



**Independent School District No. 286**  
**Brooklyn Center, Minnesota**

**Annual Financial Report**  
**for the**  
**Fiscal Year Ended June 30, 2018**



INDEPENDENT SCHOOL DISTRICT NO. 286  
BROOKLYN CENTER, MINNESOTA

Financial Statements and  
Supplemental Information

Year Ended  
June 30, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 286

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 286

School Board and Administration  
Year Ended June 30, 2018

**SCHOOL BOARD**

	<u>Board Position</u>
Ruthie Dallas	Chair
Jan Thielsen	Vice Chair
Amy Bailey	Clerk
Jeff Palm	Treasurer
Cheryl Jechorek	Director
John Solomon	Director

**ADMINISTRATION**

Carly Baker	Superintendent
Sara Bratsch	Finance Director
Jennifer Moberg	Accountant

FINANCIAL SECTION

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**PRINCIPALS**

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

**INDEPENDENT AUDITOR'S REPORT**

To the School Board and Management of  
Independent School District No. 286  
Brooklyn Center, 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. 286 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

**AUDITOR'S RESPONSIBILITY**

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

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

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

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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, 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 of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

The supplemental information, the Schedule of Expenditures of Federal Awards, and the 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 and other district information sections 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.

(continued)

## **Prior Year Comparative Information**

We have previously audited the District's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated October 23, 2017. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*  
Minneapolis, Minnesota  
December 10, 2018

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## INDEPENDENT SCHOOL DISTRICT NO. 286

### Management's Discussion and Analysis Year Ended June 30, 2018

This section of Independent School District No. 286's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the other components of the District's annual financial statements.

#### **FINANCIAL HIGHLIGHTS**

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2018 by \$27,484,074 (net position deficit). The District's total net position decreased by \$7,674,748 during the fiscal year ended June 30, 2018.
- Government-wide revenues totaled \$39,746,352 and were \$7,674,748 less than expenses of \$47,421,100.
- The General Fund's total fund balance (under the governmental fund presentation) decreased \$29,242 from the prior year, to a year-end balance of \$3,195,881. This compared to a \$500,000 increase planned in the budget.
- The District established a Capital Projects – Building Construction Fund to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

#### **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
- Supplemental information consisting of combining and individual fund statements and schedules.

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, except for the fiduciary funds. 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 Special Revenue 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 can be found in the supplemental information section.

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.

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 fund financial statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

**Proprietary Funds** – The District maintains one type of proprietary fund. The 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 funds to account for the self-insurance activities of the district employees' medical and dental claims. These services have been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

	2018	2017
<b>Assets</b>		
Current and other assets	\$ 42,740,974	\$ 13,299,254
Capital assets, net of depreciation	25,912,122	25,427,745
Total assets	\$ 68,653,096	\$ 38,726,999
<b>Deferred outflows of resources</b>		
Pension plan deferments	\$ 29,005,240	\$ 39,047,325
OPEB plan deferments	7,860	13,941
Total deferred outflows of resources	\$ 29,013,100	\$ 39,061,266
<b>Liabilities</b>		
Current and other liabilities	\$ 5,400,369	\$ 4,979,451
Long-term liabilities, including due within one year	106,436,653	87,791,094
Total liabilities	\$ 111,837,022	\$ 92,770,545
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year	\$ 4,597,220	\$ 3,903,778
Pension plan deferments	8,649,177	923,268
OPEB plan deferments	66,851	-
Total deferred inflows of resources	\$ 13,313,248	\$ 4,827,046
<b>Net position</b>		
Net investment in capital assets	\$ 481,631	\$ 1,818,800
Restricted	2,621,010	1,177,414
Unrestricted	(30,586,715)	(22,805,540)
Total net position	\$ (27,484,074)	\$ (19,809,326)

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, will 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 OPEB, which impacts the unrestricted portion of net position.

The decrease in net investment in capital assets is due mostly to new capital related debt issued in the current year with a portion used for debt service and not capitalized in this net position category. The District's increase in net position restricted for debt service contributed to the change in this portion of net position. The change in the District's share of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans also contributed to the change in deferred outflows, long-term liabilities, deferred inflows, and unrestricted net position.

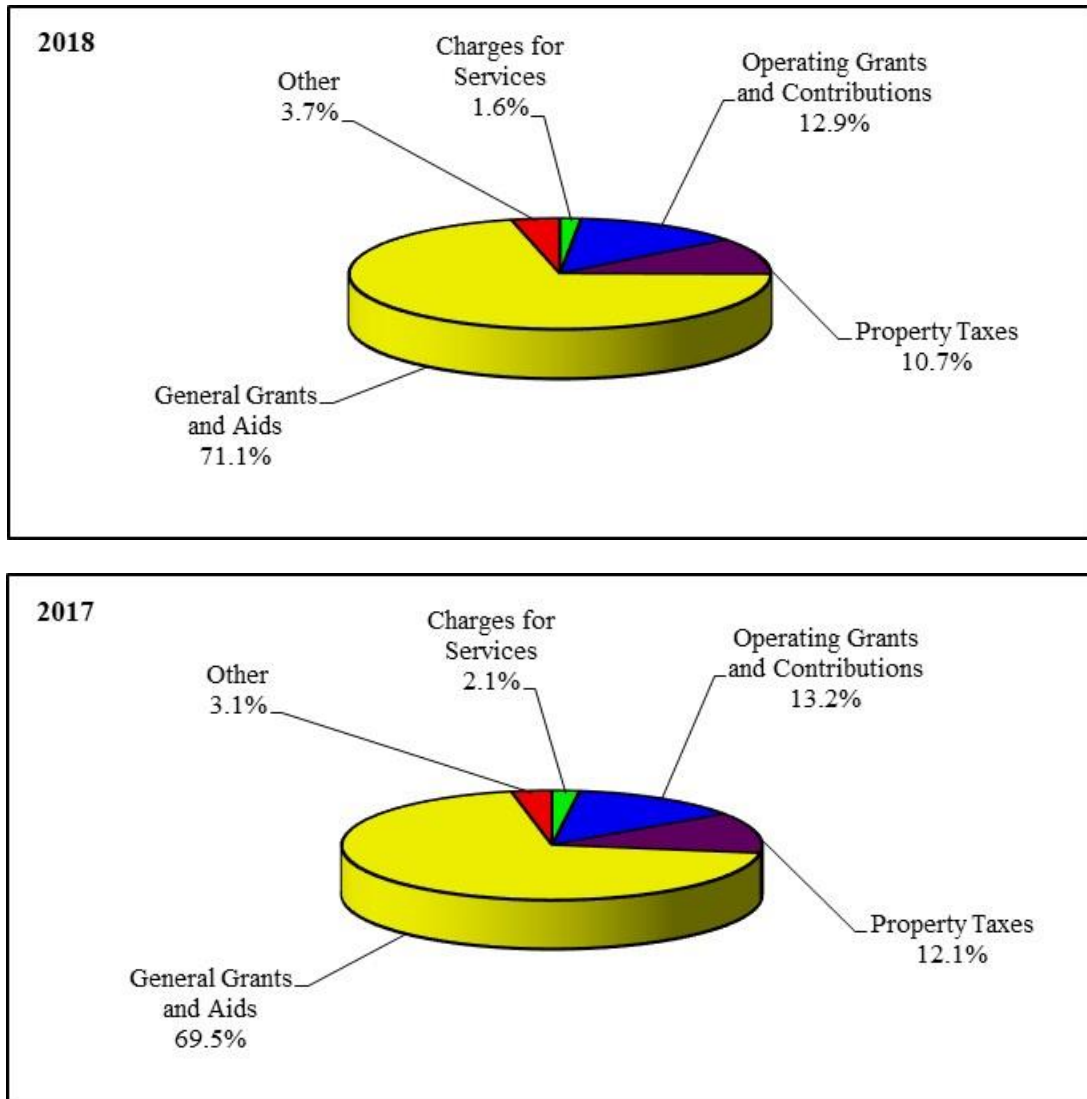
Table 2 presents a summarized version of the District's Statement of Activities:

	<u>2018</u>	<u>2017</u>
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 622,831	\$ 813,335
Operating grants and contributions	5,123,242	5,179,533
General revenues		
Property taxes	4,269,493	4,724,561
General grants and aids	28,240,304	27,185,274
Other	1,490,482	1,220,573
Total revenues	<u>39,746,352</u>	<u>39,123,276</u>
<b>Expenses</b>		
Administration	1,775,741	1,749,351
District support services	2,285,688	1,523,213
Elementary and secondary regular instruction	21,828,464	20,955,451
Vocational education instruction	322,064	308,071
Special education instruction	5,780,274	5,628,424
Instructional support services	3,281,508	3,936,467
Pupil support services	4,251,822	3,743,671
Sites and buildings	3,207,093	2,697,930
Fiscal and other fixed cost programs	80,375	101,163
Food service	1,570,264	1,468,593
Community service	1,653,752	1,804,805
Interest and fiscal charges	1,384,055	823,586
Total expenses	<u>47,421,100</u>	<u>44,740,725</u>
Change in net position	(7,674,748)	(5,617,449)
Net position – beginning	<u>(19,809,326)</u>	<u>(14,191,877)</u>
Net position – ending	<u>\$ (27,484,074)</u>	<u>\$ (19,809,326)</u>

This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. The statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Figure A shows further analysis of these revenue sources:

**Figure A – Sources of Revenue for Fiscal Years 2018 and 2017**

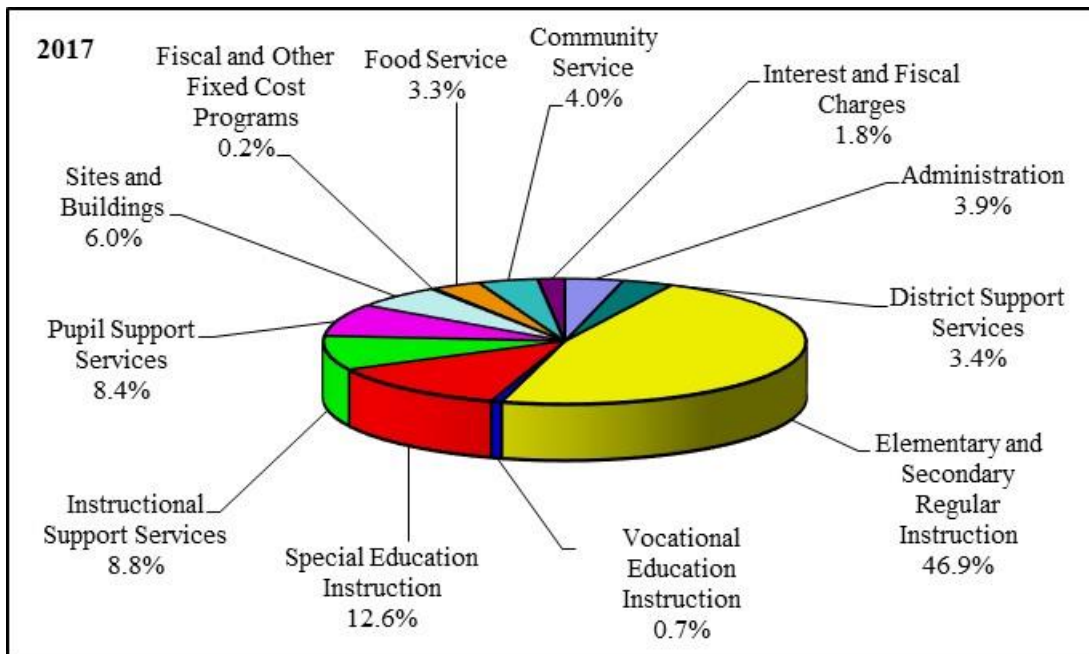
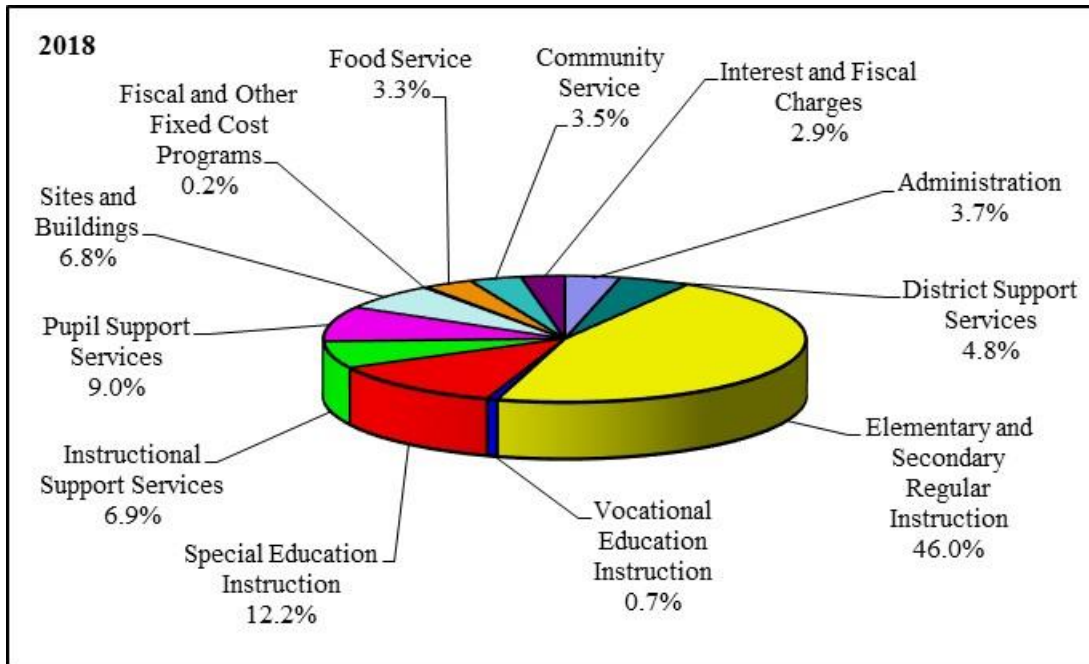


The largest share of the District’s revenue is received from the state, including the general education aid formula and most of the operating grants.

Property taxes are generally the next largest source of funding. The level of revenue property tax sources provide is not only dependent on district taxpayers 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 shows further analysis of these expense functions:

**Figure B – Expenses for Fiscal Years 2018 and 2017**



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

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
Major funds			
General	\$ 3,195,881	\$ 3,225,123	\$ (29,242)
Capital Projects – Building Construction	27,129,076	–	27,129,076
Debt Service	2,698,896	772,857	1,926,039
Nonmajor funds			
Food Service Special Revenue	457,332	514,161	(56,829)
Community Service Special Revenue	<u>45,721</u>	<u>76,617</u>	<u>(30,896)</u>
 Total governmental funds	 <u>\$ 33,526,906</u>	 <u>\$ 4,588,758</u>	 <u>\$ 28,938,148</u>

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use, as they represent the portion of fund balance that has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's School Board.

At June 30, 2018, the District's governmental funds reported combined fund balance of \$33,526,906, an increase of \$28,938,148 in comparison with the prior year. The increase is primarily due to unspent bond proceeds from the 2018A General Obligation School Building Bonds issued for \$29,395,000 during the year. Approximately 9.2 percent of the total fund balance amount (\$3,096,665) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either nonspendable or restricted to indicate that it is 1) not in spendable form (\$17,347), or 2) restricted for particular purposes (\$30,412,894).

**ANALYSIS OF THE GENERAL FUND**

Table 4 summarizes the amendments to the General Fund budget:

<b>Table 4 General Fund Budget</b>				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase</u>	<u>Percent Change</u>
Revenues	<u>\$ 32,202,687</u>	<u>\$ 33,916,693</u>	<u>\$ 1,714,006</u>	<u>5.3%</u>
Expenditures	<u>\$ 32,418,687</u>	<u>\$ 33,416,693</u>	<u>\$ 998,006</u>	<u>3.1%</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. During the year, the District amended the budget for known significant changes in circumstances such as: updated enrollment estimates, legislative changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, insurance premium changes, special education tuition changes, or for new debt issued.

Table 5 summarizes the operating results of the General Fund:

<b>Table 5 General Fund Operating Results</b>					
	<u>2018 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>
Revenues	\$ 34,207,406	\$ 290,713	0.9%	\$ 1,538,986	4.7%
Expenditures	<u>34,721,292</u>	<u>1,304,599</u>	3.9%	<u>2,583,666</u>	8.0%
Excess of revenue over expenditures	(513,886)	(1,013,886)		(1,044,680)	
Net other financing sources	<u>484,644</u>	<u>484,644</u>	100.0%	<u>207,787</u>	75.1%
Net change in fund balances	<u>\$ (29,242)</u>	<u>\$ (529,242)</u>		<u>\$ (836,893)</u>	

The fund balance of the General Fund decreased \$29,242, compared to an increase of \$500,000 approved in the final budget.

The largest revenue variance to budget occurred in state sources, due to conservative budgeting for general education and pension pass-through funding. The increase over the prior year includes improvements in the general education funding formula combined with increased enrollment.

General Fund expenditures were over budget, which was mostly for purchased services in pupil support services and elementary and secondary regular instruction as a result of increased enrollment and transportation needs. Capital expenditures in pupil support services were also over budget, largely due to buses financed with a capital lease in the current year. Expenditures also increased from the prior year as anticipated with more salaries and benefits as contractually approved.

## **COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS**

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

The Capital Projects – Building Construction Fund ended the year with \$27,129,076 of fund balance restricted for building construction. District taxpayers approved the issuance of the 2018A General Obligation School Building Bonds that were issued on March 15, 2018, to be used to finance the acquisition and betterment of school sites and facilities within the District. Capital outlay spending in this fund totaled \$880,775 for the current year.

### **Debt Service Fund**

The Debt Service Fund revenues and other financing sources exceeded expenditures by \$1,926,039 in the current year, compared to a \$1,770,621 fund balance increase anticipated in the budget. The funding of debt service is controlled in accordance with each outstanding debt issue's financing plan. The remaining fund balance of \$2,698,896 at June 30, 2018 is available for meeting future debt service obligations.

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

The Food Service Special Revenue Fund ended the year with expenditures exceeding revenues and other financing sources, reducing equity by \$56,829, compared to a balanced budget.

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

The Community Service Special Revenue Fund ended the year with expenditures exceeding revenues, reducing equity by \$30,896, compared to a balanced budget.

### **Internal Service Funds**

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis. The District currently maintains two internal service funds. These funds are used to account for the District's self-insured health and dental insurance functions.

Operating revenues for the internal service funds for fiscal year 2018 totaled \$3,453,427. This is an increase from the fiscal year 2017 operating revenue level of \$3,327,098. Nonoperating revenues totaled \$1,442, which is a decrease from the fiscal year 2017 nonoperating revenue of \$2,923. Operating expenses totaled \$3,721,888, which represents an increase from fiscal year 2017 operating expenditures of \$3,317,969, primarily due to an increase in health benefit claims.

The net position balance for all internal service funds as of June 30, 2018 was a deficit net position of \$110,968, which represents a decrease of \$267,019 from the prior year.

## CAPITAL ASSETS AND LONG-TERM LIABILITIES

### Capital Assets

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

	<u>2018</u>	<u>2017</u>	<u>Change</u>
Land	\$ 85,990	\$ 85,990	\$ -
Construction in progress	876,826	-	876,826
Land and building improvements	3,967,475	3,915,090	52,385
Buildings	38,365,138	38,365,138	-
Furniture and equipment	9,589,119	9,196,575	392,544
Less accumulated depreciation	<u>(26,972,426)</u>	<u>(26,135,048)</u>	<u>(837,378)</u>
Total	<u>\$ 25,912,122</u>	<u>\$ 25,427,745</u>	<u>\$ 484,377</u>
Depreciation expense	<u>\$ 1,197,439</u>	<u>\$ 1,207,820</u>	<u>\$ (10,381)</u>

By the end of 2018, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

The changes presented in the table above reflect the ongoing activity and completion of projects at district sites during fiscal year 2018, consistent with the activity of the Capital Projects – Building Construction Fund discussed on the previous page.

The District defines capital assets as those with an initial, individual cost of \$2,000 or more, which benefit more than one fiscal year.

Additional details about capital assets can be found in the notes to basic financial statements.

## Long-Term Liabilities

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

	<u>2018</u>	<u>2017</u>	<u>Change</u>
General obligation bonds payable	\$ 50,770,000	\$ 23,010,000	\$ 27,760,000
Unamortized premium/discount	1,804,390	1,198,168	606,222
Capital leases payable	622,669	335,538	287,131
Net pension liability	52,073,671	62,299,977	(10,226,306)
Net OPEB liability	919,212	711,638	207,574
Severance benefits payable	152,917	154,786	(1,869)
Compensated absences payable	<u>93,794</u>	<u>80,987</u>	<u>12,807</u>
<b>Total</b>	<b><u>\$ 106,436,653</u></b>	<b><u>\$ 87,791,094</u></b>	<b><u>\$ 18,645,559</u></b>

The increase in general obligation bonds payable, unamortized premium/discount, and capital leases payable, in the table above is primarily due to the 2018A General Obligation School Building Bonds and leases for buses issued during fiscal year 2018, as previously discussed.

The differences in the net pension liability reflects the change in the District's proportionate share of the state-wide pension obligations for the PERA and the TRA.

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):

District's market value	\$ 664,471,550
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 99,670,733</u>

Additional details of the District's 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 operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority.

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. For the 2019 fiscal year, the Legislature added \$124, or 2 percent, per pupil to the basic general education funding formula.

## **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 Office, Independent School District No. 286, 6300 Shingle Creek Parkway, Suite 286, Brooklyn Center, Minnesota 55430.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	Governmental Activities	
	2018	2017
<b>Assets</b>		
Cash and temporary investments	\$ 34,470,869	\$ 6,033,656
Receivables		
Current taxes	2,615,644	2,154,471
Delinquent taxes	24,338	28,434
Accounts and interest	168,349	87,207
Due from other governmental units	5,349,467	4,798,387
Due from post-employment benefits trust	94,960	—
Inventory	10,469	19,050
Prepaid items	6,878	178,049
Capital assets		
Not depreciated	962,816	85,990
Depreciated, net of accumulated depreciation	24,949,306	25,341,755
Total capital assets, net of accumulated depreciation	<u>25,912,122</u>	<u>25,427,745</u>
Total assets	68,653,096	38,726,999
Deferred outflows of resources		
Pension plan deferments	29,005,240	39,047,325
OPEB plan deferments	7,860	13,941
Total deferred outflows of resources	<u>29,013,100</u>	<u>39,061,266</u>
Total assets and deferred outflows of resources	<u>\$ 97,666,196</u>	<u>\$ 77,788,265</u>
<b>Liabilities</b>		
Salaries payable	\$ 1,291,454	\$ 1,292,199
Accounts and contracts payable	2,523,739	1,811,087
Accrued interest payable	673,357	362,184
Due to other governmental units	114,795	99,444
Unearned revenue	561,532	1,220,972
Claims incurred, but not reported	235,492	193,565
Long-term liabilities		
Due within one year	2,044,569	1,906,500
Due in more than one year	104,392,084	85,884,594
Total long-term liabilities	<u>106,436,653</u>	<u>87,791,094</u>
Total liabilities	111,837,022	92,770,545
Deferred inflows of resources		
Property taxes levied for subsequent year	4,597,220	3,903,778
Pension plan deferments	8,649,177	923,268
OPEB plan deferments	66,851	—
Total deferred inflows of resources	<u>13,313,248</u>	<u>4,827,046</u>
<b>Net position</b>		
Net investment in capital assets	481,631	1,818,800
Restricted for		
Capital asset acquisition	53,991	158,664
Debt service	2,025,539	426,949
Food service	457,332	514,161
Community service	84,148	77,640
Unrestricted	(30,586,715)	(22,805,540)
Total net position	<u>(27,484,074)</u>	<u>(19,809,326)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 97,666,196</u>	<u>\$ 77,788,265</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

Functions/Programs	Expenses	2018			2017
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Net (Expense) Revenue and Changes in Net Position
Governmental activities					Net (Expense) Revenue and Changes in Net Position
Administration	\$ 1,775,741	\$ -	\$ -	\$ (1,775,741)	\$ (1,749,351)
District support services	2,285,688	-	-	(2,285,688)	(1,523,213)
Elementary and secondary regular instruction	21,828,464	64,826	798,841	(20,964,797)	(20,156,585)
Vocational education instruction	322,064	-	52,295	(269,769)	(264,401)
Special education instruction	5,780,274	-	1,955,502	(3,824,772)	(3,459,035)
Instructional support services	3,281,508	-	-	(3,281,508)	(3,936,467)
Pupil support services	4,251,822	-	-	(4,251,822)	(3,743,671)
Sites and buildings	3,207,093	76,806	-	(3,130,287)	(2,618,968)
Fiscal and other fixed cost programs	80,375	-	-	(80,375)	(101,163)
Food service	1,570,264	113,467	1,422,306	(34,491)	106,754
Community service	1,653,752	367,732	894,298	(391,722)	(478,171)
Interest and fiscal charges	1,384,055	-	-	(1,384,055)	(823,586)
<b>Total governmental activities</b>	<b>\$ 47,421,100</b>	<b>\$ 622,831</b>	<b>\$ 5,123,242</b>	<b>(41,675,027)</b>	<b>(38,747,857)</b>
General revenue					
Taxes					
Property taxes, levied for general purposes				2,064,465	2,222,481
Property taxes, levied for community service				138,614	144,738
Property taxes, levied for debt service				2,066,414	2,357,342
General grants and aids				28,240,304	27,185,274
Other general revenues				1,267,948	1,186,074
Investment earnings				222,534	34,499
<b>Total general revenue</b>				<b>34,000,279</b>	<b>33,130,408</b>
Change in net position				(7,674,748)	(5,617,449)
Net position – beginning				(19,809,326)	(14,191,877)
Net position – ending				<b>\$ (27,484,074)</b>	<b>\$ (19,809,326)</b>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
<b>Assets</b>			
Cash and temporary investments	\$ 2,509,562	\$ 27,330,200	\$ 3,720,200
Receivables			
Current taxes	1,381,105	–	1,158,528
Delinquent taxes	11,356	–	12,230
Accounts and interest	63,472	86,193	–
Due from other governmental units	5,058,492	–	29,481
Due from other funds	236,819	–	–
Inventory	–	–	–
Prepaid items	6,798	–	–
	<u>6,798</u>	<u>–</u>	<u>–</u>
<b>Total assets</b>	<u><u>\$ 9,267,604</u></u>	<u><u>\$ 27,416,393</u></u>	<u><u>\$ 4,920,439</u></u>
<b>Liabilities</b>			
Salaries payable	\$ 1,291,454	\$ –	\$ –
Accounts and contracts payable	2,203,994	287,317	–
Due to other governmental units	109,274	–	–
Due to other funds	–	–	–
Unearned revenue	236,289	–	–
<b>Total liabilities</b>	<u>3,841,011</u>	<u>287,317</u>	<u>–</u>
<b>Deferred inflows of resources</b>			
Property taxes levied for subsequent year	2,229,908	–	2,221,543
Unavailable revenue – delinquent taxes	804	–	–
<b>Total deferred inflows of resources</b>	<u>2,230,712</u>	<u>–</u>	<u>2,221,543</u>
<b>Fund balances</b>			
Nonspendable	6,798	–	–
Restricted	53,991	27,129,076	2,698,896
Unassigned	3,135,092	–	–
<b>Total fund balances</b>	<u>3,195,881</u>	<u>27,129,076</u>	<u>2,698,896</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u><u>\$ 9,267,604</u></u>	<u><u>\$ 27,416,393</u></u>	<u><u>\$ 4,920,439</u></u>

Nonmajor Funds	Total Governmental Funds	
	2018	2017
\$ 461,282	\$ 34,021,244	\$ 5,394,587
76,011	2,615,644	2,154,471
752	24,338	28,434
17,598	167,263	82,256
261,494	5,349,467	4,798,387
–	236,819	80,545
10,469	10,469	19,050
80	6,878	178,049
<u>\$ 827,686</u>	<u>\$ 42,432,122</u>	<u>\$ 12,735,779</u>
\$ –	\$ 1,291,454	\$ 1,292,199
32,428	2,523,739	1,811,087
4,173	113,447	99,444
141,859	141,859	80,545
404	236,693	926,568
<u>178,864</u>	<u>4,307,192</u>	<u>4,209,843</u>
145,769	4,597,220	3,903,778
–	804	33,400
<u>145,769</u>	<u>4,598,024</u>	<u>3,937,178</u>
10,549	17,347	197,099
530,931	30,412,894	1,497,950
(38,427)	3,096,665	2,893,709
<u>503,053</u>	<u>33,526,906</u>	<u>4,588,758</u>
<u>\$ 827,686</u>	<u>\$ 42,432,122</u>	<u>\$ 12,735,779</u>

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INDEPENDENT SCHOOL DISTRICT NO. 286

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

	<u>2018</u>	<u>2017</u>
Total fund balances – governmental funds	\$ 33,526,906	\$ 4,588,758
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	52,884,548	51,562,793
Accumulated depreciation	(26,972,426)	(26,135,048)
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	(50,770,000)	(23,010,000)
Unamortized premium/discount	(1,804,390)	(1,198,168)
Capital leases payable	(622,669)	(335,538)
Net pension liability	(52,073,671)	(62,299,977)
Net OPEB liability	(919,212)	(711,638)
Severance benefits payable	(152,917)	(154,786)
Compensated absences payable	(93,794)	(80,987)
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 funds are included in the governmental activities in the Statement of Net Position.	(110,968)	156,051
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(673,357)	(362,184)
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 plan deferments	29,005,240	39,047,325
Deferred outflows – OPEB plan deferments	7,860	13,941
Deferred inflows – pension plan deferments	(8,649,177)	(923,268)
Deferred inflows – OPEB plan deferments	(66,851)	–
Deferred inflows – unavailable revenue – delinquent taxes	804	33,400
Total net position – governmental activities	<u>\$ (27,484,074)</u>	<u>\$ (19,809,326)</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

Statement of Revenue, Expenditures, and Changes in Fund Balances  
Governmental Funds

Year Ended June 30, 2018

(With Partial Comparative Information for the Year Ended June 30, 2017)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
<b>Revenue</b>			
Local sources			
Property taxes	\$ 2,079,762	\$ –	\$ 2,082,690
Investment earnings	33,278	160,842	22,857
Other	1,409,080	–	–
State sources	29,491,593	–	368,937
Federal sources	1,193,693	–	–
Total revenue	<u>34,207,406</u>	<u>160,842</u>	<u>2,474,484</u>
<b>Expenditures</b>			
Current			
Administration	1,339,362	–	–
District support services	2,292,218	–	–
Elementary and secondary regular instruction	16,459,246	–	–
Vocational education instruction	226,529	–	–
Special education instruction	4,325,080	–	–
Instructional support services	2,478,110	–	–
Pupil support services	4,223,297	–	–
Sites and buildings	3,092,338	–	–
Fiscal and other fixed cost programs	80,375	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	880,775	–
Debt service			
Principal	197,513	–	1,635,000
Interest and fiscal charges	7,224	–	1,172,017
Total expenditures	<u>34,721,292</u>	<u>880,775</u>	<u>2,807,017</u>
Excess (deficiency) of revenue over expenditures	(513,886)	(719,933)	(332,533)
<b>Other financing sources (uses)</b>			
Debt issued	–	27,500,000	1,895,000
Premium on debt issued	–	349,009	363,572
Capital leases issued	484,644	–	–
Sale of capital assets	–	–	–
Total other financing sources (uses)	<u>484,644</u>	<u>27,849,009</u>	<u>2,258,572</u>
Net change in fund balances	(29,242)	27,129,076	1,926,039
<b>Fund balances</b>			
Beginning of year	<u>3,225,123</u>	<u>–</u>	<u>772,857</u>
End of year	<u>\$ 3,195,881</u>	<u>\$ 27,129,076</u>	<u>\$ 2,698,896</u>

Nonmajor Funds	Total Governmental Funds	
	2018	2017
\$ 139,637	\$ 4,302,089	\$ 4,712,781
4,115	221,092	31,576
481,199	1,890,279	1,999,409
524,779	30,385,309	28,817,200
1,791,825	2,985,518	2,846,378
<u>2,941,555</u>	<u>39,784,287</u>	<u>38,407,344</u>
–	1,339,362	1,291,651
–	2,292,218	1,397,874
–	16,459,246	15,135,541
–	226,529	217,374
–	4,325,080	4,192,081
–	2,478,110	3,119,068
–	4,223,297	3,636,943
–	3,092,338	2,869,254
–	80,375	101,163
1,531,095	1,531,095	1,428,824
1,431,960	1,431,960	1,485,761
66,725	947,500	9,105
–	1,832,513	1,626,758
–	1,179,241	1,066,177
<u>3,029,780</u>	<u>41,438,864</u>	<u>37,577,574</u>
(88,225)	(1,654,577)	829,770
–	29,395,000	–
–	712,581	–
–	484,644	276,757
500	500	100
<u>500</u>	<u>30,592,725</u>	<u>276,857</u>
(87,725)	28,938,148	1,106,627
<u>590,778</u>	<u>4,588,758</u>	<u>3,482,131</u>
<u>\$ 503,053</u>	<u>\$ 33,526,906</u>	<u>\$ 4,588,758</u>

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INDEPENDENT SCHOOL DISTRICT NO. 286

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2018

(With Partial Comparative Information for the Year Ended June 30, 2017)

	<u>2018</u>	<u>2017</u>
Total net change in fund balances – governmental funds	\$ 28,938,148	\$ 1,106,627
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as 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	1,681,816	811,451
Depreciation expense	(1,197,439)	(1,207,820)
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	(29,395,000)	–
Capital leases payable	(484,644)	(276,757)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	1,635,000	1,470,000
Capital leases payable	197,513	156,758
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.		
	(606,222)	98,046
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.		
Claims and judgments payable	–	20,000
Net pension liability	10,226,306	(44,129,346)
Net OPEB liability	(207,574)	(154,147)
Severance benefits payable	1,869	(4,162)
Compensated absences payable	(12,807)	14,009
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.		
	(267,019)	12,052
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.		
	(311,173)	144,545
The recognition of certain revenues and expenses/expenditures differs between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plan deferments	(10,042,085)	35,015,479
Deferred outflows – OPEB plan deferments	(6,081)	13,941
Deferred inflows – pension plan deferments	(7,725,909)	1,280,095
Deferred inflows – OPEB plan deferments	(66,851)	–
Deferred inflows – unavailable revenue – delinquent taxes	(32,596)	11,780
Change in net position – governmental activities	<u>\$ (7,674,748)</u>	<u>\$ (5,617,449)</u>

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INDEPENDENT SCHOOL DISTRICT NO. 286

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

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 2,048,565	\$ 2,048,565	\$ 2,079,762	\$ 31,197
Investment earnings	9,913	9,913	33,278	23,365
Other	1,270,865	1,446,316	1,409,080	(37,236)
State sources	27,778,867	29,292,439	29,491,593	199,154
Federal sources	1,094,477	1,119,460	1,193,693	74,233
Total revenue	<u>32,202,687</u>	<u>33,916,693</u>	<u>34,207,406</u>	<u>290,713</u>
Expenditures				
Current				
Administration	1,436,569	1,439,673	1,339,362	(100,311)
District support services	2,535,624	2,414,882	2,292,218	(122,664)
Elementary and secondary regular instruction	15,089,351	15,942,496	16,459,246	516,750
Vocational education instruction	239,058	239,644	226,529	(13,115)
Special education instruction	4,187,968	4,275,400	4,325,080	49,680
Instructional support services	2,366,435	2,522,256	2,478,110	(44,146)
Pupil support services	3,163,009	3,064,973	4,223,297	1,158,324
Sites and buildings	3,126,163	3,209,098	3,092,338	(116,760)
Fiscal and other fixed cost programs	121,338	121,338	80,375	(40,963)
Debt service				
Principal	148,539	181,715	197,513	15,798
Interest and fiscal charges	4,633	5,218	7,224	2,006
Total expenditures	<u>32,418,687</u>	<u>33,416,693</u>	<u>34,721,292</u>	<u>1,304,599</u>
Excess (deficiency) of revenue over expenditures	(216,000)	500,000	(513,886)	(1,013,886)
Other financing sources				
Capital leases issued	—	—	484,644	484,644
Net change in fund balances	<u>\$ (216,000)</u>	<u>\$ 500,000</u>	<u>(29,242)</u>	<u>\$ (529,242)</u>
Fund balances				
Beginning of year			<u>3,225,123</u>	
End of year			<u>\$ 3,195,881</u>	

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	<u>2018</u>	<u>2017</u>
Assets		
Current assets		
Cash and temporary investments	\$ 449,625	\$ 639,069
Receivables		
Accounts and interest	<u>1,086</u>	<u>4,951</u>
Total current assets	<u>450,711</u>	<u>644,020</u>
Liabilities		
Current liabilities		
Due to other governmental units	1,348	-
Unearned revenue	324,839	294,404
Claims incurred, but not reported	<u>235,492</u>	<u>193,565</u>
Total current liabilities	<u>561,679</u>	<u>487,969</u>
Net position		
Unrestricted	<u>\$ (110,968)</u>	<u>\$ 156,051</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	<u>2018</u>	<u>2017</u>
Operating revenue		
Charges for services		
Contributions from governmental funds	\$ 3,453,427	\$ 3,327,098
Operating expenses		
Health benefit claims	3,505,447	3,111,520
Dental benefit claims	216,441	206,449
Total operating expenses	<u>3,721,888</u>	<u>3,317,969</u>
Operating income (loss)	(268,461)	9,129
Nonoperating revenue		
Investment earnings	<u>1,442</u>	<u>2,923</u>
Change in net position	(267,019)	12,052
Net position		
Beginning of year	<u>156,051</u>	<u>143,999</u>
End of year	<u>\$ (110,968)</u>	<u>\$ 156,051</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Contributions from governmental funds	\$ 3,487,727	\$ 3,357,219
Payment for health claims	(3,468,596)	(3,052,975)
Payment for dental claims	(210,017)	(212,597)
Net cash flows from operating activities	<u>(190,886)</u>	<u>91,647</u>
Cash flows from investing activities		
Investment income received	<u>1,442</u>	<u>2,923</u>
Net change in cash and cash equivalents	(189,444)	94,570
Cash and cash equivalents		
Beginning of year	<u>639,069</u>	<u>544,499</u>
End of year	<u>\$ 449,625</u>	<u>\$ 639,069</u>
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ (268,461)	\$ 9,129
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts and interest receivable	3,865	19,335
Due to other governmental units	1,348	-
Unearned revenue	30,435	10,786
Claims incurred, but not reported	<u>41,927</u>	<u>52,397</u>
Net cash flows from operating activities	<u>\$ (190,886)</u>	<u>\$ 91,647</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

Statement of Fiduciary Net Position  
Fiduciary Funds  
as of June 30, 2018

	Private-Purpose Trust Fund	Post-Employment Benefits Trust Fund
Assets		
Cash and temporary investments	\$ 83,374	\$ -
Cash and investments held by trustee		
State and local obligations	-	232,617
Negotiable certificates of deposit	-	238,771
Nonnegotiable certificates of deposit	-	888,000
MNTrust Investment Shares Portfolio	-	7,118
Receivables		
Accounts and interest	-	28,282
Total assets	<u>83,374</u>	<u>1,394,788</u>
Liabilities		
Due to other funds	-	94,960
Net position		
Held in trust for scholarships and OPEB	<u>\$ 83,374</u>	<u>\$ 1,299,828</u>

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

	Private-Purpose Trust Fund	Post-Employment Benefits Trust Fund
Additions		
Contributions		
Private donations	\$ 1,536	\$ -
Investment earnings	857	30,534
Total additions	<u>2,393</u>	<u>30,534</u>
Deductions		
Scholarships awarded	2,830	-
Benefit payments	-	94,960
Administrative expenses	-	250
Total deductions	<u>2,830</u>	<u>95,210</u>
Change in net position	(437)	(64,676)
Net position		
Beginning of year	<u>83,811</u>	<u>1,364,504</u>
End of year	<u>\$ 83,374</u>	<u>\$ 1,299,828</u>

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INDEPENDENT SCHOOL DISTRICT NO. 286

Notes to Basic Financial Statements  
Year Ended June 30, 2018

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

**A. Organization**

Independent School District No. 286 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. 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 accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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.

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 to exercise control over extracurricular activities; therefore, the extracurricular student activity accounts are included in the District's General Fund.

**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, except for the fiduciary funds. Generally, the effect of material interfund activity has been removed from the government-wide financial statements. Transactions representing interfund services provided and used are not eliminated in the consolidation process to the government-wide financial statements.

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.

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

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, proprietary, and fiduciary 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, including property taxes, to be available if they are collected within 60 days after year-end. Grants and similar items 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 funding formulas established by 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 obligations, 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 the proprietary fund financial statements. Because the principal users of the internal services are the District’s governmental activities, the internal service funds are consolidated into the governmental activities column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenue of the District’s internal service funds are charges to customers (other district funds) for service. Operating expenses for the internal service funds include the cost of providing the services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Fiduciary funds are presented in the fiduciary fund financial statements by type; the District has a Private-Purpose Trust Fund and a Pension (Post-Employment Benefits) Trust Fund. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

### 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. Descriptions of the funds included in this report are as follows:

### Major Governmental Funds

**General Fund** – The General Fund is the government’s primary operating fund. It accounts for all financial resources of the general government, 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.

**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. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the taxable OPEB bond issue.

### Nonmajor Governmental Funds

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund is used primarily to record financial activities of 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 Funds** – Internal service funds account 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 District’s internal service funds are used to account for dental and health insurance benefits offered by the District to its employees as a self-insured plan.

### Fiduciary Funds

**Private-Purpose Trust Fund** – The Private-Purpose Trust Fund is used to account for resources held in trust to award scholarships to former students.

**Post-Employment Benefits Trust Fund** – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

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

### **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. During the fiscal year ended June 30, 2018, expenditures exceeded budgeted amounts in the General Fund by \$1,304,599, in the Food Service Special Revenue Fund by \$97,217, and in the Debt Service Fund by \$279,031. These variances were funded by revenues and other financing sources in excess of budget and available fund balance.

### **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. Debt proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to the fund.

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Post-Employment Benefits Trust Fund, this represents assets contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Interest earned on these investments is allocated directly to these accounts.

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 certain 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 may also be 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.

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

### **H. Inventories**

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

### **I. Prepaid Items**

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

### **J. Property Taxes**

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

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 \$418,423 of the property tax levy collectible in 2018 as revenue to the District in fiscal year 2017–2018. The remaining portion of the taxes collectible in 2018 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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.

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.

### **K. Capital Assets**

Capital assets that are purchased or constructed by the District are recorded at historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$2,000 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.

Capital assets are recorded in the government-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus 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 10 to 50 years for land and building improvements and buildings, and 5 to 15 years for furniture and equipment. Land is not depreciated.

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

The District does not possess material amounts of infrastructure capital assets, such as sidewalks or parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

### **L. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. 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 as other financing sources or uses, respectively. The face amount of debt issued is reported as other financing sources.

### **M. Compensated Absences**

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end due to employee termination or similar circumstances.

### **N. Severance**

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. Severance benefits are calculated by converting a portion of an eligible employee's 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. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

### **O. State-Wide Pension Plans**

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.

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

### **P. Other Post-Employment Benefits (OPEB) Plan**

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources, and OPEB expense, information about the fiduciary net position of the District's OPEB plan and additions to/dedications from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and certain investments that have a maturity at the time of purchase of one year or less, which are reported at amortized cost.

### **Q. Deferred Outflows/Inflows of Resources**

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

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

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

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

### **R. Use of Estimates**

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

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

### S. Net Position

In the government-wide and internal service 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 when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **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.

### T. 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 board chair, superintendent, finance committee, or finance director 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, 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)

### U. 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 coverage in the current year.
- 2. Self-Insurance** – The District has established two internal service funds to account for and finance its self-insured risk of loss for respective employee dental and health insurance plans. Under these plans, the internal service funds provide coverage to participating employees and their dependents for various dental and healthcare costs as described in the plans.

The District makes premium payments that include both employer and employee contributions to the internal service funds on behalf of program participants based on rates determined by insurance company estimates of monthly claims paid for each coverage class, plus the stop-loss health insurance premium costs and administrative service charges.

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

Changes in the balance of dental claim liabilities for the last two years were as follows:

	Balance – Beginning of Year	Charges and Changes in Estimates	Claim Payments	Balance – End of Year
2017	\$ 20,598	\$ 206,449	\$ 212,597	\$ 14,450
2018	\$ 14,450	\$ 216,441	\$ 210,017	\$ 20,874

Changes in the balance of health claim liabilities for the last two years were as follows:

	Balance – Beginning of Year	Charges and Changes in Estimates	Claim Payments	Balance – End of Year
2017	\$ 120,570	\$ 3,111,520	\$ 3,052,975	\$ 179,115
2018	\$ 179,115	\$ 3,505,447	\$ 3,469,944	\$ 214,618

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

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

## NOTE 2 – DEPOSITS AND INVESTMENTS

### A. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, 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 \$2,867,857, while the balance on the bank records was \$3,130,782. At June 30, 2018, all deposits were fully covered by federal deposit insurance, surety bonds, or by collateral held by the District’s agent in the District’s name.

### B. Investments

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

**Custodial Credit Risk** – For investments, 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. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. 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.

**Concentration Risk** – This is the risk associated with investing a significant portion of the District’s investments (considered 5 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 investment policies do not address concentration risk.

**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 the maturities of investments; however, when purchasing investments, the District considers such things as interest rates and cash flow needs.

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

**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. For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statutes § 356A.06, Subd. 7. The District’s investment policies do not further restrict investing in specific financial instruments.

The following table presents the District’s deposits and investments at year-end:

Deposits/Investments	Credit Risk		Fair Value Measurements Using	Interest Risk – Maturity Duration in Years		Total
	Rating	Agency		Less Than 1	1 to 5	
State and local obligations	Aa	Moody’s	Level 1	\$ –	\$ 232,617	\$ 232,617
U.S. treasuries	AA	S&P	Level 1	\$ –	\$ 12,738,495	12,738,495
Commercial paper	A-1	S&P	Level 2	\$ 5,029,204	\$ –	5,029,204
Negotiable certificates of deposit	N/R	N/A	Level 2	\$ 1,226,983	\$ –	1,226,983
Investment pools/mutual funds						
MSDLAF – Liquid Class	AAA	S&P	N/A	N/A	N/A	6,350,774
MSDLAF – MAX Class	AAA	S&P	N/A	N/A	N/A	393
MSDLAF – Term Series	AAA	S&P	N/A	\$ 7,410,000	\$ –	7,410,000
MNTrust Investment Shares Portfolio	AAA	S&P	N/A	N/A	N/A	64,426
Total investments						<u>33,052,892</u>
Deposits						<u>2,867,857</u>
Total deposits and investments						<u>\$ 35,920,749</u>

N/A – Not Applicable

N/R – Not Rated

Deposits and investments are included on the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	\$ 34,470,869
Statement of Fiduciary Net Position	
Cash and temporary investments – Private-Purpose Trust Fund	83,374
Cash and investments held by trustee – Post-Employment Benefits Trust Fund	<u>1,366,506</u>
Total	<u>\$ 35,920,749</u>

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

The Minnesota School District Liquid Asset Fund (MSDLAF) and the MNTrust are regulated by Minnesota Statutes and are external investment pools, which are not registered with the Securities and Exchange Commission. The District’s investments in the MSDLAF and the MNTrust are measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. For these investment pools, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice required; the redemption notice period is 14 days for the MSDLAF MAX Class and 7 days for the MNTrust Term Series.

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity for the year ended is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not depreciated				
Land	\$ 85,990	\$ –	\$ –	\$ 85,990
Construction in progress	–	876,826	–	876,826
Total capital assets, not depreciated	85,990	876,826	–	962,816
Capital assets, depreciated				
Land and building improvements	3,915,090	52,385	–	3,967,475
Buildings	38,365,138	–	–	38,365,138
Furniture and equipment	9,196,575	752,605	(360,061)	9,589,119
Total capital assets, depreciated	51,476,803	804,990	(360,061)	51,921,732
Less accumulated depreciation for				
Land and building improvements	1,272,024	128,180	–	1,400,204
Buildings	17,343,663	822,093	–	18,165,756
Furniture and equipment	7,519,361	247,166	(360,061)	7,406,466
Total accumulated depreciation	26,135,048	1,197,439	(360,061)	26,972,426
Net capital assets, depreciated	25,341,755	(392,449)	–	24,949,306
Total capital assets, net	\$ 25,427,745	\$ 484,377	\$ –	\$ 25,912,122

Depreciation expense was charged to the following governmental functions:

Administration	\$ 1,229
District support services	44,646
Elementary and secondary regular instruction	787,382
Special education instruction	9,079
Instructional support services	350
Pupil support services	171,541
Sites and buildings	172,143
Food service	9,871
Community education services	1,198
Total depreciation expense	\$ 1,197,439

## NOTE 4 – LONG-TERM LIABILITIES

### A. Components of Long-Term Liabilities

The District currently has the following long-term obligations outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
General obligation bonds payable					
2009A Capital Facility Bonds	05/01/2009	2.00–4.00%	\$ 1,420,000	02/01/2024	\$ 685,000
2009B Taxable OPEB Bonds	05/01/2009	5.00%	\$ 2,485,000	02/01/2020	615,000
2011A Capital Facility Bonds	08/01/2011	2.50–4.38%	\$ 1,255,000	02/01/2026	845,000
2015A Building Refunding Bonds	12/09/2015	3.00–5.00%	\$ 21,450,000	02/01/2031	19,230,000
2018A School Building Bonds	03/15/2018	3.00–4.00%	\$ 29,395,000	02/01/2043	29,395,000
Total general obligation bonds payable					50,770,000
Unamortized premium/discount					1,804,390
Capital leases payable					622,669
Net pension liability					52,073,671
Net OPEB liability					919,212
Severance benefits payable					152,917
Compensated absences payable					93,794
Total long-term obligations					<u>\$ 106,436,653</u>

### B. Description of Long-Term Liabilities

**General Obligation Bonds Payable** – These obligations were issued to finance acquisition, construction, and/or improvements of capital facilities to finance the retirement (refunding) of prior bond issues, or to finance OPEB obligations. Assets of the Debt Service Fund, together with scheduled deferred ad valorem tax levies, are dedicated for the retirement of these obligations. 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.

**Capital Leases Payable** – The District has purchased various assets through capitalized lease-purchase agreements. Annual principal and interest on these leases will be paid from the General Fund.

Assets Leased	Asset Value Capitalized	Interest Rate	Lease Date	Final Maturity	Principal Outstanding
Network printing software	\$ 26,812	8.88%	08/01/2015	08/01/2020	\$ 13,082
Lawn mower	18,508	3.89%	04/21/2016	04/21/2020	7,538
Two school buses	178,396	2.40%	07/19/2016	09/01/2018	59,574
One school bus	98,361	2.75%	05/15/2017	06/15/2019	64,831
Custodian equipment	50,616	2.03%	11/15/2017	07/15/2020	45,044
Five school buses	432,600	3.40%	02/05/2018	07/15/2020	432,600
	<u>\$ 805,293</u>				<u>\$ 622,669</u>

Amortization of assets capitalized through these lease agreements is included in depreciation expense in the government-wide financial statements. The amount charged to depreciation for the year was \$62,300.

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

The assets acquired through these capital leases are reported as follows:

	<u>Furniture and Equipment</u>
Assets	\$ 805,293
Less accumulated depreciation	<u>106,066</u>
	<u><u>\$ 699,227</u></u>

**Other Long-Term Liabilities**

The District offers a number of benefits to its employees, including pensions, OPEB, severance benefits, and compensated absences. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund. The District has also established a Post-Employment Benefits Trust Fund to finance OPEB obligations.

District employees participate in two state-wide, cost-sharing, multiple-employer defined benefit pension plans administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans for the current year:

<u>Pension Plans</u>	<u>Net Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
State-wide, multiple-employer – PERA	\$ 5,822,148	\$ 1,787,561	\$ 1,451,951	\$ 649,786
State-wide, multiple-employer – TRA	<u>46,251,523</u>	<u>27,217,679</u>	<u>7,197,226</u>	<u>8,420,716</u>
Total	<u><u>\$ 52,073,671</u></u>	<u><u>\$ 29,005,240</u></u>	<u><u>\$ 8,649,177</u></u>	<u><u>\$ 9,070,502</u></u>

**C. Changes in Long-Term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General obligation bonds payable	\$ 23,010,000	\$ 29,395,000	\$ 1,635,000	\$ 50,770,000	\$ 1,690,000
Unamortized premium/discount	1,198,168	712,581	106,359	1,804,390	–
Subtotal	<u>24,208,168</u>	<u>30,107,581</u>	<u>1,741,359</u>	<u>52,574,390</u>	<u>1,690,000</u>
Capital leases payable	335,538	484,644	197,513	622,669	260,775
Net pension liability	62,299,977	1,373,290	11,599,596	52,073,671	–
Net OPEB liability	711,638	280,506	72,932	919,212	–
Severance benefits payable	154,786	3,241	5,110	152,917	–
Compensated absences payable	<u>80,987</u>	<u>356,869</u>	<u>344,062</u>	<u>93,794</u>	<u>93,794</u>
	<u><u>\$ 87,791,094</u></u>	<u><u>\$ 32,606,131</u></u>	<u><u>\$ 13,960,572</u></u>	<u><u>\$ 106,436,653</u></u>	<u><u>\$ 2,044,569</u></u>

**NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)****D. Minimum Debt Payments**

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

Year Ending June 30,	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2019	\$ 1,690,000	\$ 1,813,567	\$ 260,775	\$ 11,281
2020	1,750,000	1,895,134	199,360	11,690
2021	1,470,000	1,835,739	162,534	5,211
2022	1,515,000	1,764,824	–	–
2023	1,590,000	1,692,979	–	–
2024–2028	8,590,000	7,350,904	–	–
2029–2033	9,395,000	5,865,465	–	–
2034–2038	11,180,000	4,080,431	–	–
2039–2043	13,590,000	1,673,200	–	–
	<u>\$ 50,770,000</u>	<u>\$ 27,972,243</u>	<u>\$ 622,669</u>	<u>\$ 28,182</u>

## NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds, which are defined earlier in the report. When applicable, certain restrictions, which have an accumulated deficit balance 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. A description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

### A. Classifications

At year-end, 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
<b>Nonspendable</b>					
Inventory	\$ –	\$ –	\$ –	\$ 10,469	\$ 10,469
Prepaid items	6,798	–	–	80	6,878
Total nonspendable	<u>6,798</u>	<u>–</u>	<u>–</u>	<u>10,549</u>	<u>17,347</u>
<b>Restricted for</b>					
Health and safety	38,696	–	–	–	38,696
Long-term facilities maintenance	15,295	–	–	–	15,295
Building construction	–	27,129,076	–	–	27,129,076
Regular debt service	–	–	2,615,656	–	2,615,656
OPEB debt service	–	–	83,240	–	83,240
Food service	–	–	–	446,783	446,783
Early childhood family education programs	–	–	–	69,786	69,786
School readiness	–	–	–	12,350	12,350
Community service	–	–	–	2,012	2,012
Total restricted	<u>53,991</u>	<u>27,129,076</u>	<u>2,698,896</u>	<u>530,931</u>	<u>30,412,894</u>
<b>Unassigned</b>					
Unassigned – community education programs account deficit	–	–	–	(38,427)	(38,427)
Unassigned	<u>3,135,092</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>3,135,092</u>
Total unassigned	<u>3,135,092</u>	<u>–</u>	<u>–</u>	<u>(38,427)</u>	<u>3,096,665</u>
Total	<u>\$ 3,195,881</u>	<u>\$ 27,129,076</u>	<u>\$ 2,698,896</u>	<u>\$ 503,053</u>	<u>\$ 33,526,906</u>

### B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance of 7 percent to a maximum of 15 percent of the prior fiscal year’s expenditures. At June 30, 2018, the unassigned fund balance was 9 percent of fiscal 2018 actual expenditures.

## **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.

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

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

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

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

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

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

### **B. Benefits Provided**

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

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually through 2018, and 1.0 percent thereafter.

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

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

**1. GERF Benefits**

Benefits are based on a member’s highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA’s Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent of average salary 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 benefit calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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

**C. Contributions**

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

**1. GERF Contributions**

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2018; the District was required to contribute 7.5 percent for Coordinated Plan members. The District’s contributions to the GERF for the year ended June 30, 2018, were \$469,601. The District’s contributions were equal to the required contributions as set by state statutes.

**2. TRA Contributions**

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

	Year Ended June 30,			
	2017		2018	
	Employee	Employer	Employee	Employer
<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, 2018, were \$978,829. 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:

	<i>in thousands</i>
Employer contributions reported in the TRA’s CAFR Statement of Changes in Fiduciary Net Position	\$ 367,791
Add employer contributions not related to future contribution efforts	810
Deduct the TRA’s contributions not included in allocation	<u>(456)</u>
Total employer contributions	368,145
Total nonemployer contributions	<u>35,588</u>
Total contributions reported in the Schedule of Employer and Nonemployer Pension Allocations	<u>\$ 403,733</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, 2018, the District reported a liability of \$5,822,148 for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of the PERA’s participating employers. The District’s proportionate share was 0.0912 percent at the end of the measurement period and 0.0928 percent for the beginning of the period.

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

District’s proportionate share of the net pension liability	\$ 5,822,148
State’s proportionate share of the net pension liability associated with the District	\$ 73,226

For the year ended June 30, 2018, the District recognized pension expense of \$647,671 for its proportionate share of the GERF’s pension expense. In addition, the District recognized an additional \$2,115 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, 2018, the District reported its proportionate share of the GERF’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 191,881	\$ 376,334
Changes in actuarial assumptions	983,560	583,671
Differences between projected and actual investment earnings	–	234,901
Changes in proportion	142,519	257,045
District’s contributions to the GERF subsequent to the measurement date	<u>469,601</u>	<u>–</u>
Total	<u>\$ 1,787,561</u>	<u>\$ 1,451,951</u>

A total of \$469,601 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2019	\$ (130,737)
2020	\$ 381,924
2021	\$ (138,040)
2022	\$ (247,138)

**2. TRA Pension Costs**

At June 30, 2018, the District reported a liability of \$46,251,523 for its proportionate share of the TRA’s net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District’s proportionate share was 0.2317 percent at the end of the measurement period and 0.2296 percent for the beginning of the period.

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

District’s proportionate share of the net pension liability	\$ 46,251,523
State’s proportionate share of the net pension liability associated with the District	\$ 4,471,027

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

For the year ended June 30, 2018, the District recognized pension expense of \$8,334,965. It also recognized \$85,751 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 337,363	\$ 324,775
Changes in actuarial assumptions	24,819,022	6,479,108
Differences between projected and actual investment earnings	–	393,343
Changes in proportion	1,082,465	–
District’s contributions to the TRA subsequent to the measurement date	<u>978,829</u>	<u>–</u>
Total	<u>\$ 27,217,679</u>	<u>\$ 7,197,226</u>

A total of \$978,829 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2019	\$ 5,144,772
2020	\$ 5,894,931
2021	\$ 5,011,484
2022	\$ 4,267,484
2023	\$ (1,277,047)

**E. Actuarial Assumptions**

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

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

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

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

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

The following changes in actuarial assumptions occurred in 2017:

### **1. GERF**

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

### **2. TRA**

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

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

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

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

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

**F. Discount Rate****1. GERF**

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

**2. TRA**

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

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

### G. Pension Liability Sensitivity

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

	<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	\$ 9,030,584	\$ 5,822,148	\$ 3,195,460
TRA discount rate	4.12%	5.12%	6.12%
District’s proportionate share of the TRA net pension liability	\$ 61,043,098	\$ 46,251,523	\$ 33,780,426

### H. Pension Plan Fiduciary Net Position

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

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

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

## **NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN**

### **A. Plan Description**

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. Management of the plan is vested with the School Board of 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 District administers a defined benefit Post-Employment Benefits Trust Fund. The assets of the plan are reported in the District’s financial report in the Post-Employment Benefits Trust Fund, established by the District to finance these obligations. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan. The plan does not issue a publicly available financial report.

### **B. Benefits Provided**

All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. 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 and date of hire, 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 until the retiree reaches Medicare eligibility, 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.

### **C. Contributions**

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 established the Post-Employment Benefits Trust Fund to finance these obligations.

### **D. Membership**

Membership in the plan consisted of the following as of the most recent study:

Retirees and beneficiaries receiving benefits	12
Active plan members	<u>347</u>
Total members	<u><u>359</u></u>

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**

**E. Net OPEB Liability of the District**

The District’s net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016. The components of the net OPEB liability of the District at year-end were as follows:

Total OPEB liability	\$ 2,219,040
Plan fiduciary net position	<u>(1,299,828)</u>
District's net OPEB liability	<u>\$ 919,212</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>58.6%</u>

**F. Actuarial Methods and Assumptions**

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

Discount rate	3.40%
Expected long-term investment return	2.00% (net of investment expenses)
20-year municipal bond yield	3.50%
Inflation rate	2.50%
Salary increases	3.00%
Medical trend rate	6.50%, grading to 5.00% over 6 years
Dental trend rate	4.00%

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.

The District’s policy in regard to the allocation of invested assets is established and may be amended by the School Board by a majority vote of its members. It is the policy of the School Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes allowable under state statutes.

The long-term expected rate of return on OPEB plan investments was set based on the plan’s target investment allocation described below, along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Fixed income	100.00 %	2.00 %

## NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

### G. Rate of Return

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 2.20 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### H. Discount Rate

The discount rate used to measure the total OPEB liability was 3.40 percent. The projection of cash flows used to determine the discount rate was determined by projecting forward the fiduciary net position (assets) as of the valuation date, increasing by the investment return assumption, and reducing by benefit payments in each period until assets are exhausted. Expected benefit payments by year were discounted using the expected asset return assumptions for the years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate. The contribution and benefit payment history, as well as the funding policy have also been considered. The District discount rate used in the prior measurement date was 2.80 percent.

### I. Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a-b)
Beginning balance	\$ 2,076,142	\$ 1,364,504	\$ 711,638
Changes for the year			
Service cost	174,418	–	174,418
Interest	61,695	–	61,695
Changes in actuarial assumptions	(77,993)	–	(77,993)
Changes in plan provisions	79,738	–	79,738
Projected investment return	–	27,290	(27,290)
Differences between expected and actual experience	–	3,244	(3,244)
Benefit payments	(94,960)	(94,960)	–
Administrative expenses	–	(250)	250
Total net changes	<u>142,898</u>	<u>(64,676)</u>	<u>207,574</u>
Ending balance	<u>\$ 2,219,040</u>	<u>\$ 1,299,828</u>	<u>\$ 919,212</u>

Changes since the prior measurement date include the following:

- The discount rate was changed from 2.80 percent to 3.40 percent.
- The superintendent will receive post-employment subsidized medical, dental, and life insurance until Medicare eligibility.

**NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**

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

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
OPEB discount rate	2.40%	3.40%	4.40%
Net OPEB liability	\$ 1,057,037	\$ 919,212	\$ 786,959

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

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
OPEB medical trend rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years
OPEB dental trend rate	3.00%	4.00%	5.00%
Net OPEB liability	\$ 676,097	\$ 919,212	\$ 1,208,586

**K. OPEB Expense and Related Deferred Outflows of Resources and Deferred Inflows of Resources**

For the current year ended, the District recognized OPEB expense of \$280,506. As of year-end, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in actuarial assumptions	\$ –	\$ 66,851
Differences between projected and actual investment earnings	7,860	–
	<u>\$ 7,860</u>	<u>\$ 66,851</u>

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

<u>Year Ending June 30,</u>	<u>OPEB Expense Amount</u>
2019	\$ (8,305)
2020	\$ (8,305)
2021	\$ (8,305)
2022	\$ (11,792)
2023	\$ (11,142)
2024	\$ (11,142)

## **NOTE 8 – INTERFUND BALANCES AND TRANSACTIONS**

At June 30, 2018, the District's General Fund had an interfund receivable of \$141,859 from the Community Service Special Revenue Fund to eliminate a temporary cash deficit, and an interfund receivable of \$94,960 from the Post-Employment Benefits Trust Fund, representing post-employment benefit costs to be reimbursed. Such interfund balances are reported in the fund financial statements, but are eliminated as necessary in the government-wide financial statements.

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## **NOTE 9 – STEWARDSHIP AND ACCOUNTABILITY**

At June 30, 2018, the District had a deficit net position total in the Health Benefits Self-Insurance Fund of \$75,033 and a deficit net position total of \$35,935 in the Dental Self-Insurance Fund.

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

### **A. Federal and State Programs**

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. Legal Claims**

The District has the usual and customary types of miscellaneous legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

### **C. Operating Leases**

**Alternative Learning Center (ALC) Lease** – During fiscal 2015, the District entered into a contract with a company to lease space to suit the needs of the District's ALC beginning April 1, 2015. The term of the lease is for 10 years and 10 months through fiscal year 2026. Total General Fund expenditures on this lease for the year ended June 30, 2018 totaled \$283,331.

**Loffler Office Equipment Lease** – During fiscal 2015, the District entered into a contract for the leasing of office equipment starting May 7, 2015 through fiscal year 2019. Total General Fund expenditures on this lease for the year ended June 30, 2018 totaled \$6,437.

**District Office Lease** – During fiscal 2016, the District entered into a contract with a company to lease space to suit the needs of the District's business office beginning January 1, 2016. The term of the lease is for 10 years through fiscal year 2026. Total General Fund expenditures on this lease for the year ended June 30, 2018 totaled \$58,003.

**Canon Office Equipment Lease** – During fiscal 2016, the District entered into a contract for the leasing of office equipment starting July 2015 through fiscal year 2021. Total General Fund expenditures on this lease for the year ended June 30, 2018 totaled \$20,630.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES (CONTINUED)**

**District Office Lease Expansion** – During fiscal 2018, the District entered into a contract with a company to expand the space leased in the original District Office Lease beginning March 1, 2018. The term of the lease is for 8 years through fiscal year 2026. Total General Fund expenditures on this lease for the year ended June 30, 2018 totaled \$19,569.

The future minimum payments on these leases are as follows:

Year Ending June 30,	ALC Lease	Loffler Office Equipment Lease	District Office Lease	Canon Office Equipment Lease	District Office Expansion Lease
2019	\$ 320,130	\$ 6,437	\$ 59,440	\$ 20,630	\$ 64,890
2020	324,070	–	60,942	20,630	71,979
2021	328,191	–	62,475	20,630	73,790
2022	332,421	–	64,040	–	75,639
2023	336,549	–	65,637	–	77,525
2024	340,862	–	67,266	–	79,449
2025	350,509	–	68,927	–	81,450
2026	215,502	–	34,878	–	41,235
Total	<u>\$ 2,548,234</u>	<u>\$ 6,437</u>	<u>\$ 483,605</u>	<u>\$ 61,890</u>	<u>\$ 565,957</u>

**NOTE 11 – SUBSEQUENT EVENTS**

In December 2018, the District issued \$525,000 of General Obligation Tax Abatement Bonds, Series 2018B, to be used for project costs of the District.

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 286

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

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Proportionate 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	0.0991%	\$ 4,655,222	\$ -	\$ 4,655,222	\$ 5,202,262	89.48%	78.70%
06/30/2016	06/30/2015	0.0873%	\$ 4,524,339	\$ -	\$ 4,524,339	\$ 5,131,363	88.17%	78.20%
06/30/2017	06/30/2016	0.0928%	\$ 7,534,899	\$ 98,396	\$ 7,633,295	\$ 5,756,957	130.88%	68.90%
06/30/2018	06/30/2017	0.0912%	\$ 5,822,148	\$ 73,226	\$ 5,895,374	\$ 5,880,825	99.00%	75.90%

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

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 378,670	\$ 378,670	\$ -	\$ 5,131,363	7.38%
06/30/2016	\$ 431,774	\$ 431,774	\$ -	\$ 5,756,957	7.50%
06/30/2017	\$ 438,868	\$ 438,868	\$ -	\$ 5,880,825	7.46%
06/30/2018	\$ 469,601	\$ 469,601	\$ -	\$ 6,154,680	7.63%

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

INDEPENDENT SCHOOL DISTRICT NO. 286

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

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the 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	0.2252%	\$ 10,377,054	\$ 729,883	\$ 11,106,937	\$ 10,278,596	100.96%	81.50%
06/30/2016	06/30/2015	0.2206%	\$ 13,646,292	\$ 1,674,127	\$ 15,320,419	\$ 11,177,240	122.09%	76.80%
06/30/2017	06/30/2016	0.2296%	\$ 54,765,078	\$ 5,495,987	\$ 60,261,065	\$ 11,991,445	456.70%	44.88%
06/30/2018	06/30/2017	0.2317%	\$ 46,251,523	\$ 4,471,027	\$ 50,722,550	\$ 12,476,547	370.71%	51.57%

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

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 838,296	\$ 838,296	\$ -	\$ 11,177,240	7.50%
06/30/2016	\$ 899,361	\$ 899,361	\$ -	\$ 11,991,445	7.50%
06/30/2017	\$ 943,489	\$ 943,489	\$ -	\$ 12,476,547	7.56%
06/30/2018	\$ 978,829	\$ 978,829	\$ -	\$ 13,067,551	7.49%

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

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 174,418	\$ 172,302
Interest	61,695	57,456
Changes in actuarial assumptions	(77,993)	-
Changes in plan provisions	79,738	-
Benefit payments	<u>(94,960)</u>	<u>(66,185)</u>
Net change in total OPEB liability	142,898	163,573
Total OPEB liability – beginning of year	<u>2,076,142</u>	<u>1,912,569</u>
Total OPEB liability – end of year	2,219,040	2,076,142
Plan fiduciary net position		
Projected investment return	27,290	27,103
Differences between expected and actual experience	3,244	(17,427)
Benefit payments	(94,960)	-
Administrative expenses	<u>(250)</u>	<u>(250)</u>
Net change in plan fiduciary net position	(64,676)	9,426
Plan fiduciary net position – beginning of year	<u>1,364,504</u>	<u>1,355,078</u>
Plan fiduciary net position – end of year	<u>1,299,828</u>	<u>1,364,504</u>
Net OPEB liability	<u>\$ 919,212</u>	<u>\$ 711,638</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>58.58%</u>	<u>65.72%</u>
Covered-employee payroll	<u>\$ 17,603,421</u>	<u>\$ 17,090,700</u>
Net OPEB liability as a percentage of covered-employee payroll	<u>5.22%</u>	<u>4.16%</u>

Note: The District implemented GASB Statement Nos. 74 and 75 in fiscal 2017. This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 286

Other Post-Employment Benefits Plan  
Schedule of Investment Returns  
Year Ended June 30, 2018

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2017	0.71 %
2018	2.20 %

Note: The District implemented GASB Statement Nos. 74 and 75 in fiscal 2017. This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 286

Notes to Required Supplementary Information  
June 30, 2018

**PERA – GENERAL EMPLOYEES RETIREMENT FUND**

**2017 CHANGES IN ACTUARIAL ASSUMPTIONS:**

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

**2016 CHANGES IN ACTUARIAL ASSUMPTIONS:**

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035, and 2.50 percent per year thereafter, to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth, and 2.50 percent for inflation.

**2015 CHANGES IN PLAN PROVISIONS:**

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

**2015 CHANGES IN ACTUARIAL ASSUMPTIONS:**

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

INDEPENDENT SCHOOL DISTRICT NO. 286

Notes to Required Supplementary Information (continued)  
June 30, 2018

**TRA**

**2017 CHANGES IN ACTUARIAL ASSUMPTIONS:**

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

**2016 CHANGES IN ACTUARIAL ASSUMPTIONS:**

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

**2015 CHANGES IN PLAN PROVISIONS:**

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

**2015 CHANGES IN ACTUARIAL ASSUMPTIONS:**

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

INDEPENDENT SCHOOL DISTRICT NO. 286

Notes to Required Supplementary Information (continued)  
June 30, 2018

**OTHER POST-EMPLOYMENT BENEFITS PLAN**

**2018 CHANGES IN PLAN PROVISIONS:**

- The superintendent will receive post-employment subsidized medical, dental, and life insurance until Medicare eligibility.

**2018 CHANGES IN ACTUARIAL ASSUMPTIONS:**

- The discount rate was changed from 2.80 percent to 3.40 percent.

**2017 CHANGES IN ACTUARIAL ASSUMPTIONS:**

- The healthcare trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP-2000 projected to 2014 with Scale BB, to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and retirement tables for only employees eligible to retire with Rule of 90 also were updated.
- The discount rate was changed from 3.00 percent to 2.80 percent.

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	Special Revenue Funds		Total
	Food Service	Community Service	
<b>Assets</b>			
Cash and temporary investments	\$ 461,282	\$ -	\$ 461,282
Receivables			
Current taxes	-	76,011	76,011
Delinquent taxes	-	752	752
Accounts and interest	708	16,890	17,598
Due from other governmental units	-	261,494	261,494
Inventory	10,469	-	10,469
Prepaid items	80	-	80
	<u>\$ 472,539</u>	<u>\$ 355,147</u>	<u>\$ 827,686</u>
<b>Liabilities</b>			
Accounts and contracts payable	\$ 14,712	\$ 17,716	\$ 32,428
Due to other governmental units	91	4,082	4,173
Due to other funds	-	141,859	141,859
Unearned revenue	404	-	404
Total liabilities	<u>15,207</u>	<u>163,657</u>	<u>178,864</u>
<b>Deferred inflows of resources</b>			
Property taxes levied for subsequent year	-	145,769	145,769
<b>Fund balances (deficit)</b>			
Nonspendable	10,549	-	10,549
Restricted	446,783	84,148	530,931
Unassigned	-	(38,427)	(38,427)
Total fund balances	<u>457,332</u>	<u>45,721</u>	<u>503,053</u>
	<u>\$ 472,539</u>	<u>\$ 355,147</u>	<u>\$ 827,686</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>			
	<u>\$ 472,539</u>	<u>\$ 355,147</u>	<u>\$ 827,686</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	Special Revenue Funds		Total
	Food Service	Community Service	
Revenue			
Local sources			
Property taxes	\$ -	\$ 139,637	\$ 139,637
Investment earnings	4,115	-	4,115
Other	113,467	367,732	481,199
State sources	84,715	440,064	524,779
Federal sources	1,337,591	454,234	1,791,825
Total revenue	<u>1,539,888</u>	<u>1,401,667</u>	<u>2,941,555</u>
Expenditures			
Current			
Food service	1,531,095	-	1,531,095
Community service	-	1,431,960	1,431,960
Capital outlay	66,122	603	66,725
Total expenditures	<u>1,597,217</u>	<u>1,432,563</u>	<u>3,029,780</u>
Excess (deficiency) of revenue over expenditures	(57,329)	(30,896)	(88,225)
Other financing sources			
Sale of capital assets	500	-	500
Net change in fund balances	(56,829)	(30,896)	(87,725)
Fund balances			
Beginning of year	<u>514,161</u>	<u>76,617</u>	<u>590,778</u>
End of year	<u>\$ 457,332</u>	<u>\$ 45,721</u>	<u>\$ 503,053</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	<u>2018</u>	<u>2017</u>
Assets		
Cash and temporary investments	\$ 2,509,562	\$ 3,093,177
Receivables		
Current taxes	1,381,105	1,029,074
Delinquent taxes	11,356	14,048
Accounts and interest	63,472	82,256
Due from other governmental units	5,058,492	4,474,036
Due from other funds	236,819	80,545
Prepaid items	<u>6,798</u>	<u>172,750</u>
Total assets	<u>\$ 9,267,604</u>	<u>\$ 8,945,886</u>
Liabilities		
Salaries payable	\$ 1,291,454	\$ 1,231,558
Accounts and contracts payable	2,203,994	1,790,129
Due to other governmental units	109,274	93,942
Unearned revenue	<u>236,289</u>	<u>925,568</u>
Total liabilities	3,841,011	4,041,197
Deferred inflows of resources		
Property taxes levied for subsequent year	2,229,908	1,663,465
Unavailable revenue – delinquent taxes	<u>804</u>	<u>16,101</u>
Total deferred inflows of resources	2,230,712	1,679,566
Fund balances		
Nonspendable for prepaid items	6,798	172,750
Restricted for health and safety	38,696	77,587
Restricted for long-term facilities maintenance	15,295	81,077
Unassigned	<u>3,135,092</u>	<u>2,893,709</u>
Total fund balances	<u>3,195,881</u>	<u>3,225,123</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 9,267,604</u>	<u>\$ 8,945,886</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	2018		2017	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Local sources				
Property taxes	\$ 2,048,565	\$ 2,079,762	\$ 31,197	\$ 2,215,796
Investment earnings	9,913	33,278	23,365	9,207
Other	1,446,316	1,409,080	(37,236)	1,352,425
State sources	29,292,439	29,491,593	199,154	27,996,429
Federal sources	1,119,460	1,193,693	74,233	1,094,563
Total revenue	<u>33,916,693</u>	<u>34,207,406</u>	<u>290,713</u>	<u>32,668,420</u>
<b>Expenditures</b>				
Current				
Administration				
Salaries	896,700	865,310	(31,390)	813,303
Employee benefits	287,396	256,957	(30,439)	230,113
Purchased services	170,419	79,006	(91,413)	114,128
Supplies and materials	57,920	102,098	44,178	103,909
Capital expenditures	2,598	7,070	4,472	-
Other expenditures	24,640	28,921	4,281	30,198
Total administration	<u>1,439,673</u>	<u>1,339,362</u>	<u>(100,311)</u>	<u>1,291,651</u>
District support services				
Salaries	1,061,500	1,089,368	27,868	842,237
Employee benefits	369,027	363,781	(5,246)	317,852
Purchased services	651,850	383,920	(267,930)	201,803
Supplies and materials	221,306	270,880	49,574	49,326
Capital expenditures	137,000	173,428	36,428	-
Other expenditures	(25,801)	10,841	36,642	(13,344)
Total district support services	<u>2,414,882</u>	<u>2,292,218</u>	<u>(122,664)</u>	<u>1,397,874</u>
Elementary and secondary regular instruction				
Salaries	8,679,557	8,650,291	(29,266)	8,620,491
Employee benefits	2,816,773	2,646,076	(170,697)	2,719,292
Purchased services	3,652,282	4,204,586	552,304	3,336,158
Supplies and materials	707,484	841,322	133,838	353,436
Capital expenditures	44,678	46,822	2,144	16,263
Other expenditures	41,722	70,149	28,427	89,901
Total elementary and secondary regular instruction	<u>15,942,496</u>	<u>16,459,246</u>	<u>516,750</u>	<u>15,135,541</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	2018		2017	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	157,299	141,848	(15,451)	138,091
Employee benefits	52,396	46,814	(5,582)	47,070
Purchased services	29,949	24,177	(5,772)	23,064
Supplies and materials	—	12,333	12,333	7,779
Other expenditures	—	1,357	1,357	1,370
Total vocational education instruction	239,644	226,529	(13,115)	217,374
Special education instruction				
Salaries	3,008,268	2,960,811	(47,457)	2,901,885
Employee benefits	1,018,514	920,125	(98,389)	916,745
Purchased services	212,275	403,698	191,423	339,936
Supplies and materials	35,583	23,495	(12,088)	17,723
Other expenditures	760	16,951	16,191	15,792
Total special education instruction	4,275,400	4,325,080	49,680	4,192,081
Instructional support services				
Salaries	1,642,071	1,684,307	42,236	1,617,383
Employee benefits	454,742	503,991	49,249	510,230
Purchased services	327,425	169,671	(157,754)	343,774
Supplies and materials	31,461	39,743	8,282	533,385
Capital expenditures	—	59	59	15,136
Other expenditures	66,557	80,339	13,782	99,160
Total instructional support services	2,522,256	2,478,110	(44,146)	3,119,068
Pupil support services				
Salaries	1,783,150	1,920,730	137,580	1,821,055
Employee benefits	621,633	608,316	(13,317)	536,376
Purchased services	540,663	1,061,877	521,214	699,528
Supplies and materials	111,727	185,641	73,914	204,793
Capital expenditures	7,000	442,090	435,090	368,691
Other expenditures	800	4,643	3,843	6,500
Total pupil support services	3,064,973	4,223,297	1,158,324	3,636,943

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	2018		2017	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	715,079	753,627	38,548	720,671
Employee benefits	306,083	302,107	(3,976)	285,995
Purchased services	1,946,322	1,788,118	(158,204)	1,553,598
Supplies and materials	147,700	144,853	(2,847)	151,486
Capital expenditures	93,914	102,816	8,902	136,737
Other expenditures	—	817	817	20,767
Total sites and buildings	3,209,098	3,092,338	(116,760)	2,869,254
Fiscal and other fixed cost programs				
Purchased services	121,338	80,375	(40,963)	101,163
Debt service				
Principal	181,715	197,513	15,798	156,758
Interest and fiscal charges	5,218	7,224	2,006	19,919
Total debt service	186,933	204,737	17,804	176,677
Total expenditures	33,416,693	34,721,292	1,304,599	32,137,626
Excess (deficiency) of revenue over expenditures	500,000	(513,886)	(1,013,886)	530,794
Other financing sources				
Capital leases issued	—	484,644	484,644	276,757
Sale of capital assets	—	—	—	100
Total other financing sources	—	484,644	484,644	276,857
Net change in fund balances	\$ 500,000	(29,242)	\$ (529,242)	807,651
Fund balances				
Beginning of year		3,225,123		2,417,472
End of year		\$ 3,195,881		\$ 3,225,123

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash and temporary investments	\$ 461,282	\$ 511,774
Receivables		
Accounts and interest	708	-
Inventory	10,469	19,050
Prepaid items	<u>80</u>	<u>485</u>
 Total assets	 <u><u>\$ 472,539</u></u>	 <u><u>\$ 531,309</u></u>
<b>Liabilities</b>		
Salaries payable	\$ -	\$ 8,770
Accounts and contracts payable	14,712	8,301
Due to other governmental units	91	77
Unearned revenue	<u>404</u>	<u>-</u>
Total liabilities	15,207	17,148
<b>Fund balances</b>		
Nonspendable for inventory	10,469	19,050
Nonspendable for prepaids items	80	485
Restricted for food service	<u>446,783</u>	<u>494,626</u>
Total fund balances	<u>457,332</u>	<u>514,161</u>
 Total liabilities and fund balances	 <u><u>\$ 472,539</u></u>	 <u><u>\$ 531,309</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	\$ 816	\$ 4,115	\$ 3,299	\$ 4,660
Other – primarily meal sales	151,500	113,467	(38,033)	131,896
State sources	74,000	84,715	10,715	88,908
Federal sources	1,273,684	1,337,591	63,907	1,354,543
Total revenue	<u>1,500,000</u>	<u>1,539,888</u>	<u>39,888</u>	<u>1,580,007</u>
Expenditures				
Current				
Salaries	478,782	495,965	17,183	463,236
Employee benefits	222,759	207,892	(14,867)	225,485
Purchased services	77,189	133,233	56,044	81,098
Supplies and materials	655,706	690,862	35,156	656,362
Other expenditures	2,649	3,143	494	2,643
Capital outlay	62,915	66,122	3,207	5,375
Total expenditures	<u>1,500,000</u>	<u>1,597,217</u>	<u>97,217</u>	<u>1,434,199</u>
Excess (deficiency) of revenue over expenditures	–	(57,329)	(57,329)	145,808
Other financing sources				
Sale of capital assets	–	500	500	–
Net change in fund balances	<u>\$ –</u>	<u>(56,829)</u>	<u>\$ (56,829)</u>	<u>145,808</u>
Fund balances				
Beginning of year		<u>514,161</u>		<u>368,353</u>
End of year		<u>\$ 457,332</u>		<u>\$ 514,161</u>

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INDEPENDENT SCHOOL DISTRICT NO. 286

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

	<u>2018</u>	<u>2017</u>
Assets		
Receivables		
Current taxes	\$ 76,011	\$ 70,751
Delinquent taxes	752	862
Accounts and interest	16,890	-
Due from other governmental units	261,494	293,552
Prepaid items	<u>-</u>	<u>4,814</u>
Total assets	<u>\$ 355,147</u>	<u>\$ 369,979</u>
Liabilities		
Salaries payable	\$ -	\$ 51,871
Accounts and contracts payable	17,716	12,657
Due to other governmental units	4,082	5,425
Due to other funds	141,859	80,545
Unearned revenue	<u>-</u>	<u>1,000</u>
Total liabilities	<u>163,657</u>	<u>151,498</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	145,769	140,841
Unavailable revenue – delinquent taxes	<u>-</u>	<u>1,023</u>
Total deferred inflows of resources	<u>145,769</u>	<u>141,864</u>
Fund balances (deficit)		
Nonspendable for prepaid items	-	4,814
Restricted for community education programs	-	816
Restricted for early childhood family education programs	69,786	39,953
Restricted for school readiness	12,350	31,034
Restricted for community service	2,012	-
Unassigned – community education programs account deficit	<u>(38,427)</u>	<u>-</u>
Total fund balances	<u>45,721</u>	<u>76,617</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 355,147</u>	<u>\$ 369,979</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	2018		Over (Under) Budget	2017
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 144,066	\$ 139,637	\$ (4,429)	\$ 144,397
Investment earnings	—	—	—	1,455
Other – primarily tuition and fees	393,719	367,732	(25,987)	515,088
State sources	433,278	440,064	6,786	414,274
Federal sources	498,900	454,234	(44,666)	397,272
Total revenue	<u>1,469,963</u>	<u>1,401,667</u>	<u>(68,296)</u>	<u>1,472,486</u>
Expenditures				
Current				
Salaries	815,726	829,040	13,314	868,897
Employee benefits	214,270	228,846	14,576	269,005
Purchased services	345,277	349,697	4,420	281,069
Supplies and materials	90,437	20,039	(70,398)	57,108
Other expenditures	1,069	4,338	3,269	9,682
Capital outlay	3,184	603	(2,581)	3,730
Total expenditures	<u>1,469,963</u>	<u>1,432,563</u>	<u>(37,400)</u>	<u>1,489,491</u>
Net change in fund balances	<u>\$ —</u>	<u>(30,896)</u>	<u>\$ (30,896)</u>	<u>(17,005)</u>
Fund balances				
Beginning of year		<u>76,617</u>		<u>93,622</u>
End of year		<u>\$ 45,721</u>		<u>\$ 76,617</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

Assets	
Cash and temporary investments	\$ 27,330,200
Receivables	
Accounts and interest	<u>86,193</u>
Total assets	<u><u>\$ 27,416,393</u></u>
Liabilities	
Accounts and contracts payable	\$ 287,317
Fund balances	
Restricted for capital projects	<u>27,129,076</u>
Total liabilities and fund balances	<u><u>\$ 27,416,393</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 286

Capital Projects – Building Construction Fund  
 Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Budget and Actual  
 Year Ended June 30, 2018

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under) Budget</u>
Revenue			
Local sources			
Investment earnings	\$           –	\$  160,842	\$  160,842
Expenditures			
Capital outlay			
Purchased services	1,038,219	880,775	(157,444)
Debt service			
Fiscal charges and other	<u>112,925</u>	<u>–</u>	<u>(112,925)</u>
Total expenditures	<u>1,151,144</u>	<u>880,775</u>	<u>(270,369)</u>
Excess (deficiency) of revenue over expenditures	(1,038,219)	(719,933)	318,286
Other financing sources			
Debt issued	27,500,000	27,500,000	–
Premium on debt issued	<u>461,934</u>	<u>349,009</u>	<u>(112,925)</u>
Total other financing sources	<u>27,961,934</u>	<u>27,849,009</u>	<u>(112,925)</u>
Net change in fund balances	<u>\$ 26,923,715</u>	27,129,076	<u>\$ 205,361</u>
Fund balances			
Beginning of year		<u>–</u>	
End of year		<u>\$ 27,129,076</u>	

INDEPENDENT SCHOOL DISTRICT NO. 286

Debt Service Fund  
 Balance Sheet by Account  
 as of June 30, 2018  
 (With Comparative Total Amounts as of June 30, 2017)

	Regular Debt Service Account	OPEB Debt Service Account	Totals	
			2018	2017
<b>Assets</b>				
Cash and temporary investments	\$ 3,477,140	\$ 243,060	\$ 3,720,200	\$ 1,789,636
Receivables				
Current taxes	982,357	176,171	1,158,528	1,054,646
Delinquent taxes	10,403	1,827	12,230	13,524
Due from other governmental units	29,481	–	29,481	30,799
<b>Total assets</b>	<b>\$ 4,499,381</b>	<b>\$ 421,058</b>	<b>\$ 4,920,439</b>	<b>\$ 2,888,605</b>
<b>Deferred inflows of resources</b>				
Property taxes levied for subsequent year	\$ 1,883,725	\$ 337,818	\$ 2,221,543	\$ 2,099,472
Unavailable revenue – delinquent taxes	–	–	–	16,276
<b>Total deferred inflows of resources</b>	<b>1,883,725</b>	<b>337,818</b>	<b>2,221,543</b>	<b>2,115,748</b>
<b>Fund balances</b>				
Restricted for debt service	2,615,656	83,240	2,698,896	772,857
<b>Total deferred inflows of resources     and fund balances</b>	<b>\$ 4,499,381</b>	<b>\$ 421,058</b>	<b>\$ 4,920,439</b>	<b>\$ 2,888,605</b>

INDEPENDENT SCHOOL DISTRICT NO. 286

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

	2018			Total
	Budget	Regular Debt Service Account	OPEB Debt Service Account	
Revenue				
Local sources				
Property taxes	\$ 2,099,472	\$ 1,748,962	\$ 333,728	\$ 2,082,690
Investment earnings	—	20,585	2,272	22,857
State sources	234,562	368,937	—	368,937
Total revenue	<u>2,334,034</u>	<u>2,138,484</u>	<u>336,000</u>	<u>2,474,484</u>
Expenditures				
Debt service				
Principal	1,635,000	1,350,000	285,000	1,635,000
Interest	884,136	829,343	45,000	874,343
Fiscal charges and other	8,850	297,474	200	297,674
Total expenditures	<u>2,527,986</u>	<u>2,476,817</u>	<u>330,200</u>	<u>2,807,017</u>
Excess (deficiency) of revenue over expenditures	(193,952)	(338,333)	5,800	(332,533)
Other financing sources				
Debt issued	1,895,000	1,895,000	—	1,895,000
Premium on debt issued	69,573	363,572	—	363,572
Total other financing sources	<u>1,964,573</u>	<u>2,258,572</u>	<u>—</u>	<u>2,258,572</u>
Net change in fund balances	<u>\$ 1,770,621</u>	1,920,239	5,800	1,926,039
Fund balances				
Beginning of year		<u>695,417</u>	<u>77,440</u>	<u>772,857</u>
End of year		<u>\$ 2,615,656</u>	<u>\$ 83,240</u>	<u>\$ 2,698,896</u>

		<u>2017</u>	
	<u>Over (Under)</u>		<u>Actual</u>
	<u>Budget</u>		
\$	(16,782)	\$	2,352,588
	22,857		16,254
	134,375		317,589
	<u>140,450</u>		<u>2,686,431</u>
	-		1,470,000
	(9,793)		1,038,583
	288,824		7,675
	<u>279,031</u>		<u>2,516,258</u>
	(138,581)		170,173
	-		-
	293,999		-
	<u>293,999</u>		<u>-</u>
\$	<u>155,418</u>		170,173
			<u>602,684</u>
			<u>\$ 772,857</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

Internal Service Funds  
 Combining Statement of Net Position  
 as of June 30, 2018  
 (With Comparative Total Amounts as of June 30, 2017)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals	
			2018	2017
<b>Assets</b>				
Current assets				
Cash and temporary investments	\$ 449,416	\$ 209	\$ 449,625	\$ 639,069
Receivables				
Accounts and interest	226	860	1,086	4,951
Total current assets	<u>449,642</u>	<u>1,069</u>	<u>450,711</u>	<u>644,020</u>
<b>Liabilities</b>				
Current liabilities				
Due to other governmental units	1,348	–	1,348	–
Unearned revenue	308,709	16,130	324,839	294,404
Claims incurred, but not reported	214,618	20,874	235,492	193,565
Total current liabilities	<u>524,675</u>	<u>37,004</u>	<u>561,679</u>	<u>487,969</u>
<b>Net position</b>				
Unrestricted	<u>\$ (75,033)</u>	<u>\$ (35,935)</u>	<u>\$ (110,968)</u>	<u>\$ 156,051</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

Internal Service Funds  
 Combining Statement of Revenue, Expenses, and Changes in Net Position  
 Year Ended June 30, 2018  
 (With Comparative Total Amounts for the Year Ended June 30, 2017)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals	
			2018	2017
Operating revenue				
Charges for services				
Contributions from governmental funds	\$ 3,254,356	\$ 199,071	\$ 3,453,427	\$ 3,327,098
Operating expenses				
Health benefit claims	3,505,447	-	3,505,447	3,111,520
Dental benefit claims	-	216,441	216,441	206,449
Total operating expenses	<u>3,505,447</u>	<u>216,441</u>	<u>3,721,888</u>	<u>3,317,969</u>
Operating income (loss)	(251,091)	(17,370)	(268,461)	9,129
Nonoperating revenue				
Investment earnings	<u>1,442</u>	<u>-</u>	<u>1,442</u>	<u>2,923</u>
Change in net position	(249,649)	(17,370)	(267,019)	12,052
Net position				
Beginning of year	<u>174,616</u>	<u>(18,565)</u>	<u>156,051</u>	<u>143,999</u>
End of year	<u>\$ (75,033)</u>	<u>\$ (35,935)</u>	<u>\$ (110,968)</u>	<u>\$ 156,051</u>

INDEPENDENT SCHOOL DISTRICT NO. 286

Internal Service Funds  
 Combining Statement of Cash Flows  
 Year Ended June 30, 2018  
 (With Comparative Total Amounts for the Year Ended June 30, 2017)

	Health Benefits	Dental	Totals	
	Self-Insurance	Self-Insurance	2018	2017
Cash flows from operating activities				
Contributions from governmental funds	\$ 3,288,072	\$ 199,655	\$ 3,487,727	\$ 3,357,219
Payment for health claims	(3,468,596)	–	(3,468,596)	(3,052,975)
Payment for dental claims	–	(210,017)	(210,017)	(212,597)
Net cash flows from operating activities	(180,524)	(10,362)	(190,886)	91,647
Cash flows from investing activities				
Investment income received	1,442	–	1,442	2,923
Net change in cash and cash equivalents	(179,082)	(10,362)	(189,444)	94,570
Cash and cash equivalents				
Beginning of year	628,498	10,571	639,069	544,499
End of year	\$ 449,416	\$ 209	\$ 449,625	\$ 639,069
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	\$ (251,091)	\$ (17,370)	\$ (268,461)	\$ 9,129
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Changes in assets and liabilities				
Accounts and interest receivable	4,127	(262)	3,865	19,335
Due to other governmental units	1,348	–	1,348	–
Unearned revenue	29,589	846	30,435	10,786
Claims incurred, but not reported	35,503	6,424	41,927	52,397
Net cash flows from operating activities	\$ (180,524)	\$ (10,362)	\$ (190,886)	\$ 91,647

OTHER DISTRICT INFORMATION

(UNAUDITED)

INDEPENDENT SCHOOL DISTRICT NO. 286

Student Enrollment  
Last Ten Fiscal Years

Year Ended June 30,	Adjusted Average Daily Membership (ADM)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2009	23.19	182.26	795.32	1,040.65	2,041.42	2,356.55
2010	23.05	159.48	908.31	1,086.06	2,176.90	2,523.66
2011	23.33	156.22	940.95	1,117.64	2,238.14	2,599.94
2012	24.40	152.06	950.14	1,038.62	2,165.22	2,505.05
2013	24.61	200.49	969.42	1,025.14	2,219.66	2,537.56
2014	21.62	165.03	997.31	1,052.22	2,236.18	2,578.08
2015	40.69	179.46	1,043.83	1,158.47	2,422.45	2,654.14
2016	18.37	160.46	1,059.03	1,171.58	2,409.44	2,643.76
2017	71.50	160.00	991.19	1,196.06	2,418.75	2,657.96
2018	74.55	159.88	1,010.56	1,331.70	2,576.69	2,843.07

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

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

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

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 286

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures	Noncash Assistance
<b>U.S. Department of Agriculture</b>			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	\$ 282,602	
National School Lunch Program	10.555	923,635	\$ 99,990
Summer Food Service Program for Children	10.559	51,908	
Subtotal for child nutrition cluster			\$ 1,258,145
Fresh Fruit and Vegetable Program	10.582	41,795	
Child and Adult Care Food Program	10.558	37,651	
<b>U.S. Department of Education</b>			
Direct			
Indian Education Grants to Local Educational Agencies	84.060	4,306	
Passed through Minnesota Department of Education			
Special education cluster			
Special Education Grants to States	84.027	444,653	
Special Education Preschool Grants	84.173	5,979	
Subtotal for special education cluster			450,632
Special Education – Grants for Infants and Families	84.181	8,030	
Title I Grants to Local Educational Agencies	84.010	578,953	
English Language Acquisition State Grants	84.365	52,534	
Supporting Effective Instruction State Grant	84.367	75,303	
Twenty-First Century Community Learning Centers	84.287	454,234	
Passed through Independent School District No. 284			
Career and Technical Education – Basic Grants to States	84.048	20,934	
<b>U.S. Department of Health and Human Services</b>			
Passed through Minnesota Department of Education			
Cooperative Agreements to Promote Adolescent Health through			
School-Based HIV/STD Prevention and School-Based Surveillance	93.079	3,000	
Total federal awards			<u>\$ 2,985,517</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. 286  
Brooklyn Center, 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. 286 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2018.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify one deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2018-001, that we consider to be a significant deficiency.

(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*.

### **DISTRICT'S RESPONSE TO FINDING**

The District's response to the 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 the financial statements and, accordingly, we express no opinion on it.

### **PURPOSE OF THIS REPORT**

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

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

Minneapolis, Minnesota  
December 10, 2018



**PRINCIPALS**

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

**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. 286  
Brooklyn Center, Minnesota

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

We have audited Independent School District No. 286’s (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2018. The District’s major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

**MANAGEMENT’S RESPONSIBILITY**

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

**AUDITOR’S RESPONSIBILITY**

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

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

(continued)

## OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

## REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

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

## PURPOSE OF THIS REPORT

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

*Malloy, Montague, Karnowski, Radosevich & Co., P.A.*  
Minneapolis, Minnesota  
December 10, 2018

INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of  
Independent School District No. 286  
Brooklyn Center, 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. 286 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 10, 2018.

**MINNESOTA LEGAL COMPLIANCE**

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Questioned Costs as items 2018-002 and 2018-003. 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 RESPONSES TO FINDINGS**

The District's responses to the findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

**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  
December 10, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 286

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

**A. SUMMARY OF AUDIT RESULTS**

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

**Financial Statements**

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

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified?  Yes  None reported

Noncompliance material to the financial statements noted?  Yes  No

**Federal Awards**

Internal controls over major federal award programs:

Material weakness(es) identified?  Yes  No

Significant deficiencies identified?  Yes  None reported

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

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

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Agriculture – child nutrition cluster consisting of:	
– School Breakfast Program	10.553
– National School Lunch Program	10.555
– Summer Food Service Program for Children	10.559

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

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

INDEPENDENT SCHOOL DISTRICT NO. 286

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

**B. FINANCIAL STATEMENT FINDINGS**

**SIGNIFICANT DEFICIENCY**

**2018-001 Segregation of Duties**

**Criteria** – Internal control over financial reporting.

**Condition** – Independent School District No. 286 (the District) has limited segregation of duties in several areas, including the processing of general disbursements, payroll transactions, cash receipts, and journal entries.

**Questioned Costs** – Not applicable.

**Context** – The condition applies to multiple areas as noted above.

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

**Cause** – The limited segregation of duties is primarily caused by the limited size of the District's business office staff.

**Effect** – One important element of internal accounting controls is an adequate segregation of duties such that no one individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

**Recommendation** – We recommend that the District continue its efforts to segregate duties as best it can within the limits of what the District considers to be cost-beneficial.

**View of Responsible Official and Planned Corrective Actions** – The District agrees with the finding. The District intends to review policies, procedures, and transaction cycles, and work with the District's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 286

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

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

None.

**D. MINNESOTA LEGAL COMPLIANCE FINDINGS**

**2018-002 Claims and Disbursements**

**Criteria** – Minnesota Statutes § 471.425, Subd. 2.

**Condition** – Minnesota Statutes require districts to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for the goods or services. If such obligations are not paid within the appropriate time period, the District must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For six disbursements selected for testing, the District did not pay the obligations within the required time period and did not pay interest on the unpaid obligations.

**Questioned Costs** – Not applicable.

**Context** – Six of forty disbursements tested were not in compliance.

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

**Cause** – All general disbursement invoices are received at the district office. A copy of the invoice is sent to the school and/or department prior to payment to ensure that the item was properly received. On occasion, there is a timing delay from when the invoice is approved for payment, and when it is sent back to the district office for payment.

**Effect** – Certain payments made to vendors were not paid within the timeframe as required by state statutes, and the vendors were not paid interest to which they were entitled.

**Recommendation** – We recommend that the District review claims and disbursement payment procedures in place to ensure future compliance with this statute.

**View of Responsible Official and Planned Corrective Actions** – The District agrees with the finding. The District will review the payment procedures and will properly pay all invoices within the 35-day time limit and verify compliance with state statutes. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 286

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

**D. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)**

**2018-003 Withholding Affidavit**

**Criteria** – Minnesota Statutes § 270C.66.

**Condition** – Before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor or subcontractors, the District must obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minnesota Statutes § 290.92 (either a Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit). The District did not obtain the required certificate for one contract completed during fiscal 2018.

**Questioned Costs** – Not applicable.

**Context** – One of one contract tested was not in compliance.

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

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

**Effect** – The District did not obtain the required documentation of either a Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit.

**Recommendation** – We recommend that the District review claims and disbursement payment procedures in place to ensure future compliance with this statute.

**View of Responsible Official and Planned Corrective Actions** – The District agrees with the finding. The District will review requirements with appropriate staff to assure the planned controls are being followed and the required Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit are obtained. The District has separately issued a Corrective Action Plan related to this finding.

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INDEPENDENT SCHOOL DISTRICT NO. 286

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

		Audit	UFARS	Audit – UFARS
<b>General Fund</b>				
Total revenue		\$ 34,207,406	\$ 34,207,406	\$ –
Total expenditures		\$ 34,721,292	\$ 34,721,292	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 6,798	\$ 6,798	\$ –
Restricted				
403	Staff development	\$ –	\$ –	\$ –
406	Health and safety	\$ 38,696	\$ 38,696	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
413	Projects funded by COP	\$ –	\$ –	\$ –
414	Operating debt	\$ –	\$ –	\$ –
416	Levy reduction	\$ –	\$ –	\$ –
417	Taconite building maintenance	\$ –	\$ –	\$ –
423	Certain teacher programs	\$ –	\$ –	\$ –
424	Operating capital	\$ –	\$ –	\$ –
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	\$ –	\$ –	\$ –
459	Basic skills extended time	\$ –	\$ –	\$ –
467	Long-term facilities maintenance	\$ 15,295	\$ 15,295	\$ –
472	Medical Assistance	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
475	Title VII – Impact Aid	\$ –	\$ –	\$ –
476	PILT	\$ –	\$ –	\$ –
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ –	\$ –	\$ –
Unassigned				
422	Unassigned fund balance	\$ 3,135,092	\$ 3,135,092	\$ –
<b>Food Service</b>				
Total revenue		\$ 1,539,888	\$ 1,539,888	\$ –
Total expenditures		\$ 1,597,217	\$ 1,597,217	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ 10,549	\$ 10,549	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 446,783	\$ 446,783	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
<b>Community Service</b>				
Total revenue		\$ 1,401,667	\$ 1,401,667	\$ –
Total expenditures		\$ 1,432,563	\$ 1,432,563	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ (38,427)	\$ (38,427)	\$ –
432	ECFE	\$ 69,786	\$ 69,786	\$ –
440	Teacher development and evaluation	\$ –	\$ –	\$ –
444	School readiness	\$ 12,350	\$ 12,350	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 2,012	\$ 2,012	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

INDEPENDENT SCHOOL DISTRICT NO. 286  
Uniform Financial Accounting and Reporting Standards  
Compliance Table (continued)  
June 30, 2018

	Audit	UFARS	Audit – UFARS
<b>Building Construction</b>			
Total revenue	\$ 160,842	\$ 160,841	\$ 1
Total expenditures	\$ 880,775	\$ 880,775	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
407 Capital projects levy	\$ –	\$ –	\$ –
413 Project funded by COP	\$ –	\$ –	\$ –
467 Long-term facilities maintenance	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 27,129,076	\$ 27,129,076	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
<b>Debt Service</b>			
Total revenue	\$ 2,138,484	\$ 2,138,483	\$ 1
Total expenditures	\$ 2,476,817	\$ 2,476,817	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
433 Max effort loan	\$ –	\$ –	\$ –
451 QZAB payments	\$ –	\$ –	\$ –
467 Long-term facilities maintenance	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 2,615,656	\$ 2,615,656	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
<b>Trust</b>			
Total revenue	\$ 2,393	\$ 2,393	\$ –
Total expenditures	\$ 2,830	\$ 2,830	\$ –
422 Net position	\$ 83,374	\$ 83,374	\$ –
<b>Internal Service</b>			
Total revenue	\$ 3,454,869	\$ 3,454,869	\$ –
Total expenditures	\$ 3,721,888	\$ 3,721,888	\$ –
422 Net position	\$ (110,968)	\$ (110,968)	\$ –
<b>OPEB Revocable Trust Fund</b>			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
<b>OPEB Irrevocable Trust Fund</b>			
Total revenue	\$ 30,534	\$ 30,534	\$ –
Total expenditures	\$ 95,210	\$ 95,210	\$ –
422 Net position	\$ 1,299,828	\$ 1,299,828	\$ –
<b>OPEB Debt Service Fund</b>			
Total revenue	\$ 336,000	\$ 336,000	\$ –
Total expenditures	\$ 330,200	\$ 330,200	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 83,240	\$ 83,240	\$ –
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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