

INDEPENDENT SCHOOL DISTRICT NO. 832  
MAHTOMEDI, MINNESOTA

Financial Statements  
and Supplemental Information

Year Ended  
June 30, 2017

Preliminary Draft

INDEPENDENT SCHOOL DISTRICT NO. 832

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 832

School Board and Administration  
as of June 30, 2017

**SCHOOL BOARD**

	<u>Position</u>
Lucy Payne	Chairperson
Julie McGraw	Clerk/Vice Chair
Kevin Donovan	Treasurer
Mike Chevalier	Director
Judith Schwartz	Director
Stacey Stout	Director

**ADMINISTRATION**

Mark Larson	Superintendent of Schools
William Menozzi	Director of Business Services

FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of  
Independent School District No. 832  
Mahtomedi, 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. 832 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **AUDITOR'S RESPONSIBILITY**

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

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

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

(continued)

## **OPINIONS**

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## **EMPHASIS OF MATTER**

As described in Note 1 of the notes to basic financial statements, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*, during the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

## **OTHER MATTERS**

### **Required Supplementary Information**

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

### **Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

(continued)



The supplemental information, 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 section has 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 it.

**Prior Year Comparative Information**

We have previously audited the District’s 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated November 14, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

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

Minneapolis, Minnesota  
INSERT DATE

## INDEPENDENT SCHOOL DISTRICT NO. 832

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

This section of Independent School District No. 832's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the other components of the District's annual financial statements.

#### **FINANCIAL HIGHLIGHTS**

- The District's assets and deferred outflows of resources were lower than its liabilities and deferred inflows of resources at June 30, 2017 by \$13,374,393 (net position deficit). The District's total net position decreased by \$9,320,065 during the fiscal year ended June 30, 2017, excluding the change in accounting principle reported in the current year as discussed below.
- The District recorded a change in accounting principle in the current year with the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The change reflects standards established for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures as they relate to other post-employment benefit (OPEB) obligations. The implementation of these standards reduced beginning net position in the government-wide statements by \$1,985,512.
- At June 30, 2017, the District's governmental funds reported a combined ending fund balance of \$9,479,234, a decrease of \$4,868,834 from the prior year. The fund balance decrease is largely attributable to the decrease in fund balance of the Capital Projects – Building Construction Fund of \$4,205,973 due to the parking lot and playground construction projects.
- The District's General Fund unassigned fund balance decreased from \$3,573,902 to \$3,134,870, during fiscal year 2017. This balance is in compliance with the School Board's fund balance policy, which requires a minimum unassigned fund balance of at least 8 percent of expenditures.

#### **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, which includes 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. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

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

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

## FUND FINANCIAL STATEMENTS

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

**Governmental Funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental 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 Fund is used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its self-insured risk of loss for employee health insurance plans. These services have been included within governmental activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

**Fiduciary Funds** – The District is the trustee, or fiduciary, for assets that belong to others. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations. 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. 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.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Current and other assets	\$ 25,958,014	\$ 31,678,277
Capital assets, net of depreciation	<u>69,874,303</u>	<u>67,860,716</u>
Total assets	<u>\$ 95,832,317</u>	<u>\$ 99,538,993</u>
<b>Deferred outflows of resources</b>		
Pension plan deferments	<u>\$ 53,676,124</u>	<u>\$ 4,555,833</u>
<b>Liabilities</b>		
Current and other liabilities	\$ 4,159,717	\$ 3,726,183
Long-term liabilities, including due within one year	<u>144,890,765</u>	<u>86,760,682</u>
Total liabilities	<u>\$ 149,050,482</u>	<u>\$ 90,486,865</u>
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year	\$ 12,818,280	\$ 12,812,372
OPEB plan deferments	10,305	-
Pension plan deferments	<u>1,003,767</u>	<u>2,891,405</u>
Total deferred inflows of resources	<u>\$ 13,832,352</u>	<u>\$ 15,703,777</u>
<b>Net position</b>		
Net investment in capital assets	\$ 15,992,115	\$ 14,765,621
Restricted	1,325,088	1,243,525
Unrestricted	<u>(30,691,596)</u>	<u>(18,104,962)</u>
Total net position	<u>\$ (13,374,393)</u>	<u>\$ (2,095,816)</u>

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

Total net position decreased by \$11,278,577, which is mostly due to the increase in long-term liabilities for pension obligations. The decrease in unrestricted net position was partially due to the implementation of the GASB statements for OPEB liabilities discussed earlier in this report. An increase 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 of resources, long-term liabilities, and unrestricted net position.

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

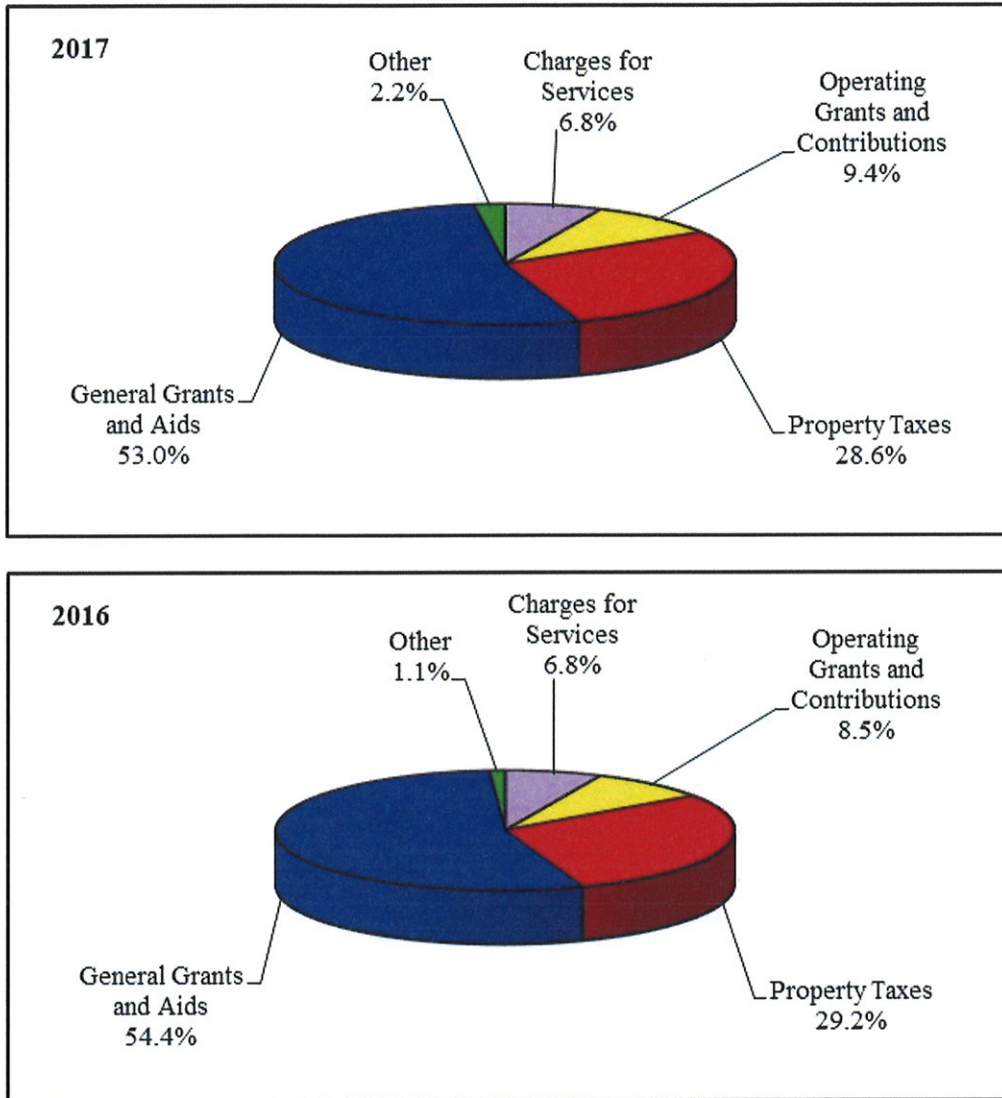
	2017	2016
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 3,213,268	\$ 3,129,375
Operating grants and contributions	4,430,112	3,903,503
General revenues		
Property taxes	13,593,483	13,360,238
General grants and aids	25,182,239	24,822,060
Other	1,086,421	508,116
Total revenues	47,505,523	45,723,292
<b>Expenses</b>		
Administration	2,389,784	1,619,612
District support services	1,321,965	1,131,424
Elementary and secondary regular instruction	26,880,726	18,653,040
Vocational education instruction	830,853	527,083
Special education instruction	9,098,090	6,321,217
Instructional support services	2,002,692	1,857,995
Pupil support services	3,329,970	2,697,078
Sites and buildings	4,842,234	4,740,775
Fiscal and other fixed cost programs	127,338	115,640
Food service	1,430,195	1,432,468
Community service	2,219,940	1,889,306
Depreciation not allocated to other functions	734,936	749,146
Interest and fiscal charges on debt	1,616,865	1,617,812
Total expenses	56,825,588	43,352,596
Change in net position	(9,320,065)	2,370,696
Net position – beginning, as previously reported	(2,095,816)	(4,466,512)
Change in accounting principle	(1,958,512)	–
Net position – beginning, as restated	(4,054,328)	(4,466,512)
Net position – ending	\$ (13,374,393)	\$ (2,095,816)

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

The significant increase in expenses reflects natural inflationary increases along with the change in the PERA and the TRA multi-employer defined benefit pension plans mentioned earlier.

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

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

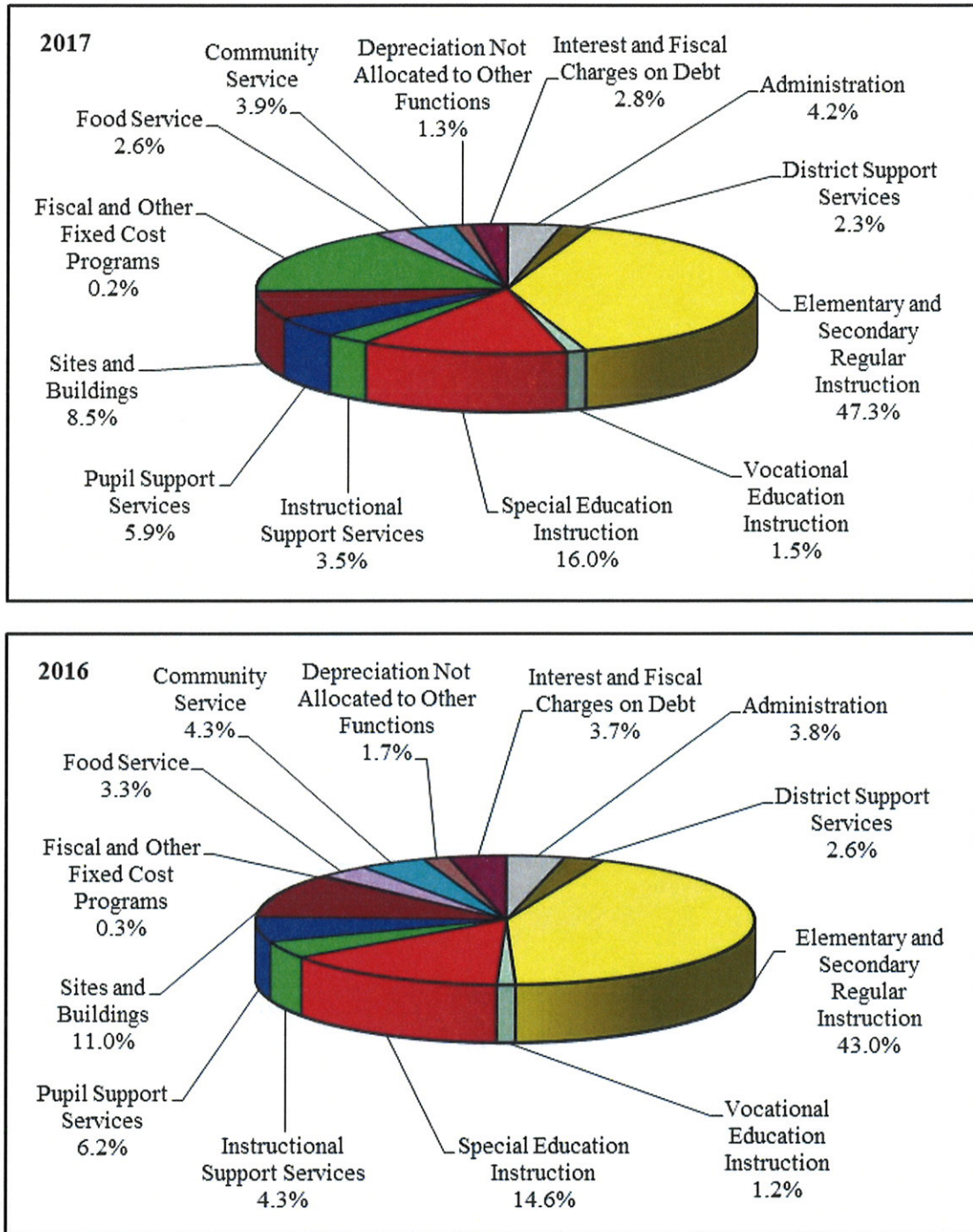


The largest share of the District’s revenue is received from the state, including the general education aid formula and most of the operating grants.

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

Figure B shows further analysis of these expense functions:

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



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

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

	<u>2017</u>	<u>2016</u>	Increase (Decrease)
Major funds			
General	\$ 4,962,509	\$ 5,420,944	\$ (458,435)
Capital Projects – Building Construction	2,282,334	6,488,307	(4,205,973)
Debt Service			
Regular	1,285,744	1,590,159	(304,415)
Other post-employment benefits	68,876	60,563	8,313
Nonmajor funds			
Food Service Special Revenue	252,593	348,549	(95,956)
Community Service Special Revenue	<u>627,178</u>	<u>439,546</u>	<u>187,632</u>
Total governmental funds	<u>\$ 9,479,234</u>	<u>\$ 14,348,068</u>	<u>\$ (4,868,834)</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 which 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, 2017, the District's governmental funds reported combined fund balances of \$9,479,234, a decrease of \$4,868,834 in comparison with the prior year. The Capital Projects – Building Construction Fund balance reflects the proceeds from the issuance of debt in prior years. The proceeds are being utilized for building and other capital projects in the current year.



## General Fund

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

Table 4 summarizes the amendments to the General Fund budget:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Increase (Decrease)</u>	<u>Percent Change</u>
Revenue and other financing sources	<u>\$ 37,387,748</u>	<u>\$ 37,268,670</u>	<u>\$ (119,078)</u>	<u>(0.3%)</u>
Expenditures	<u>\$ 37,934,984</u>	<u>\$ 37,818,899</u>	<u>\$ (116,085)</u>	<u>(0.3%)</u>

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amends the budget for known changes in circumstances such as enrollment levels, legislative funding, and employee contract settlements.

Table 5 summarizes the operating results of the General Fund:

	<u>2017</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenue and other financing sources	\$ 37,640,983	\$ 372,313	1.0%	\$ 523,504	1.4%
Expenditures	<u>(38,099,418)</u>	\$ 280,519	0.7%	\$ 1,040,232	2.8%
Net change in fund balances	<u>\$ (458,435)</u>				

The largest revenue variances to budget occurred in state sources and other local sources, which were \$138,797 and \$201,672 more than projected in the budget, respectively. State aid sources were mainly over budget as a result of a conservative state special education aid budget. This is similar to prior years and generally good budgeting practice given the potential variances in special education revenue from year to year. Pension contribution revenue was also a cause of the variance, although there is an offsetting expenditure for the required pension adjustments. The expenditure variance to budget was spread across several programs and object categories of the General Fund, with the most significant budget overage in the area of employee benefits due to the required pension contribution adjustments and in the elementary and secondary regular instruction program. Other sources were over budget due to higher donations being received.

The increase in revenue from the prior year was mainly due to the two percent increase in the general education funding formula set by the State Legislature. Other factors include the state aid equalized portion of the new long-term facilities maintenance program revenue and pension revenue and special education state aid as mentioned previously. Expenditures increased from the prior year in salaries and benefits as anticipated with scheduled contract improvements.

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

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

The Capital Projects – Building Construction Fund was established to account for the 2016A Tax Abatement Bonds issued in the prior year, and ended the year with a fund balance of \$2,282,334. These funds are utilized to support current and future district building projects.

### **Debt Service Fund**

The Debt Service Fund balance ended fiscal year 2017 at \$1,354,620, a decrease of \$296,102. The Debt Service Fund balance is dedicated for payments on refunded bonds and for future debt service obligations.

### **Other Governmental Funds**

The Food Service Special Revenue Fund balance decreased \$95,956 in fiscal year 2017. The fund balance at the end of the fiscal year was \$252,593, or 17.3 percent, of current year expenditures. This was the 12th year of a successful joint powers agreement for food service with Independent School District No. 834, Stillwater Area Public Schools.

The Community Service Special Revenue Fund balance increased \$187,632, compared to a planned increase of \$185,664.

### **Internal Service Fund**

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 one Internal Service Fund. This fund is used to account for the District's self-insured health insurance function. Operating revenues for the Internal Service Fund for fiscal year 2017 totaled \$4,869,027. Operating expenses totaled \$4,419,788 for health benefit claims. The net position for the Internal Service Fund as of June 30, 2017 totaled a surplus of \$394,857, a significant improvement over the prior year deficit of (\$66,023).

## 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, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land	\$ 1,561,766	\$ 1,561,766	\$ -
Construction in progress	5,608,173	1,396,767	4,211,406
Buildings	71,542,871	71,542,871	-
Land improvements	13,644,277	13,658,737	(14,460)
Furniture and equipment	2,843,348	2,736,629	106,719
Less accumulated depreciation	<u>(25,326,132)</u>	<u>(23,036,054)</u>	<u>(2,290,078)</u>
<b>Total</b>	<u>\$ 69,874,303</u>	<u>\$ 67,860,716</u>	<u>\$ 2,013,587</u>
<b>Depreciation expense</b>	<u>\$ 2,307,070</u>	<u>\$ 2,264,213</u>	<u>\$ 42,857</u>

The increase in construction in progress in fiscal year 2017 relates to construction on parking lots and playgrounds.

### Long-Term Liabilities

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

	<u>2017</u>	<u>2016</u>	<u>Change</u>
General obligation bonds payable	\$ 51,850,000	\$ 55,075,000	\$ (3,225,000)
Net (discount) premium	6,539,752	7,324,999	(785,247)
Net pension liability	85,680,001	23,978,830	61,701,171
Net OPEB liability	414,216	-	414,216
Severance benefits payable	186,602	170,094	16,508
Compensated absences payable	<u>220,194</u>	<u>211,759</u>	<u>8,435</u>
<b>Total</b>	<u>\$ 144,890,765</u>	<u>\$ 86,760,682</u>	<u>\$ 58,130,083</u>

The decrease in general obligation bonds payable is primarily due to the planned repayment schedule reflecting principal payments during fiscal year 2017.

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 change in the net OPEB liability reflects the implementation of the new GASB standards for OPEB, as discussed earlier.

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	\$ 2,076,242,300
Limit rate	<u>15.0%</u>
Legal debt limit	<u><u>\$ 311,436,345</u></u>

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

**FACTORS BEARING ON THE DISTRICT’S FUTURE**

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. The District’s Board of Education has discussed the structural imbalance that exists between increases in expenditures and state aid increases and will continue discussions in 2017–18.

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

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

These financial statements are designed to provide citizens, taxpayers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the resources it receives and utilizes. Should you have questions about these statements or need additional information, please contact William Menozzi, Director of Business Services, (phone (651) 407-2000), Independent School District No. 832, 1520 Mahtomedi Avenue, Mahtomedi, Minnesota 55115.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	Governmental Activities	
	2017	2016
<b>Assets</b>		
Cash and temporary investments	\$ 15,894,330	\$ 19,307,158
Receivables		
Current taxes	6,856,536	6,885,575
Delinquent taxes	138,122	118,102
Accounts and interest	78,974	106,199
Due from fiduciary fund	169,143	113,550
Due from other governmental units	2,437,124	2,648,648
Inventory	14,460	12,943
Prepaid items	15,402	29,573
Net OPEB asset	-	1,738,568
Restricted assets – temporarily restricted		
Cash and investments for debt service	353,923	717,961
Capital assets		
Not depreciated	7,169,939	2,958,533
Depreciated, net of accumulated depreciation	62,704,364	64,902,183
Total capital assets, net of accumulated depreciation	<u>69,874,303</u>	<u>67,860,716</u>
Total assets	95,832,317	99,538,993
Deferred outflows of resources		
Pension plan deferments	53,676,124	4,555,833
Total assets and deferred outflows of resources	<u>\$ 149,508,441</u>	<u>\$ 104,094,826</u>
<b>Liabilities</b>		
Salaries payable	\$ 105,338	\$ 131,791
Accounts and contracts payable	1,677,421	1,209,009
Accrued interest payable	966,121	935,260
Due to other governmental units	144,054	169,093
Unearned revenue	1,266,783	1,281,030
Long-term liabilities		
Due within one year	3,720,194	3,461,759
Due in more than one year	141,170,571	83,298,923
Total long-term liabilities	<u>144,890,765</u>	<u>86,760,682</u>
Total liabilities	149,050,482	90,486,865
Deferred inflows of resources		
Property taxes levied for subsequent year	12,818,280	12,812,372
OPEB plan deferments	10,305	-
Pension plan deferments	1,003,767	2,891,405
Total deferred inflows of resources	<u>13,832,352</u>	<u>15,703,777</u>
<b>Net position</b>		
Net investment in capital assets	15,992,115	14,765,621
Restricted for		
Capital asset acquisition	379,654	438,515
Debt service	64,210	16,145
Food service	252,593	348,549
Community service	628,631	440,316
Unrestricted	(30,691,596)	(18,104,962)
Total net position	<u>(13,374,393)</u>	<u>(2,095,816)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 149,508,441</u>	<u>\$ 104,094,826</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

Functions/Programs	2017			2016	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	\$ 2,389,784	\$ --	\$ --	\$ (2,389,784)	\$ (1,619,612)
District support services	1,321,965	--	--	(1,321,965)	(1,131,424)
Elementary and secondary regular instruction	26,880,726	389,147	--	(26,491,579)	(18,104,310)
Vocational education instruction	830,853	--	--	(830,853)	(527,083)
Special education instruction	9,098,090	--	3,919,879	(5,178,211)	(3,000,869)
Instructional support services	2,002,692	1,439	--	(2,001,253)	(1,857,125)
Pupil support services	3,329,970	21,996	--	(3,307,974)	(2,675,681)
Sites and buildings	4,842,234	71,293	--	(4,770,941)	(4,666,829)
Fiscal and other fixed cost programs	127,338	--	--	(127,338)	(115,640)
Food service	1,430,195	942,204	418,894	(69,097)	(21,426)
Community service	2,219,940	1,787,189	91,339	(341,412)	(232,761)
Depreciation not allocated to other functions	734,936	--	--	(734,936)	(749,146)
Interest and fiscal charges	1,616,865	--	--	(1,616,865)	(1,617,812)
Total governmental activities	<u>\$ 56,825,588</u>	<u>\$ 3,213,268</u>	<u>\$ 4,430,112</u>	(49,182,208)	(36,319,718)
General revenue					
Taxes					
Property taxes, levied for general purposes				8,086,584	7,831,235
Property taxes, levied for community service				257,209	262,629
Property taxes, levied for debt service				5,249,690	5,266,374
General grants and aids				25,182,239	24,822,060
Other general revenues				946,821	478,472
Gain on sale of assets				1,662	5,554
Investment earnings				137,938	24,090
Total general revenue				<u>39,862,143</u>	<u>38,690,414</u>
Change in net position				(9,320,065)	2,370,696
Net position – beginning, as previously reported				(2,095,816)	(4,466,512)
Change in accounting principle				<u>(1,958,512)</u>	--
Net position – beginning, as restated				<u>(4,054,328)</u>	<u>(4,466,512)</u>
Net position – ending				<u>\$ (13,374,393)</u>	<u>\$ (2,095,816)</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
<b>Assets</b>			
Cash and temporary investments	\$ 6,059,740	\$ 3,312,791	\$ 3,827,542
Cash and investments held by trustee	–	–	353,923
Receivables			
Current taxes	4,079,781	–	2,637,054
Delinquent taxes	79,715	–	55,693
Accounts and interest	47,250	22,544	–
Due from other funds	169,143	–	–
Due from other governmental units	2,426,638	–	1,957
Inventory	–	–	–
Prepaid items	8,938	–	1,350
	<u>–</u>	<u>–</u>	<u>–</u>
Total assets	<u>\$ 12,871,205</u>	<u>\$ 3,335,335</u>	<u>\$ 6,877,519</u>
<b>Liabilities</b>			
Salaries payable	\$ 56,689	\$ –	\$ –
Accounts and contracts payable	392,199	1,053,001	–
Due to other governmental units	80,360	–	–
Unearned revenue	6,953	–	282,590
Total liabilities	<u>536,201</u>	<u>1,053,001</u>	<u>282,590</u>
<b>Deferred inflows of resources</b>			
Property taxes levied for subsequent year	7,331,535	–	5,210,675
Unavailable revenue – delinquent taxes	40,960	–	29,634
Total deferred inflows of resources	<u>7,372,495</u>	<u>–</u>	<u>5,240,309</u>
<b>Fund balances (deficit)</b>			
Nonspendable	8,938	–	1,350
Restricted	379,654	2,282,334	1,353,270
Assigned	1,465,000	–	–
Unassigned	3,108,917	–	–
Total fund balances	<u>4,962,509</u>	<u>2,282,334</u>	<u>1,354,620</u>
	<u>–</u>	<u>–</u>	<u>–</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 12,871,205</u>	<u>\$ 3,335,335</u>	<u>\$ 6,877,519</u>



Nonmajor Funds	Total Governmental Funds	
	2017	2016
\$ 1,181,961	\$ 14,382,034	\$ 18,033,270
—	353,923	717,961
139,701	6,856,536	6,885,575
2,714	138,122	118,102
9,180	78,974	106,199
—	169,143	113,550
8,529	2,437,124	2,648,648
14,460	14,460	12,943
5,114	15,402	29,573
<u>\$ 1,361,659</u>	<u>\$ 24,445,718</u>	<u>\$ 28,665,821</u>
\$ 48,649	\$ 105,338	\$ 131,791
37,839	1,483,039	797,703
63,694	144,054	169,093
54,183	343,726	352,425
<u>204,365</u>	<u>2,076,157</u>	<u>1,451,012</u>
276,070	12,818,280	12,812,372
1,453	72,047	54,369
<u>277,523</u>	<u>12,890,327</u>	<u>12,866,741</u>
19,574	29,862	42,516
910,584	4,925,842	9,403,079
—	1,465,000	1,428,890
(50,387)	3,058,530	3,473,583
<u>879,771</u>	<u>9,479,234</u>	<u>14,348,068</u>
<u>\$ 1,361,659</u>	<u>\$ 24,445,718</u>	<u>\$ 28,665,821</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	<u>2017</u>	<u>2016</u>
Total fund balances – governmental funds	\$ 9,479,234	\$ 14,348,068
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	95,200,435	90,896,770
Accumulated depreciation	(25,326,132)	(23,036,054)
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	(51,850,000)	(55,075,000)
Net discount (premium)	(6,539,752)	(7,324,999)
Net pension liability	(85,680,001)	(23,978,830)
Net OPEB liability	(414,216)	–
Severance benefits payable	(186,602)	(170,094)
Compensated absences payable	(220,194)	(211,759)
Net OPEB obligations reported in the Statement of Net Position do not require the use of current financial resources and are not reported as assets (liabilities) in governmental funds until actually due.	–	1,738,568
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(966,121)	(935,260)
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.	394,857	(66,023)
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	53,676,124	4,555,833
Deferred inflows – pension plan deferments	(1,003,767)	(2,891,405)
Deferred inflows – OPEB plan deferments	(10,305)	–
Deferred inflows – delinquent property taxes	72,047	54,369
Total net position – governmental activities	<u>\$ (13,374,393)</u>	<u>\$ (2,095,816)</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
<b>Revenue</b>			
Local sources			
Property taxes	\$ 8,080,579	\$ –	\$ 5,248,856
Investment earnings	56,071	40,053	31,721
Other	1,430,013	–	–
State sources	27,312,397	–	19,572
Federal sources	760,261	–	–
Total revenue	<u>37,639,321</u>	<u>40,053</u>	<u>5,300,149</u>
<b>Expenditures</b>			
Current			
Administration	1,720,341	–	–
District support services	1,283,621	–	–
Elementary and secondary regular instruction	19,624,166	–	–
Vocational education instruction	645,529	–	–
Special education instruction	6,838,551	–	–
Instructional support services	1,691,952	–	–
Pupil support services	2,863,652	–	–
Sites and buildings	3,312,184	–	–
Fiscal and other fixed cost programs	119,422	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	4,246,026	–
Debt service			
Principal	–	–	2,885,000
Interest and fiscal charges	–	–	2,371,251
Total expenditures	<u>38,099,418</u>	<u>4,246,026</u>	<u>5,256,251</u>
Excess (deficiency) of revenue over expenditures	(460,097)	(4,205,973)	43,898
<b>Other financing sources (uses)</b>			
Sale of assets	1,662	–	–
Premium on debt issued	–	–	–
Debt issued	–	–	–
Payments on bond refunding	–	–	(340,000)
Total other financing sources (uses)	<u>1,662</u>	<u>–</u>	<u>(340,000)</u>
Net change in fund balances	(458,435)	(4,205,973)	(296,102)
<b>Fund balances</b>			
Beginning of year	<u>5,420,944</u>	<u>6,488,307</u>	<u>1,650,722</u>
End of year	<u>\$ 4,962,509</u>	<u>\$ 2,282,334</u>	<u>\$ 1,354,620</u>

Nonmajor Funds	Total Governmental Funds	
	2017	2016
\$ 247,053	\$ 13,576,488	\$ 13,333,149
10,093	137,938	24,090
2,729,393	4,159,406	4,323,233
145,981	27,477,950	27,086,413
364,252	1,124,513	951,766
<u>3,496,772</u>	<u>46,476,295</u>	<u>45,718,651</u>
–	1,720,341	1,752,516
–	1,283,621	1,150,350
–	19,624,166	19,288,869
–	645,529	528,338
–	6,838,551	6,343,824
–	1,691,952	1,666,024
–	2,863,652	2,695,742
–	3,312,184	3,517,883
–	119,422	115,640
1,401,390	1,401,390	1,377,841
1,896,115	1,896,115	1,890,419
107,591	4,353,617	1,764,359
–	2,885,000	2,965,000
–	2,371,251	2,269,320
<u>3,405,096</u>	<u>51,006,791</u>	<u>47,326,125</u>
91,676	(4,530,496)	(1,607,474)
–	1,662	5,554
–	–	484,339
–	–	7,640,000
–	(340,000)	(340,000)
<u>–</u>	<u>(338,338)</u>	<u>7,789,893</u>
91,676	(4,868,834)	6,182,419
<u>788,095</u>	<u>14,348,068</u>	<u>8,165,649</u>
<u>\$ 879,771</u>	<u>\$ 9,479,234</u>	<u>\$ 14,348,068</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Reconciliation of the Statement of  
Revenue, Expenditures, and Changes in Fund Balances  
to the Statement of Activities  
Governmental Funds  
Year Ended June 30, 2017

(With Partial Comparative Information for the Year Ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
Total net change in fund balances – governmental funds	\$ (4,868,834)	\$ 6,182,419
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	4,336,924	2,549,532
Depreciation expense	(2,307,070)	(2,264,213)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.		
	(16,267)	(178,348)
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	–	(7,640,000)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	3,225,000	3,305,000
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.		
	(30,861)	10,116
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.		
	785,247	157,053
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.		
Net pension liability	(61,701,171)	(4,296,419)
Net OPEB liability	(194,272)	(204,159)
Severance benefits payable	(16,508)	150,655
Compensated absences payable	(8,435)	(22,800)
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 Fund is included in the governmental activities in the Statement of Activities.		
	460,880	115,003
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	49,120,291	1,322,540
Deferred inflows – pension plan deferments	1,887,638	3,185,230
Deferred inflows – OPEB plan deferments	(10,305)	–
Deferred inflows – delinquent property taxes	17,678	(913)
Change in net position – governmental activities	<u>\$ (9,320,065)</u>	<u>\$ 2,370,696</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 8,068,233	\$ 8,077,977	\$ 8,080,579	\$ 2,602
Investment earnings	11,000	11,000	56,071	45,071
Other	1,245,520	1,228,341	1,430,013	201,672
State sources	27,315,223	27,173,600	27,312,397	138,797
Federal sources	747,772	776,087	760,261	(15,826)
Total revenue	<u>37,387,748</u>	<u>37,267,005</u>	<u>37,639,321</u>	<u>372,316</u>
Expenditures				
Current				
Administration	1,745,006	1,785,994	1,720,341	(65,653)
District support services	1,299,052	1,104,547	1,283,621	179,074
Elementary and secondary regular instruction	19,259,475	19,567,269	19,624,166	56,897
Vocational education instruction	742,179	591,992	645,529	53,537
Special education instruction	6,723,530	6,970,961	6,838,551	(132,410)
Instructional support services	1,688,462	1,679,457	1,691,952	12,495
Pupil support services	2,807,709	2,801,794	2,863,652	61,858
Sites and buildings	3,414,873	3,158,964	3,312,184	153,220
Fiscal and other fixed cost programs	254,698	157,921	119,422	(38,499)
Total expenditures	<u>37,934,984</u>	<u>37,818,899</u>	<u>38,099,418</u>	<u>280,519</u>
Excess (deficiency) of revenue over expenditures	(547,236)	(551,894)	(460,097)	91,797
Other financing sources				
Sale of assets	<u>—</u>	<u>1,665</u>	<u>1,662</u>	<u>(3)</u>
Net change in fund balances	<u>\$ (547,236)</u>	<u>\$ (550,229)</u>	<u>(458,435)</u>	<u>\$ 91,794</u>
Fund balances				
Beginning of year			<u>5,420,944</u>	
End of year			<u>\$ 4,962,509</u>	

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and temporary investments	\$ 1,512,296	\$ 1,273,888
Liabilities		
Current liabilities		
Accounts and contracts payable	194,382	411,306
Unearned revenue	<u>923,057</u>	<u>928,605</u>
Total current liabilities	<u>1,117,439</u>	<u>1,339,911</u>
Net position		
Unrestricted	<u>\$ 394,857</u>	<u>\$ (66,023)</u>

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

	<u>2017</u>	<u>2016</u>
Operating revenue		
Charges for services		
Contributions from governmental funds	\$ 4,869,027	\$ 4,574,853
Operating expenses		
Claims and settlements	<u>4,419,788</u>	<u>4,459,850</u>
Operating income	449,239	115,003
Nonoperating revenue		
Investment earnings	<u>11,641</u>	<u>—</u>
Change in net position	460,880	115,003
Net position		
Beginning of year	<u>(66,023)</u>	<u>(181,026)</u>
End of year	<u>\$ 394,857</u>	<u>\$ (66,023)</u>

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Received from assessments made to other funds	\$ 4,863,479	\$ 4,649,292
Payments for claims	<u>(4,636,712)</u>	<u>(4,399,033)</u>
Net cash flows from operating activities	226,767	250,259
Cash flows from investing activities		
Investment income received	<u>11,641</u>	<u>—</u>
Net change in cash and cash equivalents	238,408	250,259
Cash and temporary investments		
Beginning of year	<u>1,273,888</u>	<u>1,023,629</u>
End of year	<u>\$ 1,512,296</u>	<u>\$ 1,273,888</u>
Reconciliation of operating income to net cash flows from operating activities		
Operating income	\$ 449,239	\$ 115,003
Adjustments to reconcile operating income to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts and interest receivable	—	1,507
Accounts and contracts payable	(216,924)	60,817
Unearned revenue	<u>(5,548)</u>	<u>72,932</u>
Net cash flows from operating activities	<u>\$ 226,767</u>	<u>\$ 250,259</u>



INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Fiduciary Net Position  
 Fiduciary Fund  
 as of June 30, 2017

	Post-Employment Benefits Trust Fund
	<u>                    </u>
Assets	
Cash and temporary investments	\$ 314,998
Investments	
Local government obligations	487,513
Negotiable certificates of deposit	1,036,120
MNTrust Investment Shares Portfolio	209,934
Accounts and interest receivable	<u>29,640</u>
Total assets	2,078,205
Liabilities	
Due to other funds	<u>169,143</u>
Net position	
Held in trust for OPEB	<u><u>\$ 1,909,062</u></u>

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

	Post-Employment Benefits Trust Fund
	<u>                    </u>
Additions	
Investment earnings	\$ 12,937
Deductions	
Benefits paid to plan members	169,143
Administrative expenses	<u>250</u>
Total deductions	<u>169,393</u>
Change in net position	(156,456)
Net position	
Beginning of year	<u>2,065,518</u>
End of year	<u><u>\$ 1,909,062</u></u>

## INDEPENDENT SCHOOL DISTRICT NO. 832

Notes to Basic Financial Statements  
June 30, 2017

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

#### **A. Organization**

Independent School District No. 832 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a six-member School Board elected by voters of the District to serve four-year terms. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

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

The 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 (the 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 can elect to either control or not control extracurricular student activities. The District's School Board has elected to control and be financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these financial statements.

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

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position at the fund financial statement level. Generally, the effect of material interfund activity has been removed from 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.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as “depreciation not allocated to other functions.” 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. The Proprietary Fund (Internal Service Fund) is presented in the proprietary fund financial statements. Because the principal users of the internal services are the District’s governmental activities, the financial statements of the Proprietary Fund (Internal Service Fund) are consolidated into the governmental activities in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity. Fiduciary funds are presented in the fiduciary fund financial statements by type; pension (or other benefit) trust, private-purpose trust, and agency. 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 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 Fund is charges to employees for insurance. Operating expenses for the internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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. Revenues are generally considered as available if 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.

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

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

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and use 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. A description of the funds included in this report is as follows:

#### Major Governmental Funds

**General Fund** – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

**Capital Projects – Building Construction Fund** – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by debt issue.

**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 to pay principal, interest, and related costs on the 2009A 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 Fund

**Internal Service Funds** – The internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The District has one Internal Service Fund. The District’s Internal Service Fund includes financing for self-insurance of the employee health insurance program.

#### Fiduciary Fund

**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 budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds except the Capital Projects – Building Construction Fund. Actual expenditures exceeded budgeted amounts in the General Fund, Food Service Special Revenue Fund and Community Service Special Revenue Fund, by \$280,519, \$22,516, and \$203,735, respectively. Revenues and other financing sources in excess of budget, along with available fund balance, covered these variances.

### **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.

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Debt Service Fund, an escrow account is established for cash and investments held for debt service related to the issuance of refunding bonds. Interest earned in this trust account is allocated directly to the Debt Service Fund. The cash, investments, and any related interest receivable are reported as restricted assets in the government-wide financial statements.

In the Post-Employment Benefits Trust Fund, investments reported at fair value are deposited by the District in an irrevocable trust account, the use of which is restricted to paying other post-employment health insurance benefits as specified in the trust agreement. Interest earned on this trust account is allocated directly to that fund.

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 are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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

### **G. Receivables**

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

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

### **H. Inventories**

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Purchased food and supplies are 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 recognized as expenditures/expenses at the time of consumption.

### **J. Property Taxes**

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aid 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 \$718,877 of the property tax levy collectible in 2017 as revenue to the District in fiscal year 2016–2017. The remaining portion of the taxes collectible in 2017 is recorded as a deferred inflow of resources (property taxes levied for the 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 deferred inflows of resources (unavailable revenue) in the fund-based financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

### **K. Interfund Transactions**

The General Fund has a receivable of \$169,143 at year-end due from the Post-Employment Benefits Trust Fund to cover costs paid by the General Fund reimbursable by the Post-Employment Benefits Trust Fund.

### **L. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost if purchased or constructed. 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 \$5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

The District does not possess any 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.

### **M. Long-Term Obligations**

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

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

### **N. Compensated Absences Payable**

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

### **O. Severance Benefits**

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

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

### **P. 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.

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

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.

**Q. 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/deductions 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.

**R. Risk Management and Self-Insurance**

1. **General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers’ compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District’s insurance coverage in fiscal year 2017.
2. **Self-Insurance** – The District has established an Internal Service Fund to account for and finance its self-insured risk of loss for employee health insurance plans. Under this plan, the District provides coverage to participating employees and their dependents for certain health costs as described in the plans.

The District makes premium payments that include both employer and employee contributions to the Internal Service Fund 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 Internal Service Fund’s claim liabilities for the last two fiscal years were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2016	\$ 350,489	\$ 4,459,850	\$ (4,399,033)	\$ 411,306
2017	\$ 411,306	\$ 4,419,788	\$ (4,636,712)	\$ 194,382



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

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

### T. Use of Estimates

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

### U. 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 their 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.”

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

### V. 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 director of business services is 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.

### W. Statement of Cash Flows

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.

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

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

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

**Y. Change in Accounting Principle**

During the year ended June 30, 2017, the District implemented GASB Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. These statements included major changes in how plans and employers account for certain OPEB benefit obligations. These statements establish standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Certain amounts necessary to fully restate fiscal year 2016 financial information are not determinable; therefore, prior year comparative amounts have not been restated. The implementation of new GASB statements in the current year resulted in the restatement of net position as of June 30, 2016. The details of the restatement are as follows:

	<u>Governmental Activities</u>
Net position – beginning, as previously reported	\$ (2,095,816)
Change in accounting principle	
Net OPEB asset, under previous reporting standards	(1,738,568)
Net OPEB liability, under current reporting standards	(219,944)
Total change in accounting principle	<u>(1,958,512)</u>
Net position – beginning, as restated	<u>\$ (4,054,328)</u>

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Components of Cash and Investments**

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

Deposits	\$ 6,043,500
Investments	<u>12,253,318</u>
Total	<u>\$ 18,296,818</u>

Cash and investments are presented in the financial statements as follows:

Statement of Net Position	
Cash and temporary investments	\$ 15,894,330
Restricted assets – temporarily restricted	
Cash and investments for debt service	353,923
Statement of Fiduciary Net Position	
Cash and temporary investments	314,998
Investments	
Local government obligations	487,513
Negotiable certificates of deposit	1,036,120
MNTrust Investment Shares Portfolio	<u>209,934</u>
Total	<u>\$ 18,296,818</u>

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

### B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District’s 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 \$6,043,500 while the balance on the bank records was \$6,043,500. At June 30, 2017, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District’s agent in the District’s name.

### C. Investments

The District has the following investments at year-end:

Investment Type	Credit Risk		Fair Value Measurements Using	Interest Risk – Maturity Duration in Years		Carrying Value
	Credit Rating	Rating Agency		Less Than 1	1 to 5	
	U.S. agency obligations	AA		S&P	Level 2	
Local government obligations	AA	S&P	Level 2	\$ 249,988	\$ 237,525	487,513
U.S. treasuries	AAA	S&P	Level 2	\$ 353,923	\$ –	353,923
Negotiable certificates of deposit	N/A	N/A	Level 2	\$ 668,781	\$ 864,953	1,533,734
Investment pools/mutual funds						
Minnesota School District Liquid Asset Fund						
Liquid portfolio	AAA	S&P	N/A			1,545,992
MNTrust Term Series	AAA	S&P	N/A			5,000,000
MNTrust Investment Shares Portfolio	AAA	S&P	N/A			2,832,321
Total						<u>\$ 12,253,318</u>

N/A – Not Applicable

The Minnesota School District Liquid Asset Fund (MSDLAF), MNTrust Investment Shares Portfolio (MNTrust), and the MNTrust Term Series are regulated by Minnesota Statutes and are external investment pools, which are not registered with the Securities Exchange Commission (SEC). The District’s investment in these trusts is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

The MSDLAF and MNTrust investments have no unfunded commitments, redemption frequency is daily, and there is no redemption notice for MNTrust and the MSDLAF Liquid Class; the redemption notice period is 14 days for the MSDLAF MAX Class.

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.

**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.

**OPEB Trust Fund** – This fund represents investments administered by the District’s OPEB Trust Fund investment managers. The District’s investment policy, discussed previously, extends to the OPEB Trust Fund investments.

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 OPEB Trust Agreement indicates permitted investments include one or more series of MNTrust shares relating to a separate portfolio of investments, or from multi-class shares of MNTrust within the same portfolio.

**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.

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

The District’s investment policy states that the District will diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. The maximum percent of the District’s portfolio in any instrument is as follows:

U.S. treasury obligations (bills, notes, and bonds)	100%
U.S. government agency securities and instrumentalities of government-sponsored corporations	100%
Bankers’ acceptances (Ba)	75%
Commercial paper – prime (C)	75%
Repurchase agreements (Repos)	50%
Certificates of deposit (CDs)	75%
Local government investment pool	100%

Also, no more than 50 percent of the total portfolio will be with any one instrument.

**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 policy includes limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2017 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 1,561,766	\$ –	\$ –	\$ 1,561,766
Construction in progress	1,396,767	4,211,406	–	5,608,173
Total capital assets, not depreciated	<u>2,958,533</u>	<u>4,211,406</u>	<u>–</u>	<u>7,169,939</u>
Capital assets, depreciated				
Buildings	71,542,871	–	–	71,542,871
Land improvements	13,658,737	–	(14,460)	13,644,277
Furniture and equipment	2,736,629	125,518	(18,799)	2,843,348
Total capital assets, depreciated	<u>87,938,237</u>	<u>125,518</u>	<u>(33,259)</u>	<u>88,030,496</u>
Less accumulated depreciation for				
Buildings	(18,923,663)	(1,706,243)	–	(20,629,906)
Land improvements	(2,826,081)	(437,984)	7,712	(3,256,353)
Furniture and equipment	(1,286,310)	(162,843)	9,280	(1,439,873)
Total accumulated depreciation	<u>(23,036,054)</u>	<u>(2,307,070)</u>	<u>16,992</u>	<u>(25,326,132)</u>
Net capital assets, depreciated	<u>64,902,183</u>	<u>(2,181,552)</u>	<u>(16,267)</u>	<u>62,704,364</u>
Total capital assets, net	<u>\$ 67,860,716</u>	<u>\$ 2,029,854</u>	<u>\$ (16,267)</u>	<u>\$ 69,874,303</u>

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

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

Elementary and secondary regular instruction	\$ 89,792
Instructional support services	1,007
Pupil support services	14,652
Sites and buildings	1,437,803
Food service	26,266
Community education	2,614
Depreciation not allocated to other functions	<u>734,936</u>
Total depreciation expense	<u>\$ 2,307,070</u>

**NOTE 4 – LONG-TERM LIABILITIES**

**A. General Obligation Bonds Payable**

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

Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding
General obligation bonds payable					
Taxable OPEB Bonds, Series 2009A	05/05/2009	3.5–5.4%	\$ 3,265,000	02/01/2024	\$ 1,855,000
School Refunding Bonds, Series 2010A	05/01/2010	4.0–5.0%	\$ 8,720,000	02/01/2018	3,070,000
School Refunding Bonds, Series 2012A	05/01/2012	0.3–1.4%	\$ 2,135,000	02/01/2019	330,000
School Refunding Bonds, Series 2014A	11/13/2014	4.0–5.0%	\$ 38,930,000	02/01/2031	38,570,000
Taxable School Refunding Bonds, Series 2014B	11/13/2014	3.4%	\$ 385,000	02/01/2021	385,000
Tax Abatement Bonds, Series 2016A	06/09/2016	2.0–3.0%	\$ 7,640,000	02/01/2030	<u>7,640,000</u>
Total general obligation bonds payable					<u>\$ 51,850,000</u>

**B. Description of Long-Term Liabilities**

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

**General Obligation Taxable OPEB Bonds** – These obligations were issued to finance OPEB. Assets of the OPEB Debt Service Account, together with scheduled deferred ad valorem tax revenue, 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.

**Refunding Bonds** – In November 2014, the District issued \$38,930,000 of General Obligation School Refunding Bonds, Series 2014A. These bonds were issued to currently refund, in advance of their stated maturities, the 2019 through 2031 maturities of the Taxable General Obligation School Building Bonds, Series 2010B. These bonds were also issued to refund, in a crossover refunding obligation, a portion of the 2016 and 2017 maturities of the District’s General Obligation School Building Bonds, Series 1995 totaling \$340,000 and \$340,000 on February 1, 2016 and February 1, 2017, respectively. This refunding will result in a net present value cash flow savings of \$2,470,767 and a net present value benefit of \$346,740.

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

In November 2014, the District issued \$385,000 of Taxable General Obligation School Building Bonds, Series 2014. In February 2018, the proceeds of this issue will be used to refund, in a crossover refunding obligation, a portion of the 2018 maturities totaling \$340,000 of the District’s General Obligation School Refunding Bonds, Series 2010A. This refunding will result in a net present value cash flow loss of (\$64,847) and a net present value loss of (\$31,887).

**C. Other Long-Term Liabilities**

The District offers a number of benefits to its employees, including: compensated absences, severance benefits, pensions, and OPEB. 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 defined benefit pension plans, including the state-wide, cost-sharing, multi-employer plans administered by the PERA and the TRA. Following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2017:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
State-wide multi-employer – PERA	\$ 5,464,427	\$ 2,113,756	\$ 676,667	\$ 619,158
State-wide multi-employer – TRA	80,215,574	51,562,368	327,100	12,897,757
Total	\$ 85,680,001	\$ 53,676,124	\$ 1,003,767	\$ 13,516,915

**D. Minimum Debt Payments**

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2018	\$ 3,475,000	\$ 2,330,218
2019	2,910,000	2,178,683
2020	2,995,000	2,070,573
2021	3,110,000	1,954,273
2022	3,245,000	1,817,433
2023–2027	18,635,000	6,687,665
2028–2031	17,480,000	2,057,400
	\$ 51,850,000	\$ 19,096,245

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

	Balance – June 30, 2016	Change in Accounting Principle*	Restated Beginning Balance	Additions	Retirements	Balance – June 30, 2017	Due Within One Year
General obligation bonds payable	\$ 55,075,000	\$ –	\$ 55,075,000	\$ –	\$ 3,225,000	\$ 51,850,000	\$ 3,475,000
Net (discount) premium	7,324,999	–	7,324,999	–	785,247	6,539,752	–
Net pension liability	23,978,830	–	23,978,830	63,444,351	1,743,180	85,680,001	–
Net OPEB liability	–	219,944	219,944	363,415	169,143	414,216	–
Severance benefits payable	170,094	–	170,094	121,192	104,684	186,602	25,000
Compensated absences payable	211,759	–	211,759	259,598	251,163	220,194	220,194
	\$ 86,760,682	\$ 219,944	\$ 86,980,626	\$ 64,188,556	\$ 6,278,417	\$ 144,890,765	\$ 3,720,194

\*The amounts in this column reflect only a portion of the change in accounting principle described earlier in these notes.



**NOTE 5 – FUND BALANCES**

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. Any such restrictions which have an accumulated deficit rather than positive 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. However, 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 June 30, 2017, a summary of the District’s governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
<b>Nonspendable</b>					
Inventory	\$ –	\$ –	\$ –	\$ 14,460	\$ 14,460
Prepaid items	8,938	–	1,350	5,114	15,402
Total nonspendable	<u>8,938</u>	<u>–</u>	<u>1,350</u>	<u>19,574</u>	<u>29,862</u>
<b>Restricted</b>					
Operating capital	162,822	–	–	–	162,822
Health and safety	32,052	–	–	–	32,052
Capital projects levy	184,780	–	–	–	184,780
Building construction	–	2,282,334	–	–	2,282,334
Community education programs	–	–	–	533,554	533,554
Early childhood family education	–	–	–	130,415	130,415
Community service	–	–	–	13,596	13,596
Bond refunding	–	–	353,923	–	353,923
Food service	–	–	–	233,019	233,019
Debt service	–	–	999,347	–	999,347
Total restricted	<u>379,654</u>	<u>2,282,334</u>	<u>1,353,270</u>	<u>910,584</u>	<u>4,925,842</u>
<b>Assigned</b>					
Separation benefits	411,850	–	–	–	411,850
Student activities	233,203	–	–	–	233,203
Building carryover	272,712	–	–	–	272,712
Subsequent year budget	547,235	–	–	–	547,235
Total assigned	<u>1,465,000</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,465,000</u>
<b>Unassigned</b>					
Long-term facilities maintenance restricted account deficit	(25,953)	–	–	–	(25,953)
School readiness restricted account deficit	–	–	–	(50,387)	(50,387)
Unassigned	3,134,870	–	–	–	3,134,870
Total unassigned	<u>3,108,917</u>	<u>–</u>	<u>–</u>	<u>(50,387)</u>	<u>3,058,530</u>
<b>Total</b>	<u>\$ 4,962,509</u>	<u>\$ 2,282,334</u>	<u>\$ 1,354,620</u>	<u>\$ 879,771</u>	<u>\$ 9,479,234</u>

**B. Fund Balance Policy**

The School Board has formally adopted a fund balance policy. This policy states that the School Board will strive to maintain a minimum unassigned General Fund balance (excluding restricted account deficits) of 8.0 percent of total General Fund expenditures. At June 30, 2017, the unassigned fund balance of the General Fund was 8.2 percent of the total General Fund expenditures.

## **NOTE 5 – FUND BALANCES (CONTINUED)**

If the fund balance falls below 8.0 percent, the School Board shall implement a procedure to stabilize the District's financial position. This shall involve:

1. No new programs will be added at the district level unless matched by a like revenue source;
2. Allocations such as textbooks, supplies, etc., shall be frozen; and
3. The District will review other measures which shall not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenditures have historically been lower than budgeted levels.

If the fund balance is projected to decrease below 7.0 percent, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts, or a combination of both.

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

### **A. Plan Descriptions**

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

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

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

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

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

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

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the City of St. Paul and 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.

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

### 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 status, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually.

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

#### 1. GERF Benefits

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

#### 2. TRA Benefits

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

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

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

**Tier I Benefits**

Step-Rate Formula	Percentage per Year
<b>Basic Plan</b>	
First 10 years	2.2%
All years after	2.7%
<b>Coordinated Plan</b>	
First 10 years if service years are prior 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 prior to July 1, 2006	1.7%
All other years of service if service years are 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).

**Tier II Benefits**

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

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

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

**C. Contributions**

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

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

**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 2017; 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, 2017 were \$311,736. The District’s contributions were equal to the required contributions as set by state statutes.

**2. TRA Contributions**

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

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

The District’s contributions to the TRA for the plan’s fiscal year ended June 30, 2017, were \$1,359,847. The District’s contributions were equal to the required contributions for each year as set by state statutes.

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

Employer contributions reported in the TRA’s CAFR Statement of Changes in Fiduciary Net Position	\$ 354,961,140
Deduct employer contributions not related to future contribution efforts	26,356
Deduct the TRA’s contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total nonemployer contributions	<u>35,587,410</u>
Total contributions reported in Schedule of Employer and Nonemployer Pension Allocations	<u>\$ 390,131,928</u>

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

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

**D. Pension Costs**

**1. GERF Pension Costs**

At June 30, 2017, the District reported a liability of \$5,464,427 for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the PERA’s participating employers. The District’s proportionate share was 0.0673 percent at the end of the measurement period and 0.0707 percent for the beginning of the period.

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

District’s proportionate share of net pension liability	\$ 5,464,427
State’s proportionate share of the net pension liability associated with the District	\$ 71,389

For the year ended June 30, 2017, the District recognized pension expense of \$597,872 for its proportionate share of the GERF’s pension expense. In addition, the District recognized an additional \$21,286 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota’s contribution of \$6 million to the GERF.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 16,990	\$ 449,826
Changes in actuarial assumptions	1,184,031	–
Differences between projected and actual investment earnings	600,999	–
Changes in proportion	–	226,841
District’s contributions to the GERF subsequent to the measurement date	311,736	–
Total	\$ 2,113,756	\$ 676,667

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

A total of \$311,736 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the GERP pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 285,624
2019	\$ 154,542
2020	\$ 487,803
2021	\$ 197,384

**2. TRA Pension Costs**

At June 30, 2017, the District reported a liability of \$80,215,574 for its proportionate share of the TRA’s net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District’s proportionate share was 0.3363 percent at the end of the measurement period and 0.3284 percent for the beginning of the period.

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

District’s proportionate share of net pension liability	\$ 80,215,574
State’s proportionate share of the net pension liability associated with the District	\$ 8,052,513

For the year ended June 30, 2017, the District recognized pension expense of \$11,773,356. It also recognized \$1,124,401 as an increase to pension expense for the support provided by direct aid.

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

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 819,445	\$ 2,236
Difference between projected and actual investment earnings	3,323,738	–
Changes in actuarial assumptions	45,652,094	–
Changes in proportion	407,244	324,864
District’s contributions to the TRA subsequent to the measurement date	<u>1,359,847</u>	<u>–</u>
Total	<u>\$ 51,562,368</u>	<u>\$ 327,100</u>

A total of \$1,359,847 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 9,872,338
2019	\$ 9,872,338
2020	\$ 11,086,653
2021	\$ 10,066,922
2022	\$ 8,977,170

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2016 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		2.75%
Wage growth rate		3.50%
Active member payroll	3.25% per year	3.50–9.50% based on years of service
Investment rate of return	7.50%	4.66%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1 percent per year for all future years for the GERF and 2 percent per year for all future years for the TRA.



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

Actuarial assumptions used in the June 30, 2016 valuation for the 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 for the GERF occurred in 2016:

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

There was a change in actuarial assumptions that affected the measurement of the total liability for the TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.00 percent annually, while in the previous measurement the cost of living adjustment increased to 2.50 percent in 2034.

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

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

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

**F. Discount Rate**

**1. GERF**

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

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

### 2. TRA

The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the municipal bond index rate was used in the determination of the single equivalent interest rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the municipal bond index rate of 3.01 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on fiduciary net position at prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

### G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 7,761,105	\$ 5,464,427	\$ 3,572,588
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	\$ 103,337,709	\$ 80,215,574	\$ 61,383,349

### H. Pension Plan Fiduciary Net Position

Detailed information about the GERF's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the PERA website at [www.mnpera.org](http://www.mnpera.org); by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103; 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 insurance from the time of retirement until the earlier of eight years or 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.

In addition, full-time teachers who are at least 50 years of age or have completed 20 years of professional service in the appropriate unit in the District shall be eligible for severance pay pursuant to the provisions in the severance pay article of the teachers' master agreement. All persons whose actual service began prior to July 1, 1989 shall be eligible for this benefit.

The full-time teachers shall accumulate 10 days of credit for each full year of actual teaching in the District up to a maximum of one year's salary as determined by the salary schedule placement. In applying these provisions, a teacher's daily rate of pay shall be the basic rate of the teacher's last day of actual service as provided in the basic salary schedule for the basic school year. These amounts are contributed directly to a health savings account.

### **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.

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

### D. Membership

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

Retirees and beneficiaries receiving benefits	19
Active plan members	<u>347</u>
Total members	<u><u>366</u></u>

### F. Net OPEB Liability of the District

The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at year-end were as follows:

Total OPEB liability	\$ 2,323,278
Plan fiduciary net position	<u>(1,909,062)</u>
District's net OPEB liability	<u><u>\$ 414,216</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u><u>82.2%</u></u>

### G. Actuarial Method and Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the entry age method using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	2.60%
Expected long-term investment return	1.25% (net of investment expenses)
20-year municipal bond yield	2.90%
Inflation rate	2.50%
Salary increases	3.00%
Medical trend rate	6.75% grading to 5.00% over 7 years

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.

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

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.

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Fixed income	100.00 %	1.25 %

**G. Rate of Return**

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 0.60 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 2.60 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 taken into account. The District discount rate used in the prior measurement date was 3.00 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 – July 1, 2016	\$ 2,285,462	\$ 2,065,518	\$ 219,944
Changes for the year			
Service cost	145,928	–	145,928
Interest	61,031	–	61,031
Net investment income	–	12,937	(12,937)
Benefit payments	(169,143)	(169,143)	–
Administrative expenses	–	(250)	250
Total net changes	37,816	(156,456)	194,272
Ending balance – June 30, 2017	\$ 2,323,278	\$ 1,909,062	\$ 414,216

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

Assumption changes since the prior measurement date include the following:

- The health care 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 the retirement table for only employees eligible to retire with Rule of 90 also were updated.
- The discount rate was changed from 3.00 percent to 2.60 percent.

**J. Net OPEB Liability Sensitivity to Discount and Health-Care 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	1.60%	2.60%	3.60%
Net OPEB liability	\$ 513,208	\$ 414,216	\$ 315,831

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 Medical Trend Rate</u>	<u>Medical Trend Rate</u>	<u>1% Increase in Medical Trend Rate</u>
OPEB medical trend rate	5.75% decreasing to 4.00% over 7 years	6.75% decreasing to 5.00% over 7 years	7.75% decreasing to 6.00% over 7 years
Net OPEB liability	\$ 258,544	\$ 414,216	\$ 594,358

**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 \$178,694. 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>
Differences between projected and actual investment earnings	\$ —	\$ 10,305

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

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

Year Ending June 30,	OPEB Expense Amount
2018	\$ 2,576
2019	\$ 2,576
2020	\$ 2,576
2021	\$ 2,577

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

**A. Federal and State Receivables**

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 legal claims pending at year-end, mostly of minor nature and/or covered by insurance. 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. Construction Commitments**

At June 30, 2017, the District had construction contract commitments totaling approximately \$2,015,000.

REQUIRED SUPPLEMENTARY INFORMATION



INDEPENDENT SCHOOL DISTRICT NO. 832

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

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0742%	\$ 3,485,544	\$ -	\$ 3,485,544	\$ 3,901,247	89.34%	78.70%
06/30/2016	06/30/2015	0.0707%	\$ 3,664,041	\$ -	\$ 3,664,041	\$ 3,774,394	97.08%	78.20%
06/30/2017	06/30/2016	0.0673%	\$ 5,464,427	\$ 71,389	\$ 5,535,816	\$ 4,176,584	130.83%	68.90%

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

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 278,552	\$ 278,552	\$ -	\$ 3,774,394	7.38%
06/30/2016	\$ 308,972	\$ 308,972	\$ -	\$ 4,176,584	7.40%
06/30/2017	\$ 311,736	\$ 311,736	\$ -	\$ 4,156,472	7.50%

Note 1: **Changes of Benefit Terms** – On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the GERP, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 832

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

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.3515%	\$ 16,196,867	\$ 1,139,345	\$ 17,336,212	\$ 16,044,763	100.95%	81.50%
06/30/2016	06/30/2015	0.3284%	\$ 20,314,788	\$ 2,491,928	\$ 22,806,716	\$ 16,114,607	126.06%	76.80%
06/30/2017	06/30/2016	0.3363%	\$ 80,215,574	\$ 8,052,513	\$ 88,268,087	\$ 17,491,654	458.59%	44.88%

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

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 1,159,998	\$ 1,159,998	\$ -	\$ 16,114,607	7.20%
06/30/2016	\$ 1,310,240	\$ 1,310,240	\$ -	\$ 17,491,654	7.49%
06/30/2017	\$ 1,359,847	\$ 1,359,847	\$ -	\$ 18,167,356	7.49%

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 832

Other Post-Employment Benefits Plan  
 Schedule of Changes in the District's Net  
 OPEB Liability and Related Ratios  
 Year Ended June 30, 2017

	<u>2017</u>
Total OPEB liability	
Service cost	\$ 145,928
Interest	61,031
Benefit payments	<u>(169,143)</u>
Net change in total OPEB liability	37,816
Total OPEB liability – beginning of year	<u>2,285,462</u>
Total OPEB liability – end of year	2,323,278
Plan fiduciary net position	
Investment earnings	12,937
Benefit payments	(169,143)
Administrative expense	<u>(250)</u>
Net change in plan fiduciary net position	<u>(156,456)</u>
Plan fiduciary net position – beginning of year	<u>2,065,518</u>
Plan fiduciary net position – end of year	<u>1,909,062</u>
Net OPEB liability	<u>\$ 414,216</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>82.17%</u>
Covered-employee payroll	<u>\$ 21,064,964</u>
Net OPEB liability as a percentage of covered-employee payroll	<u>1.97%</u>

Note 1: **Change of Assumptions** – The health care 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 the retirement table for only employees eligible to retire with Rule of 90 also were updated. The discount rate was changed from 3.00 percent to 2.60 percent.

Note 2: 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. 832

Other Post-Employment Benefits Plan  
Schedule of Investment Returns  
Year Ended June 30, 2017

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2017	0.60 %

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.

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	Special Revenue Funds		Total
	Food Service	Community Service	
<b>Assets</b>			
Cash and temporary investments	\$ 290,302	\$ 891,659	\$ 1,181,961
Receivables			
Current taxes	—	139,701	139,701
Delinquent taxes	—	2,714	2,714
Accounts and interest	9,180	—	9,180
Due from other governmental units	—	8,529	8,529
Inventory	14,460	—	14,460
Prepaid items	5,114	—	5,114
<b>Total assets</b>	<u>\$ 319,056</u>	<u>\$ 1,042,603</u>	<u>\$ 1,361,659</u>
<b>Liabilities</b>			
Salaries payable	\$ —	\$ 48,649	\$ 48,649
Accounts and contracts payable	4,114	33,725	37,839
Due to other governmental units	62,349	1,345	63,694
Unearned revenue	—	54,183	54,183
<b>Total liabilities</b>	<u>66,463</u>	<u>137,902</u>	<u>204,365</u>
<b>Deferred inflows of resources</b>			
Property taxes levied for subsequent year	—	276,070	276,070
Unavailable revenue – delinquent taxes	—	1,453	1,453
<b>Total deferred inflows of resources</b>	<u>—</u>	<u>277,523</u>	<u>277,523</u>
<b>Fund balances</b>			
Nonspendable for inventory	19,574	—	19,574
Restricted	233,019	677,565	910,584
Unassigned	—	(50,387)	(50,387)
<b>Total fund balances</b>	<u>252,593</u>	<u>627,178</u>	<u>879,771</u>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<u>\$ 319,056</u>	<u>\$ 1,042,603</u>	<u>\$ 1,361,659</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	Special Revenue Funds		Total
	Food Service	Community Service	
Revenue			
Local sources			
Property taxes	\$ —	\$ 247,053	\$ 247,053
Investment earnings (charges)	3,177	6,916	10,093
Other	942,204	1,787,189	2,729,393
State sources	54,642	91,339	145,981
Federal sources	364,252	—	364,252
Total revenue	<u>1,364,275</u>	<u>2,132,497</u>	<u>3,496,772</u>
Expenditures			
Current			
Food service	1,401,390	—	1,401,390
Community service	—	1,896,115	1,896,115
Capital outlay	58,841	48,750	107,591
Total expenditures	<u>1,460,231</u>	<u>1,944,865</u>	<u>3,405,096</u>
Net change in fund balances	(95,956)	187,632	91,676
Fund balances			
Beginning of year	<u>348,549</u>	<u>439,546</u>	<u>788,095</u>
End of year	<u>\$ 252,593</u>	<u>\$ 627,178</u>	<u>\$ 879,771</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and temporary investments	\$ 6,059,740	\$ 6,366,597
Receivables		
Current taxes	4,079,781	4,082,215
Delinquent taxes	79,715	68,381
Accounts and interest	47,250	51,439
Due from other funds	169,143	113,550
Due from other governmental units	2,426,638	2,638,427
Prepaid items	<u>8,938</u>	<u>25,573</u>
Total assets	<u>\$ 12,871,205</u>	<u>\$ 13,346,182</u>
<b>Liabilities</b>		
Salaries payable	\$ 56,689	\$ 78,213
Accounts and contracts payable	392,199	397,992
Due to other governmental units	80,360	107,845
Unearned revenue	<u>6,953</u>	<u>3,877</u>
Total liabilities	536,201	587,927
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year	7,331,535	7,302,356
Unavailable revenue – delinquent taxes	<u>40,960</u>	<u>34,955</u>
Total deferred inflows of resources	7,372,495	7,337,311
<b>Fund balances (deficit)</b>		
Nonspendable for prepaid items	8,938	25,573
Restricted for capital projects levy	184,780	–
Restricted for operating capital	162,822	438,515
Restricted for health and safety	32,052	–
Assigned for separation benefits	411,850	411,850
Assigned for student activities	233,203	197,093
Assigned for building carryover	272,712	272,712
Assigned for subsequent year budget	547,235	547,235
Unassigned – capital project levy restricted account deficit	–	(3,622)
Unassigned – deferred maintenance restricted account deficit	–	(5,451)
Unassigned – health and safety restricted account deficit	–	(36,863)
Unassigned – long-term facility maintenance restricted account deficit	(25,953)	–
Unassigned	<u>3,134,870</u>	<u>3,573,902</u>
Total fund balances	<u>4,962,509</u>	<u>5,420,944</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 12,871,205</u>	 <u>\$ 13,346,182</u>



INDEPENDENT SCHOOL DISTRICT NO. 832

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

	2017		2016	
	Budget	Actual	Over (Under) Budget	Actual
<b>Revenue</b>				
Local sources				
Property taxes	\$ 8,077,977	\$ 8,080,579	\$ 2,602	\$ 7,795,535
Investment earnings	11,000	56,071	45,071	28,214
Other	1,228,341	1,430,013	201,672	1,711,371
State sources	27,173,600	27,312,397	138,797	26,944,833
Federal sources	776,087	760,261	(15,826)	631,972
Total revenue	<u>37,267,005</u>	<u>37,639,321</u>	<u>372,316</u>	<u>37,111,925</u>
<b>Expenditures</b>				
Current				
Administration				
Salaries	1,229,113	1,176,648	(52,465)	1,197,764
Employee benefits	449,700	437,603	(12,097)	456,929
Purchased services	66,821	59,202	(7,619)	68,588
Supplies and materials	12,600	12,210	(390)	15,187
Capital expenditures	-	-	-	112
Other expenditures	27,760	34,678	6,918	13,936
Total administration	<u>1,785,994</u>	<u>1,720,341</u>	<u>(65,653)</u>	<u>1,752,516</u>
District support services				
Salaries	282,184	495,607	213,423	406,166
Employee benefits	182,463	109,123	(73,340)	116,293
Purchased services	448,675	518,869	70,194	326,683
Supplies and materials	75,200	72,071	(3,129)	2,864
Capital expenditures	5,900	1,149	(4,751)	6,346
Other expenditures	110,125	86,802	(23,323)	291,998
Total district support services	<u>1,104,547</u>	<u>1,283,621</u>	<u>179,074</u>	<u>1,150,350</u>
Elementary and secondary regular instruction				
Salaries	12,511,412	12,511,055	(357)	12,193,399
Employee benefits	4,675,533	4,611,604	(63,929)	4,850,672
Purchased services	942,125	924,639	(17,486)	773,884
Supplies and materials	605,232	561,128	(44,104)	591,380
Capital expenditures	289,148	231,753	(57,395)	162,897
Other expenditures	543,819	783,987	240,168	716,637
Total elementary and secondary regular instruction	<u>19,567,269</u>	<u>19,624,166</u>	<u>56,897</u>	<u>19,288,869</u>

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	2017		2016	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	315,572	340,351	24,779	281,670
Employee benefits	141,710	136,160	(5,550)	125,088
Purchased services	121,960	164,742	42,782	113,385
Supplies and materials	7,500	2,280	(5,220)	2,040
Capital expenditures	5,000	—	(5,000)	6,155
Other expenditures	250	1,996	1,746	—
Total vocational education instruction	591,992	645,529	53,537	528,338
Special education instruction				
Salaries	4,544,406	4,390,836	(153,570)	4,120,910
Employee benefits	1,681,976	1,687,878	5,902	1,640,793
Purchased services	352,032	434,604	82,572	332,212
Supplies and materials	113,624	114,462	838	97,322
Capital expenditures	158,423	80,027	(78,396)	47,698
Other expenditures	120,500	130,744	10,244	104,889
Total special education instruction	6,970,961	6,838,551	(132,410)	6,343,824
Instructional support services				
Salaries	1,076,330	1,054,546	(21,784)	1,051,009
Employee benefits	448,746	443,559	(5,187)	446,985
Purchased services	101,100	89,450	(11,650)	105,125
Supplies and materials	47,050	32,238	(14,812)	42,982
Capital expenditures	5,000	67,764	62,764	19,794
Other expenditures	1,231	4,395	3,164	129
Total instructional support services	1,679,457	1,691,952	12,495	1,666,024
Pupil support services				
Salaries	799,691	803,707	4,016	824,430
Employee benefits	306,642	305,174	(1,468)	308,538
Purchased services	1,667,812	1,729,055	61,243	1,482,038
Supplies and materials	23,759	19,279	(4,480)	74,753
Capital expenditures	3,400	1,015	(2,385)	5,628
Other expenditures	490	5,422	4,932	355
Total pupil support services	2,801,794	2,863,652	61,858	2,695,742

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	2017		2016	
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	889,263	905,603	16,340	937,710
Employee benefits	341,123	327,727	(13,396)	352,549
Purchased services	958,618	1,174,819	216,201	1,049,172
Supplies and materials	219,200	215,697	(3,503)	204,636
Capital expenditures	750,000	686,615	(63,385)	973,010
Other expenditures	760	1,723	963	806
Total sites and buildings	<u>3,158,964</u>	<u>3,312,184</u>	<u>153,220</u>	<u>3,517,883</u>
Fiscal and other fixed cost programs				
Employee benefits	40,500	—	(40,500)	—
Purchased services	117,421	119,422	2,001	115,640
Total fiscal and other fixed cost programs	<u>157,921</u>	<u>119,422</u>	<u>(38,499)</u>	<u>115,640</u>
Total expenditures	<u>37,818,899</u>	<u>38,099,418</u>	<u>280,519</u>	<u>37,059,186</u>
Excess (deficiency) of revenue over expenditures	(551,894)	(460,097)	91,797	52,739
Other financing sources				
Sale of assets	<u>1,665</u>	<u>1,662</u>	<u>(3)</u>	<u>5,554</u>
Net change in fund balances	<u>\$ (550,229)</u>	<u>(458,435)</u>	<u>\$ 91,794</u>	<u>58,293</u>
Fund balances				
Beginning of year		<u>5,420,944</u>		<u>5,362,651</u>
End of year		<u>\$ 4,962,509</u>		<u>\$ 5,420,944</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 290,302	\$ 398,914
Receivables		
Accounts and interest receivable	9,180	427
Due from other governmental units	—	2,571
Inventory	14,460	12,943
Prepaid items	<u>5,114</u>	<u>3,100</u>
Total assets	<u>\$ 319,056</u>	<u>\$ 417,955</u>
Liabilities		
Accounts and contracts payable	\$ 4,114	\$ 9,503
Due to other governmental units	<u>62,349</u>	<u>59,903</u>
Total liabilities	66,463	69,406
Fund balances		
Nonspendable for inventory	14,460	12,943
Nonspendable for prepaid items	5,114	3,100
Restricted for food service	<u>233,019</u>	<u>332,506</u>
Total fund balances	<u>252,593</u>	<u>348,549</u>
Total liabilities and fund balances	<u>\$ 319,056</u>	<u>\$ 417,955</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	2017		Over (Under) Budget	2016
	Budget	Actual		Actual
<b>Revenue</b>				
Local sources				
Investment earnings (charges)	\$ 600	\$ 3,177	\$ 2,577	\$ (581)
Other – primarily meal sales	1,089,000	942,204	(146,796)	1,035,277
State sources	52,500	54,642	2,142	55,971
Federal sources	342,000	364,252	22,252	319,794
Total revenue	<u>1,484,100</u>	<u>1,364,275</u>	<u>(119,825)</u>	<u>1,410,461</u>
<b>Expenditures</b>				
Current				
Salaries	129,500	110,260	(19,240)	106,564
Employee benefits	6,060	22,593	16,533	5,351
Purchased services	599,255	596,063	(3,192)	599,209
Supplies and materials	665,400	665,999	599	661,388
Other expenditures	6,000	6,475	475	5,329
Capital outlay	31,500	58,841	27,341	96,759
Total expenditures	<u>1,437,715</u>	<u>1,460,231</u>	<u>22,516</u>	<u>1,474,600</u>
Net change in fund balances	<u>\$ 46,385</u>	<u>(95,956)</u>	<u>\$ (142,341)</u>	<u>(64,139)</u>
<b>Fund balances</b>				
Beginning of year		<u>348,549</u>		<u>412,688</u>
End of year		<u>\$ 252,593</u>		<u>\$ 348,549</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
Cash and temporary investments	\$ 891,659	\$ 645,855
Receivables		
Current taxes	139,701	126,099
Delinquent taxes	2,714	2,414
Accounts and interest	-	53,452
Due from other governmental units	<u>8,529</u>	<u>7,121</u>
Total assets	<u>\$ 1,042,603</u>	<u>\$ 834,941</u>
<b>Liabilities</b>		
Salaries payable	\$ 48,649	\$ 53,578
Accounts and contracts payable	33,725	25,896
Due to other governmental units	1,345	1,345
Unearned revenue	<u>54,183</u>	<u>65,958</u>
Total liabilities	137,902	146,777
<b>Deferred inflows of resources</b>		
Property taxes levied for subsequent year	276,070	247,848
Unavailable revenue – delinquent taxes	<u>1,453</u>	<u>770</u>
Total deferred inflows of resources	277,523	248,618
<b>Fund balances (deficit)</b>		
Restricted for community education programs	533,554	383,010
Restricted for early childhood family education programs	130,415	100,943
Restricted for community service	13,596	9,976
Unassigned – school readiness restricted account deficit	<u>(50,387)</u>	<u>(54,383)</u>
Total fund balances	<u>627,178</u>	<u>439,546</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,042,603</u>	<u>\$ 834,941</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	2017		Over (Under) Budget	2016
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 308,735	\$ 247,053	\$ (61,682)	\$ 263,302
Investment earnings (charges)	200	6,916	6,716	(689)
Other – primarily tuition and fees	1,532,493	1,787,189	254,696	1,576,585
State sources	85,366	91,339	5,973	79,960
Total revenue	<u>1,926,794</u>	<u>2,132,497</u>	<u>205,703</u>	<u>1,919,158</u>
Expenditures				
Current				
Salaries	935,776	1,111,994	176,218	1,058,703
Employee benefits	317,357	343,508	26,151	327,237
Purchased services	401,697	343,610	(58,087)	421,603
Supplies and materials	63,000	82,558	19,558	65,957
Other expenditures	16,800	14,445	(2,355)	16,919
Capital outlay	6,500	48,750	42,250	31,646
Total expenditures	<u>1,741,130</u>	<u>1,944,865</u>	<u>203,735</u>	<u>1,922,065</u>
Net change in fund balances	<u>\$ 185,664</u>	<u>187,632</u>	<u>\$ 1,968</u>	<u>(2,907)</u>
Fund balances				
Beginning of year		<u>439,546</u>		<u>442,453</u>
End of year		<u>\$ 627,178</u>		<u>\$ 439,546</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	\$ 3,312,791	6,851,738
Receivables		
Accounts and interest	<u>22,544</u>	<u>881</u>
Total assets	<u>\$ 3,335,335</u>	<u>\$ 6,852,619</u>
Liabilities		
Accounts and contracts payable	\$ 1,053,001	\$ 364,312
Fund balances		
Restricted for building construction	<u>2,282,334</u>	<u>6,488,307</u>
Total liabilities and fund balances	<u>\$ 3,335,335</u>	<u>\$ 6,852,619</u>



INDEPENDENT SCHOOL DISTRICT NO. 832

Capital Projects – Building Construction Fund  
 Comparative Schedule of Revenue, Expenditures, and Changes in Fund Balances  
 Year Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Revenue		
Local sources		
Investment earnings (charges)	\$ 40,053	\$ (78)
Expenditures		
Capital outlay		
Salaries	81,201	76,226
Employee benefits	34,676	20,064
Purchased services	156,041	444,404
Capital expenditures	3,974,108	1,046,092
Debt service		
Fiscal charges and other	–	49,168
Total expenditures	<u>4,246,026</u>	<u>1,635,954</u>
Excess (deficiency) of revenue over expenditures	(4,205,973)	(1,636,032)
Other financing sources		
Premium on debt issued	–	484,339
Debt issued	–	7,640,000
Total other financing sources	<u>–</u>	<u>8,124,339</u>
Net change in fund balances	(4,205,973)	6,488,307
Fund balances		
Beginning of year	<u>6,488,307</u>	<u>–</u>
End of year	<u>\$ 2,282,334</u>	<u>\$ 6,488,307</u>

INDEPENDENT SCHOOL DISTRICT NO. 832

Debt Service Fund  
 Balance Sheet by Account  
 as of June 30, 2017  
 (With Comparative Totals as of June 30, 2016)

	Regular	OPEB	Totals	
	Debt Service Account	Debt Service Account	2017	2016
<b>Assets</b>				
Cash and temporary investments	\$ 3,598,124	\$ 229,418	\$ 3,827,542	\$ 3,770,166
Cash and investments held by trustee	353,923	—	353,923	717,961
<b>Receivables</b>				
Current taxes	2,470,787	166,267	2,637,054	2,677,261
Delinquent taxes	52,082	3,611	55,693	47,307
Due from other governmental units	1,927	30	1,957	529
Prepaid items	1,350	—	1,350	900
<b>Total assets</b>	<b>\$ 6,478,193</b>	<b>\$ 399,326</b>	<b>\$ 6,877,519</b>	<b>\$ 7,214,124</b>
<b>Liabilities</b>				
Unearned revenue	\$ 282,590	\$ —	\$ 282,590	\$ 282,590
<b>Deferred inflows of resources</b>				
Property taxes levied for subsequent year	4,882,146	328,529	5,210,675	5,262,168
Unavailable revenue – delinquent taxes	27,713	1,921	29,634	18,644
<b>Total deferred inflows of resources</b>	<b>4,909,859</b>	<b>330,450</b>	<b>5,240,309</b>	<b>5,280,812</b>
<b>Fund balances</b>				
Nonspendable for prepaid items	1,350	—	1,350	900
Restricted for bond refunding	353,923	—	353,923	717,961
Restricted for debt service	930,471	68,876	999,347	931,861
<b>Total fund balances</b>	<b>1,285,744</b>	<b>68,876</b>	<b>1,354,620</b>	<b>1,650,722</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 6,478,193</b>	<b>\$ 399,326</b>	<b>\$ 6,877,519</b>	<b>\$ 7,214,124</b>

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	Budget	2017 Actual	
		Regular Debt Service Account	OPEB Debt Service Account
<b>Revenue</b>			
Local sources			
Property taxes	\$ 5,262,169	\$ 4,911,513	\$ 337,343
Investment earnings (charges)	4,500	31,721	—
State sources	3,500	19,269	303
Total revenue	<u>5,270,169</u>	<u>4,962,503</u>	<u>337,646</u>
<b>Expenditures</b>			
Debt service			
Principal	2,885,000	2,660,000	225,000
Interest	2,342,317	2,237,984	104,333
Fiscal charges and other	5,500	28,934	—
Total expenditures	<u>5,232,817</u>	<u>4,926,918</u>	<u>329,333</u>
Excess of revenue over expenditures	37,352	35,585	8,313
<b>Other financing (uses)</b>			
Payments on bond refunding	—	(340,000)	—
Net change in fund balances	<u>\$ 37,352</u>	<u>(304,415)</u>	<u>8,313</u>
<b>Fund balances</b>			
Beginning of year		<u>1,590,159</u>	<u>60,563</u>
End of year		<u>\$ 1,285,744</u>	<u>\$ 68,876</u>

		2016	
Total	Over (Under) Budget	Actual	
\$ 5,248,856	\$ (13,313)	\$ 5,274,731	
31,721	27,221	(2,776)	
19,572	16,072	5,230	
<u>5,300,149</u>	<u>29,980</u>	<u>5,277,185</u>	
2,885,000	--	2,965,000	
2,342,317	--	2,263,530	
28,934	23,434	5,790	
<u>5,256,251</u>	<u>23,434</u>	<u>5,234,320</u>	
43,898	6,546	42,865	
<u>(340,000)</u>	<u>(340,000)</u>	<u>(340,000)</u>	
(296,102)	<u>\$ (333,454)</u>	(297,135)	
<u>1,650,722</u>		<u>1,947,857</u>	
<u>\$ 1,354,620</u>		<u>\$ 1,650,722</u>	

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 832

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures	Noncash Assistance
<b>U.S. Department of Education</b>			
Passed through Minnesota Department of Education			
Special education cluster			
Special Education – Grants to States	84.027	\$ 616,239	
Special Education – Preschool Grants	84.173	<u>12,202</u>	
Total special education cluster			\$ 628,441
Title I – Grants to Local Educational Agencies	84.010		65,089
Special Education – Grants for Infants and Families	84.181		12,731
Supporting Effective Instruction State Grant	84.367		50,609
Passed through Northeast Metropolitan Intermediate School District No. 916			
Career and Technical Education – Basic Grants to States	84.048		3,392
<b>U.S. Department of Agriculture</b>			
Passed through Minnesota Department of Education			
Child nutrition cluster			
School Breakfast Program	10.553	21,036	
National School Lunch Program	10.555	<u>343,664</u>	\$ 16,854
Total child nutrition cluster			<u>364,700</u>
Total federal awards			<u><u>\$ 1,124,962</u></u>

Note 1: This Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with 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. 832  
Mahtomedi, 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. 832 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated INSERT DATE.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(continued)

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

#### **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.

Minneapolis, Minnesota  
INSERT DATE



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. 832  
Mahtomedi, Minnesota

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

We have audited Independent School District No. 832's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the Summary of 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, 2017.

## **REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

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

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

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

Minneapolis, Minnesota  
INSERT DATE

INDEPENDENT AUDITOR'S REPORT  
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of  
Independent School District No. 832  
Mahtomedi, 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. 832 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated INSERT DATE.

**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*. 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.

**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.

Minneapolis, Minnesota  
INSERT DATE

INDEPENDENT SCHOOL DISTRICT NO. 832

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

**A. SUMMARY OF AUDIT RESULTS**

This summary is formatted to provide federal granting agencies and pass-through entities 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 2 CFR 200.516(a)?  Yes  No

Programs tested as major programs:

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 832

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

**B. FINANCIAL STATEMENT FINDINGS**

**SIGNIFICANT DEFICIENCY**

**2017-001 Segregation of Duties**

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

**Condition** – Independent School District No. 832 (the District) has limited segregation of duties in several areas, including the processing of general disbursements and payroll transactions.

**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.

**C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT**

None.

**D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT**

None.

INDEPENDENT SCHOOL DISTRICT NO. 832

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

		Audit	UFARS	Audit - UFARS
<b>General Fund</b>				
Total revenue		\$ 37,639,321	\$ 37,639,317	\$ 4
Total expenditures		\$ 38,099,418	\$ 38,099,415	\$ 3
Nonspendable				
460	Nonspendable fund balance	\$ 8,938	\$ 8,938	\$ --
Restricted				
403	Staff development	\$ --	\$ --	\$ --
405	Deferred maintenance	\$ --	\$ --	\$ --
406	Health and safety	\$ 32,052	\$ 32,052	\$ --
407	Capital projects levy	\$ 184,780	\$ 184,780	\$ --
408	Cooperative revenue	\$ --	\$ --	\$ --
409	Alternative facility program	\$ --	\$ --	\$ --
413	Projects funded by COP	\$ --	\$ --	\$ --
414	Operating debt	\$ --	\$ --	\$ --
416	Levy reduction	\$ --	\$ --	\$ --
417	Taconite building maintenance	\$ --	\$ --	\$ --
423	Certain teacher programs	\$ --	\$ --	\$ --
424	Operating capital	\$ 162,822	\$ 162,822	\$ --
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	\$ --	\$ --	\$ --
441	Basic skills programs	\$ --	\$ --	\$ --
445	Career and technical programs	\$ --	\$ --	\$ --
448	Achievement and integration	\$ --	\$ --	\$ --
449	Safe schools levy	\$ --	\$ --	\$ --
450	Pre-kindergarten	\$ --	\$ --	\$ --
451	QZAB payments	\$ --	\$ --	\$ --
452	OPEB liability not in trust	\$ --	\$ --	\$ --
453	Unfunded severance and retirement levy	\$ --	\$ --	\$ --
467	Long-term facilities maintenance	\$ (25,953)	\$ (25,953)	\$ --
464	Restricted fund balance	\$ --	\$ --	\$ --
Committed				
418	Committed for separation	\$ --	\$ --	\$ --
461	Committed fund balance	\$ --	\$ --	\$ --
Assigned				
462	Assigned fund balance	\$ 1,465,000	\$ 1,465,000	\$ --
Unassigned				
422	Unassigned fund balance	\$ 3,134,870	\$ 3,134,870	\$ --
<b>Food Service</b>				
Total revenue		\$ 1,364,275	\$ 1,364,271	\$ 4
Total expenditures		\$ 1,460,231	\$ 1,460,227	\$ 4
Nonspendable				
460	Nonspendable fund balance	\$ 19,574	\$ 19,573	\$ 1
Restricted				
452	OPEB liability not in trust	\$ --	\$ --	\$ --
464	Restricted fund balance	\$ 233,019	\$ 233,020	\$ (1)
Unassigned				
463	Unassigned fund balance	\$ --	\$ --	\$ --
<b>Community Service</b>				
Total revenue		\$ 2,132,497	\$ 2,132,496	\$ 1
Total expenditures		\$ 1,944,865	\$ 1,944,863	\$ 2
Nonspendable				
460	Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted				
426	\$25 taconite	\$ --	\$ --	\$ --
431	Community education	\$ 533,554	\$ 533,554	\$ --
432	ECFE	\$ 130,415	\$ 130,415	\$ --
440	Teacher development and evaluation	\$ --	\$ --	\$ --
444	School readiness	\$ (50,387)	\$ (50,386)	\$ (1)
447	Adult basic education	\$ --	\$ --	\$ --
452	OPEB liability not in trust	\$ --	\$ --	\$ --
464	Restricted fund balance	\$ 13,596	\$ 13,595	\$ 1
Unassigned				
463	Unassigned fund balance	\$ --	\$ --	\$ --

INDEPENDENT SCHOOL DISTRICT NO. 832

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

	Audit	UFARS	Audit – UFARS
<b>Building Construction</b>			
Total revenue	\$ 40,053	\$ 40,053	\$ --
Total expenditures	\$ 4,246,026	\$ 4,246,026	\$ --
Nonspendable			
460 Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted			
407 Capital projects levy	\$ --	\$ --	\$ --
409 Alternative facility program	\$ --	\$ --	\$ --
413 Project funded by COP	\$ --	\$ --	\$ --
467 Long-term facilities maintenance	\$ --	\$ --	\$ --
464 Restricted fund balance	\$ 2,282,334	\$ 2,282,334	\$ --
Unassigned			
463 Unassigned fund balance	\$ --	\$ --	\$ --
<b>Debt Service</b>			
Total revenue	\$ 4,962,503	\$ 4,962,503	\$ --
Total expenditures	\$ 4,926,918	\$ 4,926,919	\$ (1)
Nonspendable			
460 Nonspendable fund balance	\$ 1,350	\$ 1,350	\$ --
Restricted			
425 Bond refundings	\$ 353,923	\$ 353,923	\$ --
451 QZAB payments	\$ --	\$ --	\$ --
Restricted			
464 Restricted fund balance	\$ 930,471	\$ 930,470	\$ 1
Unassigned			
463 Unassigned fund balance	\$ --	\$ --	\$ --
<b>Trust</b>			
Total revenue	\$ --	\$ --	\$ --
Total expenditures	\$ --	\$ --	\$ --
422 Net position	\$ --	\$ --	\$ --
<b>Internal Service</b>			
Total revenue	\$ 4,880,668	\$ 4,880,668	\$ --
Total expenditures	\$ 4,419,788	\$ 4,419,788	\$ --
422 Net position	\$ 394,857	\$ 394,857	\$ --
<b>OPEB Revocable Trust Fund</b>			
Total revenue	\$ --	\$ --	\$ --
Total expenditures	\$ --	\$ --	\$ --
422 Net position	\$ --	\$ --	\$ --
<b>OPEB Irrevocable Trust Fund</b>			
Total revenue	\$ 12,937	\$ 12,937	\$ --
Total expenditures	\$ 169,393	\$ 169,393	\$ --
422 Net position	\$ 1,909,062	\$ 1,909,061	\$ 1
<b>OPEB Debt Service Fund</b>			
Total revenue	\$ 337,646	\$ 337,646	\$ --
Total expenditures	\$ 329,333	\$ 329,333	\$ --
Nonspendable			
460 Nonspendable fund balance	\$ --	\$ --	\$ --
Restricted			
425 Bond refundings	\$ --	\$ --	\$ --
464 Restricted fund balance	\$ 68,876	\$ 68,876	\$ --
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.