32.1 %
July 1, 2016	\$ 19,606,265	\$ —	\$ 19,606,265	— %	\$ 61,156,058	32.1 %

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## SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds  
Combining Balance Sheet  
as of June 30, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	\$ 1,375,586	\$ 1,350,523	\$ 2,726,109
Receivables			
Current taxes	—	556,656	556,656
Delinquent taxes	—	12,760	12,760
Accounts and interest	287	16,376	16,663
Due from other governmental units	—	49,899	49,899
Prepaid items	16,759	—	16,759
Total assets	<u>\$ 1,392,632</u>	<u>\$ 1,986,214</u>	<u>\$ 3,378,846</u>
Liabilities			
Salaries and benefits payable	\$ 3,135	\$ 112,952	\$ 116,087
Accounts and contracts payable	9,990	47,547	57,537
Due to other governmental units	—	8,312	8,312
Unearned revenue	233,141	201,318	434,459
Total liabilities	<u>246,266</u>	<u>370,129</u>	<u>616,395</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	—	1,119,670	1,119,670
Deferred revenue – delinquent taxes	—	12,760	12,760
Total deferred inflows of resources	<u>—</u>	<u>1,132,430</u>	<u>1,132,430</u>
Fund balances (deficits)			
Nonspendable	16,759	—	16,759
Restricted	1,129,607	541,201	1,670,808
Unassigned	—	(57,546)	(57,546)
Total fund balances	<u>1,146,366</u>	<u>483,655</u>	<u>1,630,021</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,392,632</u>	<u>\$ 1,986,214</u>	<u>\$ 3,378,846</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Nonmajor Governmental Funds  
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances  
Year Ended June 30, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	\$ —	\$ 1,177,557	\$ 1,177,557
Investment earnings	9,850	16,656	26,506
Other	2,148,743	5,043,246	7,191,989
State sources	118,885	485,290	604,175
Federal sources	641,258	—	641,258
Total revenue	2,918,736	6,722,749	9,641,485
Expenditures			
Current			
Food service	2,748,269	—	2,748,269
Community service	—	7,211,986	7,211,986
Capital outlay	18,206	51,962	70,168
Total expenditures	2,766,475	7,263,948	10,030,423
Net change in fund balances	152,261	(541,199)	(388,938)
Fund balances			
Beginning of year	994,105	1,024,854	2,018,959
End of year	\$ 1,146,366	\$ 483,655	\$ 1,630,021

## INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund  
Comparative Balance Sheet  
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 33,480,727	\$ 32,477,890
Receivables		
Current taxes	17,637,841	17,964,503
Delinquent taxes	365,953	221,661
Accounts and interest	178,384	275,789
Due from other governmental units	9,739,482	11,599,896
Prepaid items	<u>128,765</u>	<u>89,550</u>
Total assets	<u><u>\$ 61,531,152</u></u>	<u><u>\$ 62,629,289</u></u>
Liabilities		
Salaries and benefits payable	\$ 10,009,839	\$ 8,857,339
Accounts and contracts payable	496,640	801,292
Due to other governmental units	180,678	1,174,789
Unearned revenue	<u>10,826</u>	<u>16,994</u>
Total liabilities	<u>10,697,983</u>	<u>10,850,414</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	31,775,061	32,158,372
Unavailable revenue – delinquent taxes	<u>365,953</u>	<u>221,661</u>
Total deferred inflows of resources	<u>32,141,014</u>	<u>32,380,033</u>
Fund balances (deficits)		
Nonspendable for prepaid items	128,765	89,550
Restricted staff development	–	38,836
Restricted for health and safety	43,840	–
Restricted for operating capital	3,063,322	1,753,033
Committed for cash flow	1,943,586	1,976,507
Committed for federal education jobs	894,821	894,821
Assigned for separation/retirement benefits	2,626,646	3,121,550
Assigned for next generation program implementation	1,500,000	1,000,000
Assigned for bond operational costs	750,000	500,000
Assigned for carryover	765,914	961,407
Assigned for alternative compensation	131,342	117,024
Assigned for subsequent year budget deficit	–	786,587
Assigned for unemployment	–	4,185
Unassigned – health and safety restricted account deficit	–	(169,258)
Unassigned	<u>6,843,919</u>	<u>8,324,600</u>
Total fund balances	<u>18,692,155</u>	<u>19,398,842</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 61,531,152</u></u>	<u><u>\$ 62,629,289</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017		2016
	Budget	Actual	Over (Under) Budget
			Actual
Revenue			
Local sources			
Property taxes	\$ 29,609,593	\$ 30,769,055	\$ 1,159,462
Investment earnings	35,000	156,482	121,482
Other	3,852,614	3,631,626	(220,988)
State sources	73,532,912	71,970,881	(1,562,031)
Federal sources	1,759,865	1,795,959	36,094
Total revenue	108,789,984	108,324,003	(465,981)
Expenditures			
Current			
Administration	3,614,614	3,542,398	(72,216)
District support services	3,211,597	3,097,417	(114,180)
Elementary and secondary			
regular instruction	54,083,887	53,688,788	(395,099)
Vocational education instruction	380,253	280,680	(99,573)
Special education instruction	19,531,148	18,431,801	(1,099,347)
Instructional support services	5,452,163	5,382,317	(69,846)
Pupil support services	8,499,854	8,118,389	(381,465)
Sites and buildings	17,002,706	11,733,576	(5,269,130)
Fiscal and other fixed cost programs	280,500	319,454	38,954
Debt service			
Principal	224,550	224,550	—
Interest and fiscal charges	108,728	108,727	(1)
Total expenditures	112,390,000	104,928,097	(7,461,903)
Excess (deficiency) of revenue over expenditures	(3,600,016)	3,395,906	6,995,922
Other financing (uses)			
Transfers (out)	—	(4,102,593)	(4,102,593)
Net change in fund balances	\$ (3,600,016)	(706,687)	\$ 2,893,329
Fund balances			
Beginning of year		19,398,842	18,821,866
End of year		\$ 18,692,155	\$ 19,398,842

INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund  
Comparative Balance Sheet  
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 1,375,586	\$ 1,414,734
Receivables		
Accounts and interest	287	28,250
Due from other governmental units	—	10,189
Prepaid items	<u>16,759</u>	<u>—</u>
Total assets	<u>\$ 1,392,632</u>	<u>\$ 1,453,173</u>
Liabilities		
Salaries and benefits payable	\$ 3,135	\$ 1,572
Accounts and contracts payable	9,990	294,063
Unearned revenue	<u>233,141</u>	<u>163,433</u>
Total liabilities	246,266	459,068
Fund balances		
Nonspendable for prepaid items	16,759	—
Restricted for food service	<u>1,129,607</u>	<u>994,105</u>
Total fund balances	<u>1,146,366</u>	<u>994,105</u>
Total liabilities and fund balances	<u>\$ 1,392,632</u>	<u>\$ 1,453,173</u>



INDEPENDENT SCHOOL DISTRICT NO. 273

Food Service Special Revenue Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 1,000	\$ 9,850	\$ 8,850	\$ 1,273
Other – primarily meal sales	2,459,515	2,148,743	(310,772)	2,260,094
State sources	116,200	118,885	2,685	119,607
Federal sources	594,550	641,258	46,708	622,911
Total revenue	<u>3,171,265</u>	<u>2,918,736</u>	<u>(252,529)</u>	<u>3,003,885</u>
Expenditures				
Current				
Salaries	88,500	111,113	22,613	101,162
Employee benefits	7,106	16,236	9,130	16,740
Purchased services	2,870,000	2,457,552	(412,448)	2,437,049
Supplies and materials	46,000	163,316	117,316	139,023
Other expenditures	–	52	52	–
Capital outlay	100,000	18,206	(81,794)	33,742
Total expenditures	<u>3,111,606</u>	<u>2,766,475</u>	<u>(345,131)</u>	<u>2,727,716</u>
Net change in fund balances	<u>\$ 59,659</u>	152,261	<u>\$ 92,602</u>	276,169
Fund balances				
Beginning of year		<u>994,105</u>		<u>717,936</u>
End of year		<u>\$ 1,146,366</u>		<u>\$ 994,105</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund  
Comparative Balance Sheet  
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 1,350,523	\$ 2,163,863
Receivables		
Current taxes	556,656	596,507
Delinquent taxes	12,760	7,925
Accounts and interest	16,376	1,125
Due from other governmental units	<u>49,899</u>	<u>46,711</u>
Total assets	<u><u>\$ 1,986,214</u></u>	<u><u>\$ 2,816,131</u></u>
Liabilities		
Salaries and benefits payable	\$ 112,952	\$ 142,764
Accounts and contracts payable	47,547	84,641
Due to other governmental units	8,312	–
Unearned revenue	<u>201,318</u>	<u>365,929</u>
Total liabilities	370,129	593,334
Deferred inflows of resources		
Property taxes levied for subsequent year	1,119,670	1,190,018
Unavailable revenue – delinquent taxes	<u>12,760</u>	<u>7,925</u>
Total deferred inflows of resources	1,132,430	1,197,943
Fund balances (deficits)		
Restricted for community education programs	449,015	960,204
Restricted for early childhood family education programs	–	14,678
Restricted for school readiness	92,186	2,363
Restricted for community service	–	47,609
Unassigned – early childhood family education programs		
restricted account deficit	(49,866)	–
Unassigned – community service restricted account deficit	<u>(7,680)</u>	<u>–</u>
Total fund balances	<u>483,655</u>	<u>1,024,854</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 1,986,214</u></u>	<u><u>\$ 2,816,131</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Community Service Special Revenue Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 1,189,444	\$ 1,177,557	\$ (11,887)	\$ 1,153,680
Investment earnings	2,000	16,656	14,656	3,391
Other – primarily tuition and fees	5,059,628	5,043,246	(16,382)	5,432,708
State sources	500,309	485,290	(15,019)	459,638
Total revenue	6,751,381	6,722,749	(28,632)	7,049,417
Expenditures				
Current				
Salaries	4,129,401	4,562,774	433,373	4,333,946
Employee benefits	1,026,017	1,139,943	113,926	1,075,245
Purchased services	1,128,115	1,139,122	11,007	1,300,197
Supplies and materials	388,980	352,650	(36,330)	484,889
Other expenditures	11,424	17,497	6,073	7,570
Capital outlay	58,000	51,962	(6,038)	46,714
Total expenditures	6,741,937	7,263,948	522,011	7,248,561
Net change in fund balances	\$ 9,444	(541,199)	\$ (550,643)	(199,144)
Fund balances				
Beginning of year		1,024,854		1,223,998
End of year		\$ 483,655		\$ 1,024,854

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund  
Comparative Balance Sheet  
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 76,048,727	\$ 120,507,256
Receivables		
Accounts and interest	108,925	195,620
Prepaid items	<u>10,853</u>	<u>15,502</u>
Total assets	<u>\$ 76,168,505</u>	<u>\$ 120,718,378</u>
Liabilities		
Salaries and benefits payable	\$ 20,462	\$ 26,814
Accounts and contracts payable	15,541,329	5,844,760
Unearned revenue	<u>—</u>	<u>14,400</u>
Total liabilities	15,561,791	5,885,974
Fund balances		
Nonspendable for prepaid items	10,853	15,502
Restricted for alternative facilities program	—	3,513,135
Restricted for capital projects levy	791,932	323,083
Restricted for long-term facilities maintenance	19,998,002	—
Restricted for capital projects	<u>39,805,927</u>	<u>110,980,684</u>
Total fund balances	<u>60,606,714</u>	<u>114,832,404</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 76,168,505</u>	<u>\$ 120,718,378</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Capital Projects – Building Construction Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 6,152,770	\$ 5,061,998	\$ (1,090,772)	\$ 11,509,597
Investment earnings	350,000	634,353	284,353	692,456
Other	70,800	47,825	(22,975)	60,746
Total revenue	6,573,570	5,744,176	(829,394)	12,262,799
Expenditures				
Capital outlay				
Salaries	1,585,105	1,601,274	16,169	1,512,172
Employee benefits	444,005	466,934	22,929	488,279
Purchased services	4,718,525	7,750,633	3,032,108	5,933,989
Supplies and materials	277,669	319,765	42,096	218,495
Capital expenditures	82,428,735	70,738,771	(11,689,964)	16,357,600
Debt service				
Principal	61,746	–	(61,746)	381,610
Interest and fiscal charges	34,331	7,288	(27,043)	586,999
Total expenditures	89,550,116	80,884,665	(8,665,451)	25,479,144
Excess (deficiency) of revenues over expenditures	(82,976,546)	(75,140,489)	7,836,057	(13,216,345)
Other financing sources				
Bonds issued	18,312,794	16,350,000	(1,962,794)	111,932,647
Premium on bonds issued	462,206	462,206	–	12,843,824
Transfers in	–	4,102,593	4,102,593	–
Total other financing sources	18,775,000	20,914,799	2,139,799	124,776,471
Net change in fund balances	\$ (64,201,546)	(54,225,690)	\$ 9,975,856	111,560,126
Fund balances				
Beginning of year		114,832,404		3,272,278
End of year		\$ 60,606,714		\$ 114,832,404

## INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund  
Comparative Balance Sheet  
as of June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 8,475,716	\$ 7,264,464
Receivables		
Current taxes	7,655,481	7,100,085
Delinquent taxes	<u>117,000</u>	<u>57,102</u>
Total assets	<u>\$ 16,248,197</u>	<u>\$ 14,421,651</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	\$ 15,398,423	\$ 14,164,398
Unavailable revenue – delinquent taxes	<u>117,000</u>	<u>57,102</u>
Total deferred inflows of resources	<u>15,515,423</u>	<u>14,221,500</u>
Fund balances		
Restricted for debt service	<u>732,774</u>	<u>200,151</u>
Total deferred inflows of resources and fund balances	<u>\$ 16,248,197</u>	<u>\$ 14,421,651</u>

INDEPENDENT SCHOOL DISTRICT NO. 273

Debt Service Fund  
Schedule of Revenue, Expenditures, and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	\$ 14,162,927	\$ 14,036,542	\$ (126,385)	\$ 6,774,556
Investment earnings	3,500	21,013	17,513	3,414
Total revenue	14,166,427	14,057,555	(108,872)	6,777,970
Expenditures				
Debt service				
Principal	6,130,000	6,130,000	—	4,245,000
Interest	7,385,100	7,385,085	(15)	5,206,084
Fiscal charges and other	10,000	12,774	2,774	7,502
Total expenditures	13,525,100	13,527,859	2,759	9,458,586
Excess (deficiency) of revenue over expenditures	641,327	529,696	(111,631)	(2,680,616)
Other financing sources				
Bonds issued	—	—	—	1,452,353
Premium on bonds issued	—	2,927	2,927	—
Total other financing sources	—	2,927	2,927	1,452,353
Net change in fund balances	\$ 641,327	532,623	\$ (108,704)	(1,228,263)
Fund balances				
Beginning of year		200,151		1,428,414
End of year		\$ 732,774		\$ 200,151

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OTHER DISTRICT INFORMATION

(UNAUDITED)

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INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Revenue by Source  
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	Other Local and County Revenues	State Revenue	Federal Revenue	Total
2008	\$ 16,415,623 22%	\$ 2,574,904 3%	\$ 54,904,780 73%	\$ 1,478,313 2%	\$ 75,373,620 100%
2009	18,737,025 23%	2,248,905 3%	58,378,178 72%	1,713,683 2%	81,077,791 100%
2010	20,228,122 24%	2,280,570 3%	53,924,966 65%	6,958,246 8%	83,391,904 100%
2011	28,851,473 33%	2,520,934 3%	51,887,383 60%	3,061,247 4%	86,321,037 100%
2012	23,813,219 27%	2,754,726 3%	58,857,487 66%	3,344,546 4%	88,769,978 100%
2013	27,237,931 29%	2,487,574 3%	62,296,085 66%	1,683,183 2%	93,704,773 100%
2014	10,666,213 12%	2,593,867 3%	76,710,991 83%	1,809,161 2%	91,780,232 100%
2015	22,950,814 24%	2,794,515 3%	68,608,136 71%	1,488,368 2%	95,841,833 100%
2016	23,596,521 23%	4,100,426 4%	71,873,064 71%	1,871,244 2%	101,441,255 100%
2017	30,769,055 28%	3,788,108 3%	71,970,881 67%	1,795,959 2%	108,324,003 100%

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

INDEPENDENT SCHOOL DISTRICT NO. 273

General Fund Expenditures by Program  
Last Ten Fiscal Years

<u>Year Ended June 30,</u>	<u>Administration</u>	<u>District Support Services</u>	<u>Instruction</u>	<u>Instructional Support Services</u>	<u>Pupil Support Services</u>
2008	\$ 3,164,236 4%	\$ 2,405,000 3%	\$ 48,877,070 66%	\$ 5,041,640 7%	\$ 5,953,006 8%
2009	3,092,640 4%	2,593,246 3%	51,619,145 65%	7,885,063 10%	6,217,918 8%
2010	2,891,265 4%	2,613,421 3%	55,612,094 68%	6,593,566 8%	6,345,288 8%
2011	2,922,416 3%	2,731,865 3%	58,238,240 68%	6,592,322 8%	6,669,731 8%
2012	2,921,447 3%	2,701,860 3%	58,140,863 68%	6,760,932 8%	7,329,686 8%
2013	3,057,055 3%	2,517,407 3%	60,574,774 66%	5,105,226 6%	7,608,727 8%
2014	3,100,900 4%	2,969,022 3%	62,272,584 69%	4,916,476 5%	7,544,789 8%
2015	3,124,572 3%	3,063,669 3%	64,083,923 70%	5,063,892 5%	7,745,956 8%
2016	3,281,563 3%	3,093,531 3%	71,523,452 71%	5,508,758 5%	7,922,598 8%
2017	3,542,398 3%	3,097,417 3%	72,401,269 69%	5,382,317 5%	8,118,389 8%

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

Sites and Buildings	Other Programs	Total
\$ 7,917,073 11%	\$ 521,527 1%	\$ 73,879,552 100%
8,116,755 10%	269,231 —%	79,793,998 100%
7,681,111 9%	291,515 —%	82,028,260 100%
8,203,146 10%	300,830 —%	85,658,550 100%
8,714,030 10%	381,487 —%	86,950,305 100%
13,393,834 14%	469,478 —%	92,726,501 100%
9,691,920 11%	362,556 —%	90,858,247 100%
9,006,454 10%	543,004 1%	92,631,470 100%
8,954,875 9%	579,502 1%	100,864,279 100%
11,733,576 11%	652,731 1%	104,928,097 100%

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INDEPENDENT SCHOOL DISTRICT NO. 273

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

	<u>Year Collectible</u>	<u>General Fund</u>	<u>Community Service Special Revenue Fund</u>	<u>Capital Projects – Building Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total All Funds</u>
<b>Levies</b>						
	2008	\$ 18,851,653	\$ 893,439	\$ 1,000,553	\$ 9,181,816	\$ 29,927,461
	2009	19,822,034	938,749	1,000,300	9,947,842	31,708,925
	2010	21,451,658	957,557	1,000,406	10,133,671	33,543,292
	2011	21,276,283	982,373	1,885,932	10,554,475	34,699,063
	2012	26,739,844	1,053,989	1,730,064	10,281,370	39,805,267
	2013	26,641,579	1,093,196	4,383,529	7,194,307	39,312,611
	2014	27,084,132	1,142,821	4,640,567	7,094,461	39,961,981
	2015	28,429,772	1,129,162	6,921,752	6,488,222	42,968,908
	2016	35,838,469	1,190,018	–	14,164,398	51,192,885
	2017	35,477,140	1,119,670	–	15,398,423	51,995,233
<b>Tax rates</b>						
Tax capacity rates						
	2008	4.542	1.001	1.121	10.287	16.951
	2009	4.635	1.037	1.105	10.989	17.766
	2010	5.487	1.050	1.097	11.112	18.746
	2011	7.288	1.136	1.157	12.205	21.786
	2012	13.939	1.267	–	12.359	27.565
	2013	17.649	1.334	–	8.779	27.762
	2014	17.566	1.386	–	8.604	27.556
	2015	18.979	1.240	–	7.125	27.344
	2016	18.873	1.242	–	14.783	34.898
	2017	18.216	1.124	–	15.458	34.798
Market value rates						
	2008	0.177	–	–	–	0.177
	2009	0.183	–	–	–	0.183
	2010	0.194	–	–	–	0.194
	2011	0.196	–	–	–	0.196
	2012	0.215	–	–	–	0.215
	2013	0.217	–	–	–	0.217
	2014	0.223	–	–	–	0.223
	2015	0.215	–	–	–	0.215
	2016	0.201	–	–	–	0.201
	2017	0.188	–	–	–	0.188

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

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

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 273

Property Tax Levies and Receivables  
Last Ten Years

For Taxes Collectible	Original Levy			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2008	\$ 29,016,879	\$ 789,966	\$ 120,616	\$ 29,927,461
2009	30,639,825	945,589	123,511	31,708,925
2010	32,343,270	1,061,264	138,758	33,543,292
2011	33,450,877	1,083,275	164,911	34,699,063
2012	38,740,332	1,064,935	—	39,805,267
2013	38,221,083	1,091,528	—	39,312,611
2014	38,892,673	1,069,308	—	39,961,981
2015	41,891,155	1,077,753	—	42,968,908
2016	50,099,457	1,093,428	—	51,192,885
2017	50,638,605	1,356,628	—	51,995,233

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

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

Source: State of Minnesota School Tax Report



Uncollected Taxes Receivable as of June 30, 2017

Delinquent		Current	
Amount	Percent	Amount	Percent
\$ —	— %	\$ —	— %
—	—	—	—
—	—	—	—
79,059	0.23	—	—
(1,617)	—	—	—
15,346	0.04	—	—
94,114	0.24	—	—
91,416	0.21	—	—
217,395	0.42	—	—
—	—	25,849,978	49.72
<u>\$ 495,713</u>		<u>\$ 25,849,978</u>	

INDEPENDENT SCHOOL DISTRICT NO. 273

Student Enrollment  
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM) (for Students Served or Tuition Paid)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2008	69.49	512.62	3,600.26	3,562.08	7,744.45	8,941.35
2009	72.10	514.21	3,672.12	3,649.88	7,908.31	9,137.36
2010	69.27	510.50	3,699.26	3,774.26	8,053.29	9,321.73
2011	72.25	506.30	3,808.45	3,875.72	8,262.72	9,571.81
2012	70.30	507.92	3,821.35	3,918.16	8,317.73	9,640.67
2013	78.84	502.78	3,807.72	3,979.41	8,368.75	9,710.33
2014	61.97	537.17	3,814.26	4,017.20	8,430.60	9,770.48
2015	79.79	518.55	3,827.59	4,030.07	8,456.00	9,261.99
2016	66.76	504.56	3,812.42	4,045.60	8,429.34	9,238.47
2017	58.79	558.16	3,782.49	4,064.61	8,464.05	9,276.98

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

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

	Pre-Kindergarten	Handicapped Kindergarten	Half-Day Kindergarten	Full-Day Kindergarten	Elementary 1-3	Elementary 4-6	Secondary
Fiscal 2008 through 2014	1.250	1.000	0.612	0.612	1.115	1.060	1.300
Fiscal 2015 through 2017	1.000	1.000	0.550	1.000	1.000	1.000	1.200

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

## INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>	<u>Noncash Assistance</u>
<b>U.S. Department of Agriculture</b>			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	\$ 59,532	
National School Lunch Program	10.555	<u>581,726</u>	\$ 136,664
Total child nutrition cluster		\$ 641,258	
<b>U.S. Department of Education</b>			
Passed through Minnesota Department of Education			
Special education cluster			
Special Education – Grants to States	84.027	1,408,642	
Special Education – Preschool Grants	84.173	<u>28,142</u>	
Total special education cluster		1,436,784	
Special Education – Grants for Infants and Families	84.181	20,671	
Title I Grants to Local Educational Agencies	84.010	186,338	
Supporting Effective Instruction State Grant	84.367	108,071	
English Language Acquisition Grants	84.365	45,776	
Passed through SouthWest Metro Intermediate District No. 288			
Career and Technical Education – Basic Grants to States	84.048	<u>13,600</u>	
Total federal awards		<u>\$ 2,452,498</u>	

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

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

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

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 17, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

(continued)

## COMPLIANCE AND OTHER MATTERS

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

## PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota  
October 17, 2017

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

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

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM**

We have audited Independent School District No. 273, Edina, Minnesota's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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.

**MANAGEMENT'S RESPONSIBILITY**

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

**AUDITOR'S RESPONSIBILITY**

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

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

(continued)

## OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 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 on the previous page. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a significant deficiency.

## DISTRICT'S RESPONSE TO FINDING

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

## PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota  
October 17, 2017



INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 273, Edina, Minnesota (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 17, 2017.

**MINNESOTA LEGAL COMPLIANCE**

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Questioned Costs as item 2017-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

**DISTRICT'S RESPONSE TO FINDING**

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

**PURPOSE OF THIS REPORT**

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

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

Minneapolis, Minnesota  
October 17, 2017

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INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017

**A. SUMMARY OF AUDIT RESULTS**

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

**Financial Statements**

What type of auditor's report is issued?   X   Unmodified  
       Qualified  
       Adverse  
       Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?        Yes   X   No  
Significant deficiencies identified?        Yes   X   None reported  
Noncompliance material to the financial statements noted?        Yes   X   No

**Federal Awards**

Internal controls over major federal award programs:

Material weakness(es) identified?        Yes   X   No  
Significant deficiencies identified?   X   Yes        None reported

Type of auditor's report issued on compliance for major programs?   X   Unmodified  
       Qualified  
       Adverse  
       Disclaimer

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?   X   Yes        No

Programs tested as major programs:

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

Threshold for distinguishing between type A and B programs.   \$ 750,000  

Does the auditee qualify as a low-risk auditee?   X   Yes        No

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2017

**B. FINANCIAL STATEMENT FINDINGS**

None.

**C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF EDUCATION, PASSED THROUGH MINNESOTA DEPARTMENT OF EDUCATION, SPECIAL EDUCATION CLUSTER – CFDA NOS. 84.027 AND 84.173**

**2017-001 Internal Controls Over Compliance With Allowable Costs**

**Criteria** – 2 CFR § 200.302(b)(3) requires Independent School District No. 273, Edina, Minnesota (the District) to maintain records that adequately identify the source and application of funds for federally-funded activities in accordance with 2 CFR 200 Subpart E – Cost Principles.

**Condition** – During our audit, we noted that the District did not have sufficient controls to ensure adequate and timely documentation of time and effort was created and retained to support salary costs charged to federal programs and ensure compliance with the U.S. Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) allowable costs standards.

**Questioned Costs** – None. Our testing did not indicate any instances of noncompliance.

**Context** – The deficiency in controls pertains to major programs tested in the current year. This was not a statistically valid sample.

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

**Cause** – This was an oversight by district personnel.

**Effect** – This could be viewed as a violation of the award agreement.

**Recommendation** – We recommend that the District review its internal control procedures relating to time and effort documentation of allowable costs for special education federal programs.

**View of Responsible Official and Planned Corrective Actions** – The District agrees with the finding. The District will review and update its policies and procedures relating to allowable costs for its federal programs to ensure compliance with Uniform Guidance in the future. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 273

Schedule of Findings and Questioned Costs (continued)  
Year Ended June 30, 2017

**D. MINNESOTA LEGAL COMPLIANCE FINDINGS**

**2017-002 Payment of Invoices**

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

**Condition** – One of forty disbursements selected for testing were not paid within the required thirty-five days from the receipt of goods and services.

**Questioned Costs** – Not applicable.

**Context** – One of forty disbursements tested was not paid within the required thirty-five day period.

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

**Cause** – This was an oversight by district personnel.

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

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

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

## INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards  
Compliance Table  
June 30, 2017

		Audit	UFARS	Audit – UFARS
<b>General Fund</b>				
Total revenue		\$ 108,324,003	\$ 108,324,004	\$ (1)
Total expenditures		\$ 104,928,097	\$ 104,928,099	\$ (2)
Nonspendable				
460	Nonspendable fund balance	\$ 128,765	\$ 128,765	\$ –
Restricted				
403	Staff development	\$ –	\$ –	\$ –
405	Deferred maintenance	\$ –	\$ –	\$ –
406	Health and safety	\$ 43,840	\$ 43,840	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
409	Alternative facility program	\$ –	\$ –	\$ –
413	Project funded by COP	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ 3,063,322	\$ 3,063,322	\$ –
426	\$25 taconite	\$ –	\$ –	\$ –
427	Disabled accessibility	\$ –	\$ –	\$ –
428	Learning and development	\$ –	\$ –	\$ –
434	Area learning center	\$ –	\$ –	\$ –
435	Contracted alternative programs	\$ –	\$ –	\$ –
436	State approved alternative program	\$ –	\$ –	\$ –
438	Gifted and talented	\$ –	\$ –	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
441	Basic skills programs	\$ –	\$ –	\$ –
445	Career and technical programs	\$ –	\$ –	\$ –
448	Achievement and integration	\$ –	\$ –	\$ –
449	Safe schools levy	\$ –	\$ –	\$ –
450	Pre-Kindergarten	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
453	Unfunded severance and retirement levy	\$ –	\$ –	\$ –
467	Long-term facilities maintenance	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ 2,838,407	\$ 2,838,407	\$ –
Assigned				
462	Assigned fund balance	\$ 5,773,902	\$ 5,773,902	\$ –
Unassigned				
422	Unassigned fund balance	\$ 6,843,919	\$ 6,843,919	\$ –
<b>Food Service</b>				
Total revenue		\$ 2,918,736	\$ 2,918,737	\$ (1)
Total expenditures		\$ 2,766,475	\$ 2,766,475	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 16,759	\$ 16,759	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 1,129,607	\$ 1,129,607	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Community Service</b>				
Total revenue		\$ 6,722,749	\$ 6,722,749	\$ –
Total expenditures		\$ 7,263,948	\$ 7,263,949	\$ (1)
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ 449,015	\$ 449,015	\$ –
432	ECFE	\$ (49,866)	\$ (49,866)	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
444	School readiness	\$ 92,186	\$ 92,186	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ (7,680)	\$ (7,680)	\$ –

## INDEPENDENT SCHOOL DISTRICT NO. 273

Uniform Financial Accounting and Reporting Standards  
Compliance Table (continued)  
June 30, 2017

		Audit	UFARS	Audit – UFARS
<b>Building Construction</b>				
Total revenue		\$ 5,744,176	\$ 5,744,176	\$ –
Total expenditures		\$ 80,884,665	\$ 80,884,660	\$ 5
Nondisposable				
460	Nondisposable fund balance	\$ 10,853	\$ 10,853	\$ –
Restricted				
407	Capital projects levy	\$ 791,932	\$ 791,932	\$ –
409	Alternative facility program	\$ –	\$ –	\$ –
413	Project funded by COP	\$ –	\$ –	\$ –
467	Long-term facilities maintenance	\$ 19,998,002	\$ 19,998,002	\$ –
464	Restricted fund balance	\$ 39,805,927	\$ 39,805,927	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Debt Service</b>				
Total revenue		\$ 14,057,555	\$ 14,057,555	\$ –
Total expenditures		\$ 13,527,859	\$ 13,527,860	\$ (1)
Nondisposable				
460	Nondisposable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 732,774	\$ 732,774	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Trust</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
<b>Internal Service</b>				
Total revenue		\$ 879,492	\$ 879,492	\$ –
Total expenditures		\$ 830,258	\$ 830,258	\$ –
422	Net position	\$ 487,782	\$ 487,782	\$ –
<b>OPEB Revocable Trust Fund</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
<b>OPEB Irrevocable Trust Fund</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
<b>OPEB Debt Service Fund</b>				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nondisposable				
460	Nondisposable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned		\$ –	\$ –	\$ –
463	Unassigned fund balance	\$ –	\$ –	\$ –

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

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