

Orono Public Schools | ISD #278 | Orono, Minnesota

Comprehensive Annual Financial Report

Fiscal Year Ending June 30, 2019

2019



INDEPENDENT SCHOOL DISTRICT NO. 278
ORONO, MINNESOTA

Comprehensive Annual
Financial Report

Year Ended
June 30, 2019

Prepared by
Finance Department

John Morstad – Director of Business Services

Lauren Syrup, CPA – Controller

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INDEPENDENT SCHOOL DISTRICT NO. 278

Table of Contents

	Page
INTRODUCTORY SECTION	
Letter of Transmittal	i–v
Organizational Chart	vi–vii
School Board and Administration	viii
Certificate of Excellence	ix
Map of School District	x–xi
FINANCIAL SECTION	
INDEPENDENT AUDITOR’S REPORT	
	1–3
MANAGEMENT’S DISCUSSION AND ANALYSIS	
	4–15
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Position	16
Statement of Activities	17
Fund Financial Statements	
Governmental Funds	
Balance Sheet	18–19
Reconciliation of the Balance Sheet to the Statement of Net Position	20
Statement of Revenue, Expenditures, and Changes in Fund Balances	21–22
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances to the Statement of Activities	23
Statement of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	24
Proprietary Funds	
Internal Service Funds	
Statement of Net Position	25
Statement of Revenue, Expenses, and Changes in Net Position	26
Statement of Cash Flows	27
Fiduciary Funds	
Statement of Fiduciary Net Position	28
Statement of Changes in Fiduciary Net Position	28
Notes to Basic Financial Statements	29–59
REQUIRED SUPPLEMENTARY INFORMATION	
Public Employee Retirement Association Pension Benefits Plan	
Schedule of District’s and Nonemployer Proportionate Share of Net Pension Liability	60
Schedule of District Contributions	60
Teachers Retirement Association Pension Benefits Plan	
Schedule of District’s and Nonemployer Proportionate Share of Net Pension Liability	61
Schedule of District Contributions	61
Other Post-Employment Benefits Plan	
Schedule of Changes in the District’s Net OPEB Liability and Related Ratios	62
Schedule of Investment Returns	63
Notes to Required Supplementary Information	64–68

INDEPENDENT SCHOOL DISTRICT NO. 278

Table of Contents (continued)

	Page
SUPPLEMENTAL INFORMATION	
Nonmajor Governmental Funds	
Combining Balance Sheet	69
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances	70
Governmental Funds	
General Fund	
Balance Sheet by Account	71
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account	72
Operating Account – Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	73
Capital Expenditure Account – Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	74
Special Revenue Funds	
Food Service Special Revenue Fund	
Comparative Balance Sheet	75
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	76
Community Service Special Revenue Fund	
Comparative Balance Sheet	77
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	78
Capital Projects – Building Construction Fund	
Comparative Balance Sheet	79
Schedule of Revenue, Expenditures, and Changes in Fund Balances – Budget and Actual	80
Debt Service Fund	
Balance Sheet by Account	81
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account – Budget and Actual	82–83
Internal Service Funds	
Combining Statement of Net Position	84
Combining Statement of Revenue, Expenses, and Changes in Net Position	85
Combining Statement of Cash Flows	86
Fiduciary Funds	
Combining Statement of Fiduciary Net Position	87
Combining Statement of Changes in Fiduciary Net Position	87

INDEPENDENT SCHOOL DISTRICT NO. 278

Table of Contents (continued)

	Page
STATISTICAL SECTION (UNAUDITED)	
Net Position by Component	88–89
Changes in Net Position	90–91
Governmental Activities Tax Revenues by Source and Levy Type	92
Fund Balances of Governmental Funds	93–94
Changes in Fund Balances of Governmental Funds	95–96
General Governmental Tax Revenues by Source and Levy Type	97
Assessed and Actual Value of Taxable Property	98
Property Tax Rates – Direct and Overlapping Governments	99–100
Principal Property Taxpayers	101
Property Tax Levies, Collections, and Receivables	102–103
Ratios of Outstanding Debt by Type	104
Ratio of Net General Obligation Bonded Debt to Market Value and Net General Obligation Bonded Debt per Capita	105
Direct and Overlapping Debt	106
Legal Debt Margin Information	107–108
Demographic and Economic Statistics	109
Principal Employers	110
Employees by Classification	111–112
Operating Statistics	113
School Building Information	114–115
Food Service – School Lunch Program Data	116
Student Enrollment	117

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INTRODUCTORY SECTION

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November 4, 2019

To the Citizens of the School District, Board of Education, and Employees of the School District:

INTRODUCTION

We are submitting the Comprehensive Annual Financial Report (CAFR) of Independent School District No. 278, Orono (the District) for the fiscal year ended June 30, 2019. This report fairly presents the District's financial position and results of operations and cash flows in accordance with accounting principles generally accepted in the United States of America. The District's administration accepts total responsibility for the accuracy, completeness, and fairness in presentation.

The District's financial statements have been audited by Malloy, Montague, Karnowski, Radosevich & Co., P.A., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the District for the fiscal year ended June 30, 2019, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified opinion that the District's financial statements for the fiscal year ended June 30, 2019, are fairly presented in conformity with accounting principles generally accepted in the United States of America. The independent auditor's report is presented as the first component of the financial section of this report.

In addition to the independent audit of the District's financial statements, the District is required to undergo an annual Single Audit in conformity with the provisions of the Federal Single Audit Act Amendments of 1996 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). The District is also required to undergo an annual Minnesota State legal compliance audit under Minnesota State Statutes § 6.65. The standards governing Single Audit engagements require the independent auditor to report on not only the fair presentation of the financial statements, but also the District's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the District's separately issued "Special Purpose Audit Reports."

Accounting principles generally accepted in the United States of America require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of the management's discussion and analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District's MD&A can be found immediately following the report of the independent auditors.

DISTRICT GOALS

School District Mission

Our students will maximize their potential in life because of their experiences in Orono Schools.

Strategic Goals

1. Scholarship – Through personalized and rigorous learning, students and staff will apply high levels of interdisciplinary knowledge across all content areas
2. Character – Students and staff members will understand and model the core ethical values for a life of integrity
3. Relationships – Students and staff will engage in strong academic relationships

The School Board governs under the guidelines of the Minnesota School Board Association, which provides model policy recommendations and School Board governance training to its members.

The School Board has overall control of the organization. Through its policies, the Superintendent is the School Board’s link to operational achievement and conduct, so that all authority and accountability of staff, as far as the School Board is concerned, is considered the authority and accountability of the Superintendent.

LOCAL ECONOMIC CONDITION AND OUTLOOK

The District was incorporated in 1951 and serves a portion of six suburban communities on the western edge of the Minneapolis/St. Paul metropolitan area, covering 49 square miles with an estimated population of 12,926. The District encompasses all or part of the communities of Independence, Long Lake, Maple Plain, Medina, Minnetonka Beach, and Orono.

For 2018–2019, the District facilities included two elementary schools, one middle school, one senior high school, a community education center, a student center, and a transportation and storage center. The average building age was 34.85 years old.

Enrollment for the 2018–2019 school year was 2,877 pupils in adjusted daily membership, which represents an increase of 36 students from the prior year. Demographic forecasts project an increase in enrollment for the next several years. Projected enrollments for the near future per an independent demographer hired by the District are:

<u>Fiscal Year</u>	<u>Enrollment</u>
2020	2,931
2021	2,985
2022	3,026

The tax base of the District increased by 2.49 percent during the past year. The market value of all taxable property in the District in fiscal year 2019 was \$3,684,163,400, compared to \$3,594,504,400 in fiscal year 2018.

The net tax capacity of the District for fiscal year 2019 was \$42,620,095, an increase of 3.28 percent over the prior year value of \$41,265,686.

Programs and Services

The District provides a full range of public education services appropriate to grade levels ranging from Pre-kindergarten through Grade 12. These include regular and enriched academic education, special education for exceptional children, and career/vocational education. Food service and transportation are provided as supporting programs. The District’s community education program includes early childhood family education and adult basic education programs, and a myriad of classes for lifelong learning experiences for children and adults.

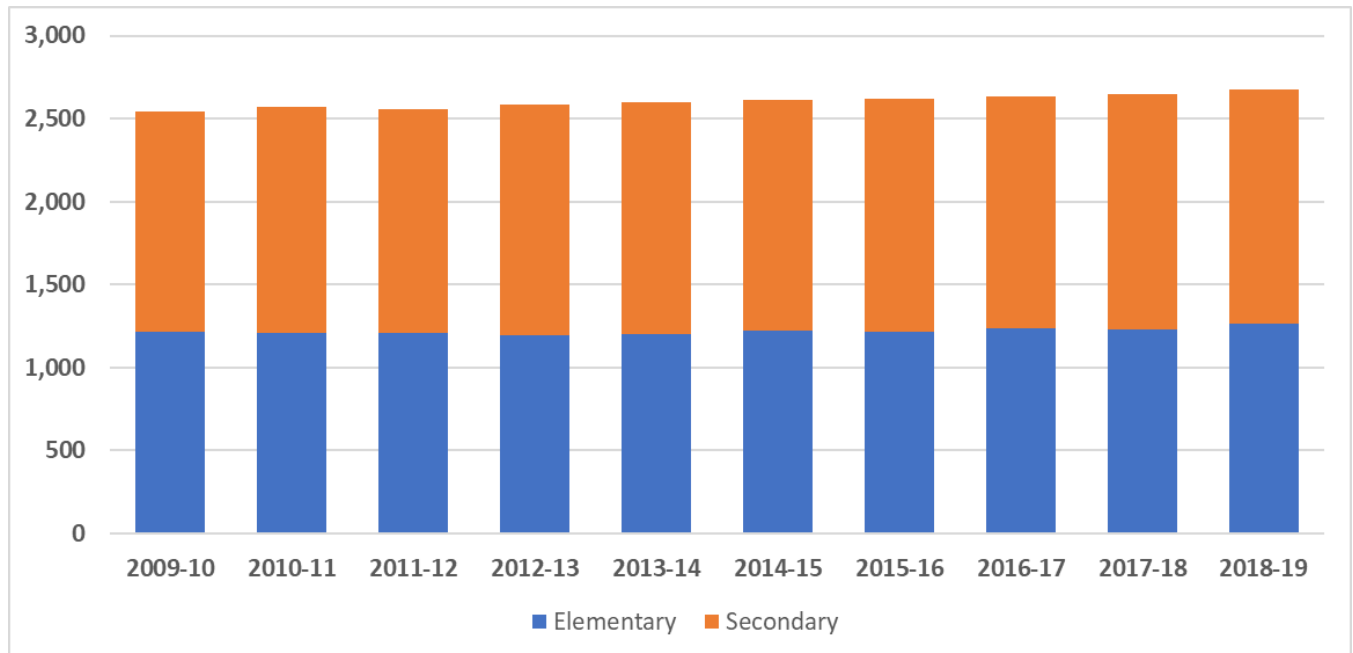
Enrollment

Enrollment is a critical factor in determining funding levels. Approximately 70 percent of the General Fund revenue is enrollment driven. During fiscal year 2019, enrollment increased by 36 average daily memberships to 2,877. The increase can be attributed to the growth in resident population within the District, as well as a slight reduction in available open enrollment seats.

Student Enrollment (Average Daily Membership)

	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Pre-K and HCP-K	21	19	15	18	13	18	23	25	24	24
Reg K	145	177	138	156	162	151	171	151	169	177
Elementary	1,218	1,212	1,212	1,197	1,205	1,224	1,219	1,235	1,233	1,263
Secondary	1,325	1,357	1,342	1,391	1,395	1,387	1,402	1,400	1,415	1,413
Total Students	2,709	2,765	2,707	2,762	2,775	2,780	2,815	2,811	2,841	2,877
Percent Change	0.30%	2.07%	-2.10%	2.03%	0.47%	0.18%	1.26%	-0.14%	1.07%	1.27%

Student Enrollment (Average Daily Membership)



The continued stability of grade cohorts in the last three years led to a 2.20 percent increase in enrollment from fiscal year 2016. The District projects a 6.00 percent year-over-year increase over the next five years. This is primarily due to expected residential growth within the District during that time period. The enrollment changes presented above offer both financial and strategic challenges and opportunities for the District.

FINANCIAL AND BUDGETARY CONTROL

The management of the District is responsible for establishing and maintaining internal controls designed to ensure that the assets of the District are protected from theft, misuse, or losses and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America and Minnesota Uniform Financial Accounting and Reporting Standards.

The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) the cost of a control should not exceed the benefits likely to be derived, and 2) the valuation of the costs and benefits requires estimates and judgments by management. In addition, the District has also adopted the following policies to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the School Board:

- **Fund Balance Policy** – Requires the District to maintain an operating fund balance of 5 percent of the expenditure budget.
- **Budget Policy** – Establishes a guideline for allocation of district resources.
- **Personnel Staffing Guidelines** – Personnel costs represent close to 81 percent of General Fund expenditures. These guidelines, which set the staffing allocation for every allocated position in the District, are updated each February by the administration and the School Board.

The District's budget process is based, first, on development of a budget projection model that attempts to project resources and expenses over a multiple year period. The budget projection is used by the School Board and the administration to determine budget parameters and staffing guidelines. Second, the budget adopted in June is based upon the personnel staffing guidelines approved by the School Board and preparation of the nonpersonnel budget by school and department administrators, in accordance with School Board-approved budget parameters. The School Board resolution adopting the budget in June also includes a provision directing the administration to update the budget in October. This final budget reflects the District's actual enrollment count on October 1, the actual staff hired, and other dynamics, such as employee contract settlements.

The level of budgetary control is at the fund level. However, in the General Fund; operating, special education, pupil transportation, capital expenditure, and quality compensation are maintained as separate internal accounts for budgeting purposes. The District also maintains an encumbrance accounting system as one method of maintaining budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances generally are reappropriated as part of the following year's budget.

As demonstrated by the statements and schedules included in the financial section of this report, the District continues to meet its responsibility for sound financial management.

MAJOR INITIATIVES

Building Construction

The Orono Activities Center opened on February 1, 2019. This new 95,000 square foot facility will be used for:

- Additional classroom space for physical education
- Community fitness, walking, classes, and meeting areas
- Expanding the District's athletic facilities, including an indoor track, five multi-use courts, and weight room
- Stadium plaza connecting the Activities Center and Pesonen Stadium

Bond Refunding

The District refunded its Other Post-Employment Benefits (OPEB) bond in late 2018, lowering the interest rate taxpayers pay.

Abatement Bond

The District issued abatement bonds in late 2018 to fund the replacement and improvement of a number of parking lots throughout the District.

CERTIFICATE OF EXCELLENCE

This report has been prepared following the guidelines provided by the Association of School Business Officials (ASBO) International for its Certificate of Excellence in Financial Reporting Program. Achieving recognition by this program provides a clear indication of the District's high standards for financial reporting. The District intends to submit this CAFR to the ASBO International Certificate of Excellence in Financial Reporting Program for consideration. The District received the Certificate of Excellence in Financial Reporting award for the past two fiscal years.

ACKNOWLEDGMENTS

We would like to acknowledge the efforts of the entire Business Office staff in providing complete and accurate data for this CAFR.

Sincerely,



Dr. Karen Orcutt
Superintendent



John Morstad
Director of Business Services

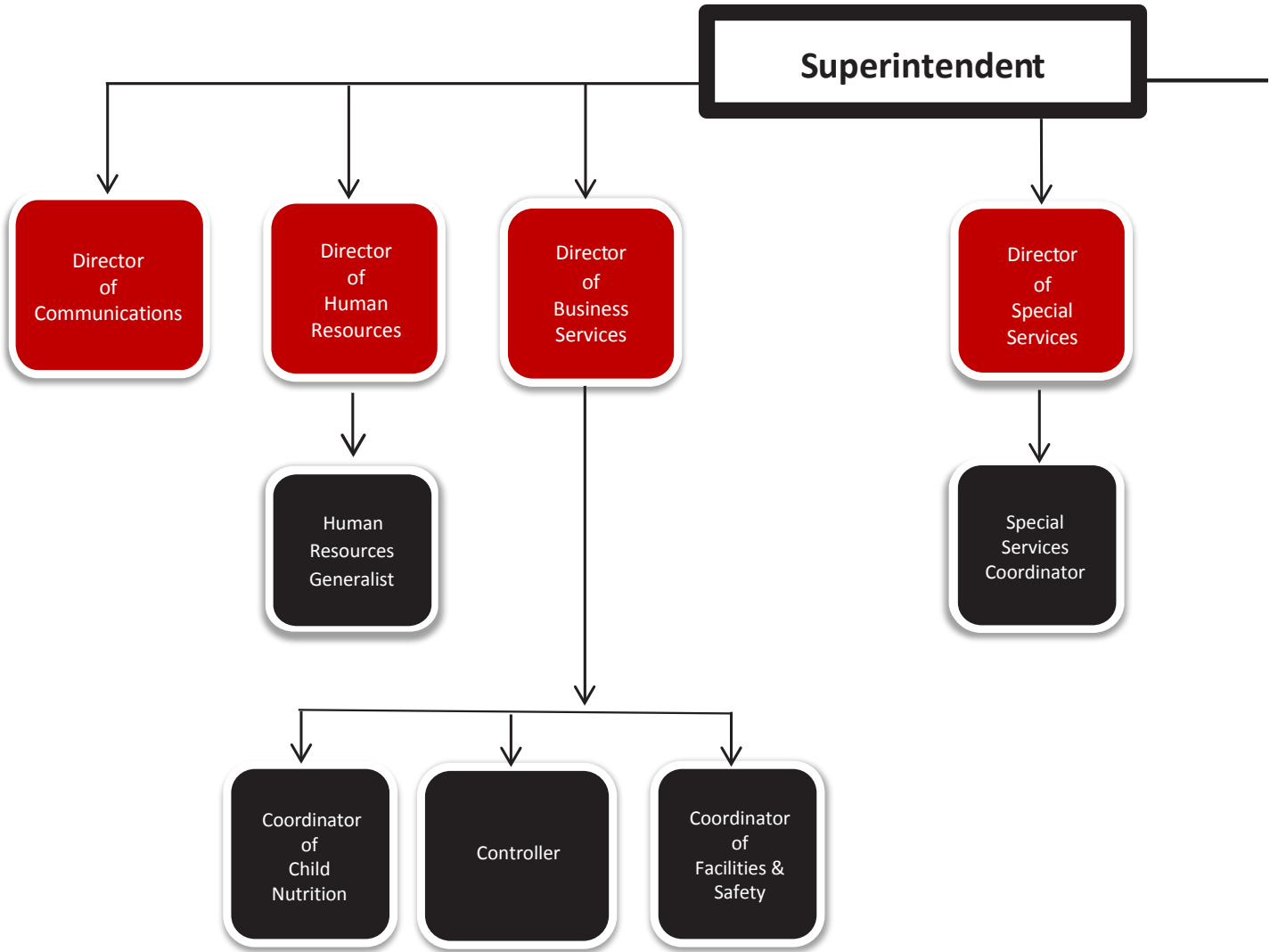


Lauren Syrup, CPA
Controller

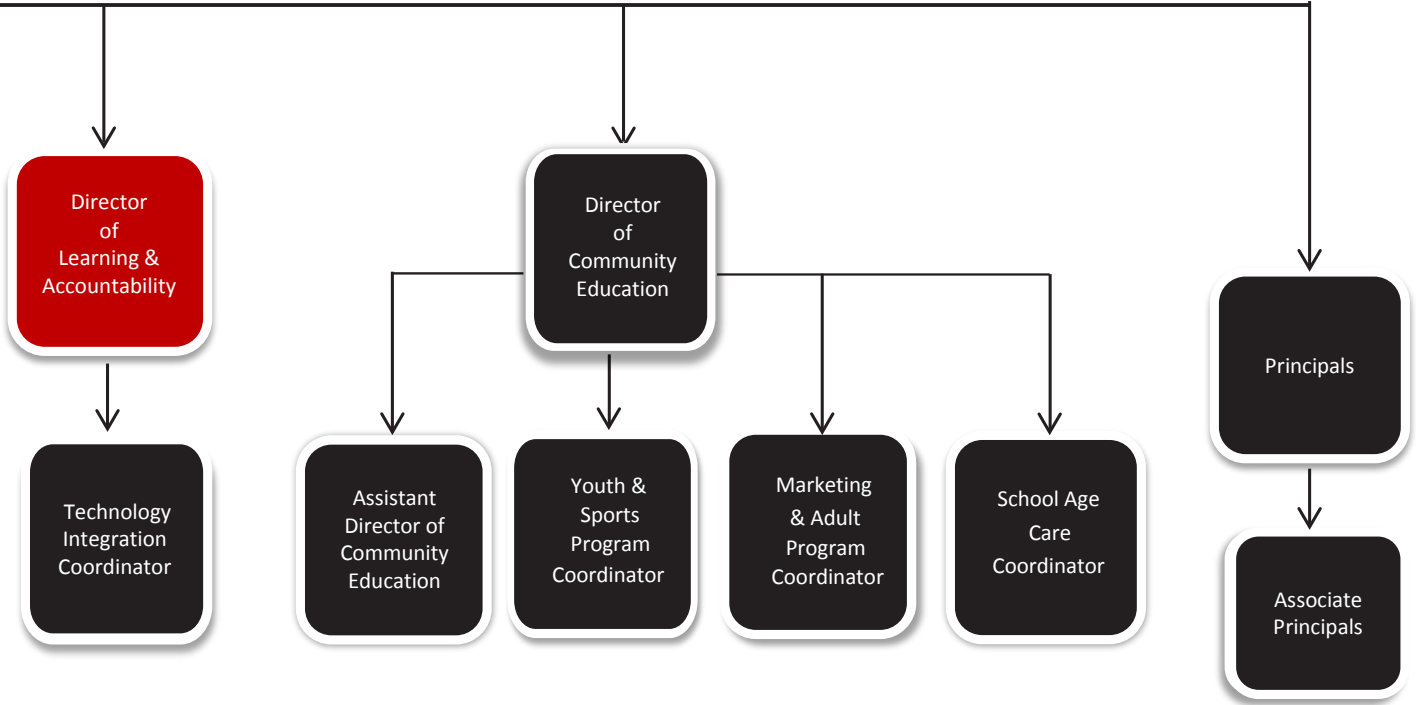


Orono Schools

Where Excellence is a Tradition and a Goal



Red = Superintendent's Administrative Team



INDEPENDENT SCHOOL DISTRICT NO. 278

School Board and Administration
Year Ended June 30, 2019

SCHOOL BOARD

	<u>Position</u>
Robert Tunheim	Board Chair
Martha Van de Ven	Vice Chair
Dickson Lewis	Treasurer
Michael Bash	Clerk
Sarah Borchers	Director
Laura Wallander	Director

ADMINISTRATION

Dr. Karen Orcutt	Superintendent
John Morstad	Director of Business Services



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

The Certificate of Excellence in Financial Reporting
is presented to

ISD 278 Orono Public Schools

for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2018.

The CAFR meets the criteria established for
ASBO International's Certificate of Excellence.



A handwritten signature in black ink, reading 'Tom Wohlleber'.

Tom Wohlleber, CSRM
President

A handwritten signature in black ink, reading 'Siobhán McMahon'.

Siobhán McMahon, CAE
Chief Operating Officer

Orono Schools Campus



Parking Lot Key

A	Ice Arena
B	H.S. North
C	H.S. East
D	H.S. South
E	Schumann Elementary
F	Intermediate School
G	Elementary West
H	Softball Stadium
I	Field 5
J	Baseball Stadium (limited access)
K	M.S. North
L	M.S. West
M	Student Center

Orono Schools Discovery Center



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FINANCIAL SECTION



PRINCIPALS

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

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 278
Orono, 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. 278 (the District) as of and for the year ended June 30, 2019, 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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and statistical section, 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 supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Prior Year Comparative Information

We have previously audited the District's 2018 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 5, 2018. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

(continued)

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
November 4, 2019

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INDEPENDENT SCHOOL DISTRICT NO. 278

Management's Discussion and Analysis Fiscal Year Ended June 30, 2019

This section of Independent School District No. 278's (the District) Comprehensive Annual Financial Report (CAFR) presents management's narrative overview and analysis of its financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the other components of the District's CAFR.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2019 by \$16,981,178 (net position deficit). The District's total net position increased by \$9,946,270 during the fiscal year ended June 30, 2019.
- Government-wide revenues totaled \$49,135,336 and were \$9,946,270 more than expenses of \$39,189,066.
- The General Fund's total fund balance (under the governmental fund presentation) increased \$685,276 from the prior year, to a year-end balance of \$9,373,767, compared to an increase of \$1,001,818 projected in the District's final budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the CAFR consists of the following parts:

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Supplemental information, consisting of combining and individual fund statements and schedules.

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

Government-Wide Financial Statements

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

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

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

In the government-wide financial statements, the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aid 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. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

	2019	2018
Assets		
Current and other assets	\$ 34,777,779	\$ 48,576,889
Capital assets, net of depreciation	79,259,935	66,429,560
Total assets	\$ 114,037,714	\$ 115,006,449
Deferred outflows of resources		
Pension plan deferments	\$ 27,595,653	\$ 36,010,770
OPEB plan deferments	157,674	76,711
Total deferred outflows of resources	\$ 27,753,327	\$ 36,087,481
Liabilities		
Current and other liabilities	\$ 5,967,038	\$ 7,330,840
Long-term liabilities, including due within one year	100,183,613	143,471,060
Total liabilities	\$ 106,150,651	\$ 150,801,900
Deferred inflows of resources		
Property taxes levied for subsequent year	\$ 17,051,086	\$ 16,446,478
Pension plan deferments	35,408,727	10,639,697
OPEB plan deferments	161,755	133,303
Total deferred inflows of resources	\$ 52,621,568	\$ 27,219,478
Net position		
Net investment in capital assets	\$ 9,268,412	\$ 7,778,439
Restricted	3,223,874	3,560,209
Unrestricted	(29,473,464)	(38,266,096)
Total net position	\$ (16,981,178)	\$ (26,927,448)

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

Total net position increased by \$9,946,270 in the current year. Changes in the District's share of two state-wide pension plans contributed to the differences in deferred outflows and inflows of resources, long-term liabilities, and unrestricted net position.

Table 2 presents a condensed version of the Change in Net Position of the District:

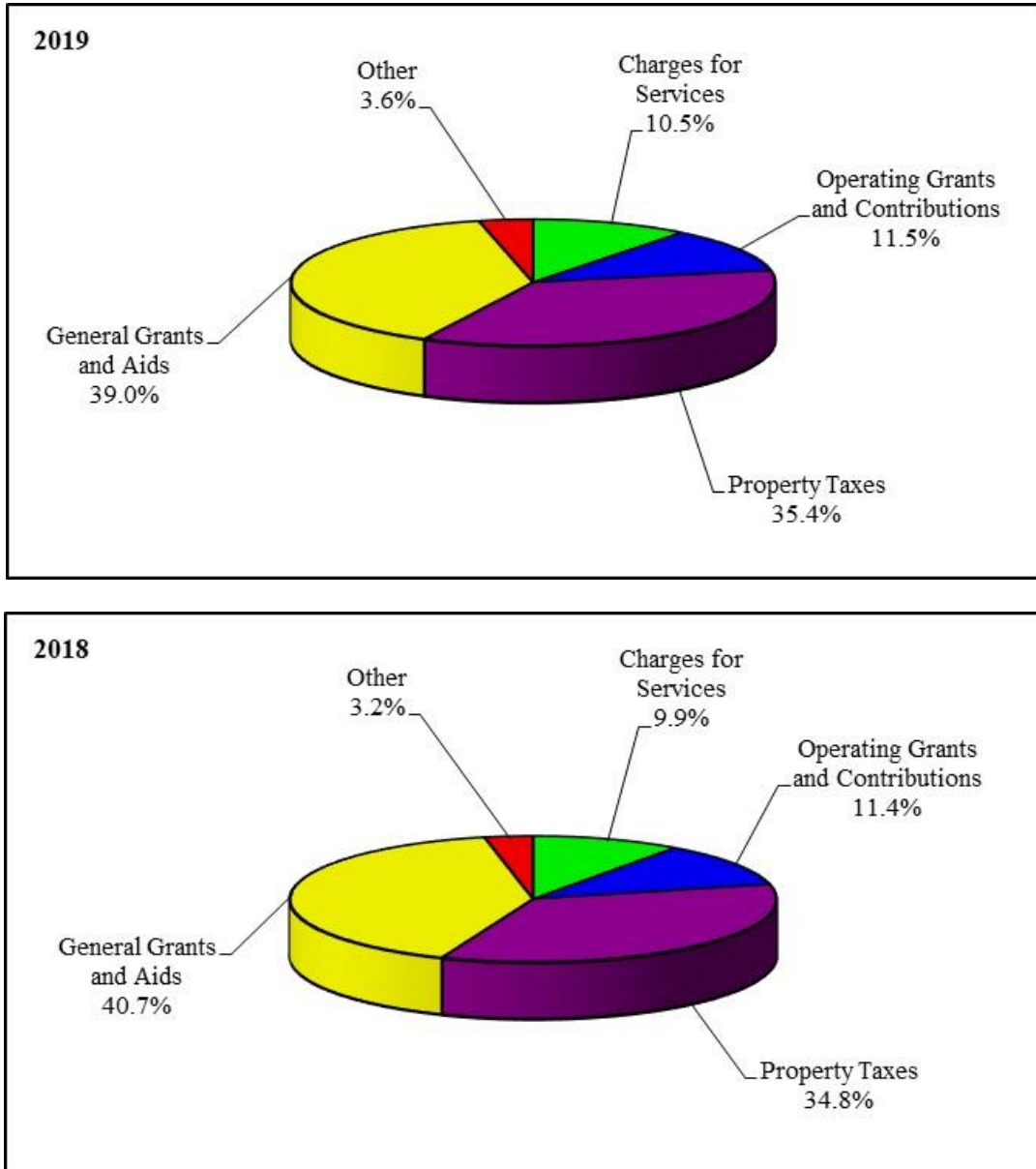
	<u>2019</u>	<u>2018</u>
Revenues		
Program revenues		
Charges for services	\$ 5,130,335	\$ 4,694,916
Operating grants and contributions	5,662,594	5,415,378
General revenues		
Property taxes	17,410,629	16,538,863
General grants and aids	19,144,727	19,324,330
Other	<u>1,787,051</u>	<u>1,540,684</u>
Total revenues	49,135,336	47,514,171
Expenses		
Administration	1,144,834	1,644,415
District support services	1,646,977	1,883,055
Elementary and secondary regular instruction	13,956,796	26,417,988
Vocational education instruction	177,043	398,458
Special education instruction	3,378,768	5,835,792
Instructional support services	1,959,811	2,678,015
Pupil support services	2,798,029	3,003,901
Sites and buildings	6,720,625	5,437,461
Fiscal and other fixed cost programs	401,279	218,719
Food service	1,609,297	1,550,110
Community service	3,162,147	3,224,093
Interest and fiscal charges	<u>2,233,460</u>	<u>3,077,375</u>
Total expenses	<u>39,189,066</u>	<u>55,369,382</u>
Change in net position	9,946,270	(7,855,211)
Net position – beginning	<u>(26,927,448)</u>	<u>(19,072,237)</u>
Net position – ending	<u>\$ (16,981,178)</u>	<u>\$ (26,927,448)</u>

The table summarizes all of the governmental activities of the District and is presented on the accrual basis of accounting. Revenues are allocated between those directly related to specific programs and those that are general revenues. Depreciation expense is included in the program expenses, but capital asset purchase costs, debt proceeds, and the repayment of debt principal are excluded.

Governmental activities revenues increased \$1,621,165 (3.4 percent) from the previous year, mainly due to increases in revenues from property taxes and charges for services.

Governmental activities expenses were \$16,180,316 (29.2 percent) lower than last year, mainly due to the change in expenses related to the two state-wide pension plans mentioned earlier.

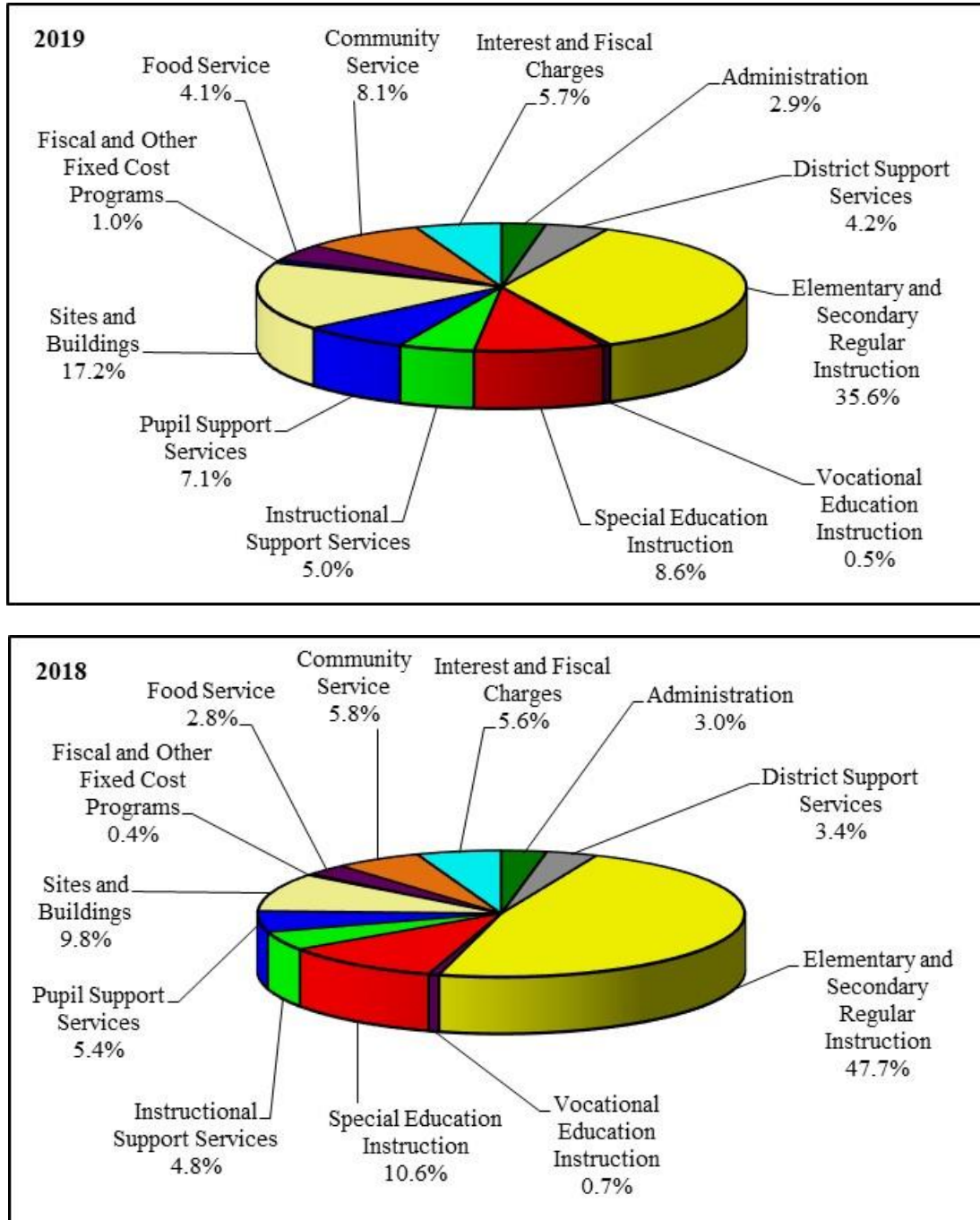
Figure A – Types of Revenue for Fiscal Years 2019 and 2018



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 – Expenses for Fiscal Years 2019 and 2018



The District’s expenses are predominately related to educating students. The majority of the District’s expenses were in categories directly related to providing instruction, which includes: elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services.

The significant year-to-year change in the percentage of expenses incurred in several program areas shown above was attributable to the change in expenses related to the two state-wide pension plans, which caused greater fluctuations in program areas with a higher proportion of salaries.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

	<u>2019</u>	<u>2018</u>	<u>Increase (Decrease)</u>
Major funds			
General	\$ 9,373,767	\$ 8,688,491	\$ 685,276
Capital Projects – Building Construction	1,128,160	14,396,398	(13,268,238)
Debt Service	867,576	1,062,337	(194,761)
Nonmajor funds			
Food Service Special Revenue	396,633	436,407	(39,774)
Community Service Special Revenue	900,584	969,513	(68,929)
 Total governmental funds	 <u>\$ 12,666,720</u>	 <u>\$ 25,553,146</u>	 <u>\$ (12,886,426)</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, 2019, the District's governmental funds reported combined fund balances of \$12,666,720, a decrease of \$12,886,426 in comparison with the prior year. Unassigned fund balance at year-end was \$6,098,956, which is available for spending at the District's discretion. The remainder of the fund balance is either: 1) nonspendable (not in spendable form) – \$254,422, 2) restricted for particular purposes – \$5,182,742, or 3) assigned for particular purposes – \$1,130,600.

The decrease in the fund balance of the Capital Projects – Building Construction Fund was due to the planned utilization of proceeds from bonds sold in the previous year for capital projects.

Analysis of the General 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	<u>\$ 38,352,376</u>	<u>\$ 38,922,936</u>	<u>\$ 570,560</u>	<u>1.5%</u>
Expenditures	<u>\$ 37,094,831</u>	<u>\$ 37,921,118</u>	<u>\$ 826,287</u>	<u>2.2%</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 may change the budget for known significant changes in circumstances such as: updated enrollment estimates, legislation changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, health insurance premium increases, or special education tuition changes.

Table 5 summarizes the operating results of the General Fund:

	<u>2019 Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenue	\$ 39,263,919	\$ 340,983	0.9 %	\$ 2,679,152	7.3 %
Expenditures	38,702,045	\$ 780,927	2.1 %	\$ 813,889	2.1 %
Other financing sources	<u>123,402</u>	\$ 123,402	100.0 %	\$ (1,655,029)	(93.1) %
Net change in fund balances	<u>\$ 685,276</u>				

The fund balance of the General Fund increased \$685,276, compared to a planned increase of \$1,001,818 approved in the final budget.

Total General Fund revenue for the year ended June 30, 2019 was \$39,263,919, which was \$340,983, or 0.9 percent, higher than budget. Revenue from state sources was over budget by \$367,535, mainly due to the District earning more special education revenue and recognizing more in state pension pass-through contributions than anticipated. Revenue from other local sources also exceeded budget by \$124,509.

General Fund revenue was \$2,679,152, or 7.3 percent, higher than the prior year. The largest increase was in state sources, primarily due to a 2.0 percent increase in the basic general education funding formula and a small increase in special education revenue. Property taxes were higher than the prior year, due to an increase in the levy. Revenue from other local sources also increased, mainly due to membership revenue from the first year of operations of the Orono Activities Center.

Total General Fund expenditures for the year ended June 30, 2019 were \$38,702,045, which was \$780,927 or 2.1 percent, more than budget. Expenditures in the sites and buildings program area exceeded budget by \$853,329, mainly due to timing of long-term facilities maintenance projects.

Total General Fund expenditures increased \$813,889, or 2.1 percent, from the 2018 fiscal year, mainly due to contractual increases in salaries and benefits.

Other financing sources were \$123,402 more than budget and \$1,655,029 less than the 2018 fiscal year, due to the proceeds from a capital lease, which was smaller than a prior year capital lease.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Analysis of the Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund ended the year with expenditures exceeding revenues and other financing sources, decreasing equity by \$13,268,238, compared to a planned fund balance decrease of \$13,118,912. The overall decrease in equity is a result of the District utilizing proceeds from three bond issues, two of which were sold in the previous year to finance construction of the Orono Activities Center and other improvements at various district facilities. At year-end, \$1,128,160 of fund balance remains, all of which is restricted for building construction.

Analysis of the Debt Service Fund

The Debt Service Fund expenditures exceeded revenues and other financing sources by \$194,761, decreasing fund balance to \$867,576 at year-end. The District issued \$2,990,000 of General Obligation Taxable OPEB Refunding Bonds, Series 2018A during the year, to refund a previous bond issue at a more favorable interest rate. Of the remaining fund balance, \$95,371 is restricted for OPEB bond debt service, and \$772,205 is restricted for general debt service.

Analysis of Other Governmental Funds

The District's final budget for the Food Service Special Revenue Fund projected a fund balance decrease of \$26,903, while actual fund balance decreased by \$39,774. Revenues were over budget by \$9,372. Expenditures were over appropriations by \$22,243, mainly in supplies (including food costs) and materials.

The District's final budget for the Community Service Special Revenue Fund projected a fund balance decrease of \$13,136, while actual fund balance decreased by \$68,929. Revenues were under budget by \$96,561, mainly in state sources and program fees and tuition. Expenditures were under budget by \$40,768, with the savings in purchased services, supplies and materials, capital outlay, and other expenditures. These favorable budget variances were partially offset by salaries and benefits in excess of anticipated amounts.

Analysis of Internal Service Funds

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

Operating revenues (charges assessed to the governmental funds) for the internal service funds for fiscal 2019 totaled \$3,648,763. This is an increase from the fiscal year 2018 operating revenue level of \$1,903,742, due to the self-insured medical plan operating for the full year, as compared to a half year in fiscal 2018 when the new self-insured plan was implemented mid-year. Nonoperating revenues totaled \$7,441, compared to the fiscal year 2018 nonoperating revenue of \$917. Operating expenses totaled \$3,953,235, which represents an increase from the fiscal year 2018 operating expenditures of \$1,685,659, due to the self-insured medical plan operating for a full year.

The net position balance for all internal service funds as of June 30, 2019 was \$35,546, a decrease of \$297,031 from the prior year.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Land	\$ 602,074	\$ 602,074	\$ -
Construction in progress	28,055,712	15,390,333	12,665,379
Land improvements	4,896,141	5,408,376	(512,235)
Buildings	80,341,114	78,035,539	2,305,575
Furniture and equipment	4,138,528	4,308,616	(170,088)
Less accumulated depreciation	<u>(38,773,634)</u>	<u>(37,315,378)</u>	<u>(1,458,256)</u>
Total	<u>\$ 79,259,935</u>	<u>\$ 66,429,560</u>	<u>\$ 12,830,375</u>
Depreciation expense	<u>\$ 2,875,514</u>	<u>\$ 2,729,146</u>	<u>\$ 146,368</u>

Most of the activity in capital assets relates to the construction of the District's new Activity Center.

Long-Term Liabilities

Table 7 shows the components of the District's long-term liabilities and the change from the prior year:

	<u>2019</u>	<u>2018</u>	<u>Change</u>
General obligation bonds payable	\$ 66,400,000	\$ 68,235,000	\$ (1,835,000)
Premium (discount) on bonds	4,825,159	5,185,755	(360,596)
Capital leases payable	2,278,705	2,377,347	(98,642)
Net pension liabilities	23,442,399	64,817,600	(41,375,201)
Net OPEB liability	1,925,747	1,471,361	454,386
Severance payable	<u>1,311,603</u>	<u>1,383,997</u>	<u>(72,394)</u>
Total	<u>\$ 100,183,613</u>	<u>\$ 143,471,060</u>	<u>\$ (43,287,447)</u>

The decrease in long-term liabilities included scheduled principal payments on bonds and capital leases, the current refunding of the 2008B General Obligation Taxable OPEB Bonds (\$2,950,000), and significant decreases in the District's share of the two state-wide pension plan liabilities 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	\$ 3,684,163,400
Limit rate	<u>15.0%</u>
Legal debt limit	<u>\$ 552,624,510</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.

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 \$126, or 2 percent, per pupil to the basic general education funding formula for fiscal year 2020, and an additional \$129, or 2 percent, per pupil to the formula for fiscal year 2021.

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

CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT

This CAFR is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 278, 685 Old Crystal Bay Road North, Long Lake, Minnesota 55356.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 278

Statement of Net Position
as of June 30, 2019
(With Partial Comparative Information as of June 30, 2018)

	Governmental Activities	
	2019	2018
Assets		
Cash and temporary investments	\$ 21,390,753	\$ 37,906,153
Receivables		
Current taxes	8,870,093	6,799,467
Delinquent taxes	288,333	33,257
Accounts and interest	847,121	332,922
Due from other governmental units	2,785,113	2,913,219
Due from Post-Employment Benefits Trust Fund	341,944	274,363
Inventory	83,510	91,394
Prepaid items	170,912	226,114
Capital assets		
Not depreciated	28,657,786	15,992,407
Depreciated, net of accumulated depreciation	50,602,149	50,437,153
Total capital assets, net of accumulated depreciation	79,259,935	66,429,560
Total assets	114,037,714	115,006,449
Deferred outflows of resources		
Pension plan deferments	27,595,653	36,010,770
OPEB plan deferments	157,674	76,711
Total deferred outflows of resources	27,753,327	36,087,481
Total assets and deferred outflows of resources	\$ 141,791,041	\$ 151,093,930
Liabilities		
Salaries payable	\$ 1,017,631	\$ 874,300
Accounts and contracts payable	2,741,794	4,136,878
Accrued interest payable	1,058,732	1,093,437
Due to other governmental units	148,908	88,271
Unearned revenue	935,973	1,004,957
Claims and judgements payable	64,000	132,997
Long-term liabilities		
Due within one year	4,388,432	4,236,206
Due in more than one year	95,795,181	139,234,854
Total long-term liabilities	100,183,613	143,471,060
Total liabilities	106,150,651	150,801,900
Deferred inflows of resources		
Property taxes levied for subsequent year	17,051,086	16,446,478
Pension plan deferments	35,408,727	10,639,697
OPEB plan deferments	161,755	133,303
Total deferred inflows of resources	52,621,568	27,219,478
Net position		
Net investment in capital assets	9,268,412	7,778,439
Restricted for		
Capital asset acquisition	1,882,688	2,094,080
Debt service	-	21,697
Food service	396,633	436,407
Community service	903,854	972,205
Other purposes (state funding restrictions)	40,699	35,820
Unrestricted	(29,473,464)	(38,266,096)
Total net position	(16,981,178)	(26,927,448)
Total liabilities, deferred inflows of resources, and net position	\$ 141,791,041	\$ 151,093,930

INDEPENDENT SCHOOL DISTRICT NO. 278

Statement of Activities
 Year Ended June 30, 2019
 (With Partial Comparative Information for the Year Ended June 30, 2018)

Functions/Programs	2019			2018	
	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	\$ 1,144,834	\$ -	\$ 62,210	\$ (1,082,624)	\$ (1,644,415)
District support services	1,646,977	14,272	-	(1,632,705)	(1,883,055)
Elementary and secondary regular instruction	13,956,796	417,156	1,236,020	(12,303,620)	(24,705,858)
Vocational education instruction	177,043	-	-	(177,043)	(398,458)
Special education instruction	3,378,768	-	3,404,352	25,584	(2,637,900)
Instructional support services	1,959,811	75,261	-	(1,884,550)	(2,593,601)
Pupil support services	2,798,029	-	154,332	(2,643,697)	(2,866,997)
Sites and buildings	6,720,625	521,310	394,933	(5,804,382)	(4,874,815)
Fiscal and other fixed cost programs	401,279	-	-	(401,279)	(218,719)
Food service	1,609,297	1,270,204	295,056	(44,037)	(72,599)
Community service	3,162,147	2,832,132	115,691	(214,324)	(285,296)
Interest and fiscal charges	2,233,460	-	-	(2,233,460)	(3,077,375)
Total governmental activities	<u>\$ 39,189,066</u>	<u>\$ 5,130,335</u>	<u>\$ 5,662,594</u>	(28,396,137)	(45,259,088)
General revenue					
Taxes					
Property taxes, levied for general purposes				11,064,867	10,655,450
Property taxes, levied for community service				279,156	268,792
Property taxes, levied for debt service				6,066,606	5,614,621
General grants and aids				19,144,727	19,324,330
Other general revenues				1,204,188	832,288
Investment earnings				582,863	708,396
Total general revenue				<u>38,342,407</u>	<u>37,403,877</u>
Change in net position				9,946,270	(7,855,211)
Net position – beginning				<u>(26,927,448)</u>	<u>(19,072,237)</u>
Net position – ending				<u>\$ (16,981,178)</u>	<u>\$ (26,927,448)</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Balance Sheet
Governmental Funds
as of June 30, 2019

(With Partial Comparative Information as of June 30, 2018)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	\$ 12,879,000	\$ 2,032,242	\$ 3,959,844
Receivables			
Current taxes	5,678,417	–	3,051,647
Delinquent taxes	185,336	–	97,956
Accounts and interest	688,126	107,003	–
Due from other governmental units	2,773,032	–	3,050
Due from other funds	341,944	–	–
Inventory	56,084	–	–
Prepaid items	169,607	–	–
	<u>\$ 22,771,546</u>	<u>\$ 2,139,245</u>	<u>\$ 7,112,497</u>
Liabilities			
Salaries and compensated absences payable	\$ 905,023	\$ –	\$ –
Accounts and contracts payable	1,131,656	1,011,085	–
Due to other governmental units	148,908	–	–
Unearned revenue	512,864	–	–
Total liabilities	<u>2,698,451</u>	<u>1,011,085</u>	<u>–</u>
Deferred inflows of resources			
Unavailable revenue – delinquent taxes	114,320	–	62,531
Property taxes levied for subsequent year	10,585,008	–	6,182,390
Total deferred inflows of resources	<u>10,699,328</u>	<u>–</u>	<u>6,244,921</u>
Fund balances			
Nonspendable	225,691	–	–
Restricted	1,918,520	1,128,160	867,576
Assigned	1,130,600	–	–
Unassigned	6,098,956	–	–
Total fund balances	<u>9,373,767</u>	<u>1,128,160</u>	<u>867,576</u>
	<u>\$ 22,771,546</u>	<u>\$ 2,139,245</u>	<u>\$ 7,112,497</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 22,771,546</u>	<u>\$ 2,139,245</u>	<u>\$ 7,112,497</u>

Nonmajor Funds	Total Governmental Funds	
	2019	2018
\$ 1,574,987	\$ 20,446,073	\$ 36,944,543
140,029	8,870,093	6,799,467
5,041	288,333	33,257
38,548	833,677	320,056
9,031	2,785,113	2,913,219
–	341,944	274,363
27,426	83,510	91,394
1,305	170,912	226,114
<u>\$ 1,796,367</u>	<u>\$ 33,819,655</u>	<u>\$ 47,602,413</u>
\$ 112,608	\$ 1,017,631	\$ 874,300
44,559	2,187,300	3,820,470
–	148,908	88,271
55,025	567,889	679,466
<u>212,192</u>	<u>3,921,728</u>	<u>5,462,507</u>
3,270	180,121	140,282
283,688	17,051,086	16,446,478
<u>286,958</u>	<u>17,231,207</u>	<u>16,586,760</u>
28,731	254,422	317,508
1,268,486	5,182,742	18,771,215
–	1,130,600	651,831
–	6,098,956	5,812,592
<u>1,297,217</u>	<u>12,666,720</u>	<u>25,553,146</u>
<u>\$ 1,796,367</u>	<u>\$ 33,819,655</u>	<u>\$ 47,602,413</u>

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INDEPENDENT SCHOOL DISTRICT NO. 278

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2019
(With Partial Comparative Information as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
Total fund balances – governmental funds	\$ 12,666,720	\$ 25,553,146
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	118,033,569	103,744,938
Accumulated depreciation	(38,773,634)	(37,315,378)
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.		
Claims and judgements payable	(64,000)	(132,997)
General obligation bonds payable	(66,400,000)	(68,235,000)
(Premium) discount on bonds	(4,825,159)	(5,185,755)
Capital leases payable	(2,278,705)	(2,377,347)
Net pension liabilities	(23,442,399)	(64,817,600)
Net OPEB liability	(1,925,747)	(1,471,361)
Severance payable	(1,311,603)	(1,383,997)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(1,058,732)	(1,093,437)
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.	35,546	332,577
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 of resources – pension plan deferments	27,595,653	36,010,770
Deferred outflows of resources – OPEB plan deferments	157,674	76,711
Deferred inflows of resources – delinquent property taxes	180,121	140,282
Deferred inflows of resources – pension plan deferments	(35,408,727)	(10,639,697)
Deferred inflows of resources – OPEB plan deferments	(161,755)	(133,303)
Total net position – governmental activities	<u>\$ (16,981,178)</u>	<u>\$ (26,927,448)</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2019
 (With Partial Comparative Information for the Year Ended June 30, 2018)

	<u>General Fund</u>	<u>Capital Projects – Building Construction Fund</u>	<u>Debt Service Fund</u>
Revenue			
Local sources			
Property taxes	\$ 11,035,340	\$ –	\$ 6,056,872
Investment earnings	291,909	207,486	57,522
Other	2,232,187	–	–
State sources	25,119,839	–	30,500
Federal sources	584,644	–	–
Total revenue	<u>39,263,919</u>	<u>207,486</u>	<u>6,144,894</u>
Expenditures			
Current			
Administration	1,448,004	–	–
District support services	1,742,369	–	–
Elementary and secondary regular instruction	18,727,494	–	–
Vocational education instruction	288,572	–	–
Special education instruction	4,615,399	–	–
Instructional support services	2,434,834	–	–
Pupil support services	3,033,796	–	–
Sites and buildings	5,696,569	–	–
Fiscal and other fixed cost programs	401,279	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	15,443,303	–
Debt service			
Principal	222,044	–	3,775,000
Interest and fiscal charges	91,685	42,757	2,604,655
Total expenditures	<u>38,702,045</u>	<u>15,486,060</u>	<u>6,379,655</u>
Excess (deficiency) of revenue over expenditures	561,874	(15,278,574)	(234,761)
Other financing sources (uses)			
Sale of assets	–	–	–
Capital lease issued	123,402	–	–
Bonds issued	–	1,900,000	–
Refunding bonds issued	–	–	2,990,000
Premiums on bonds issued	–	110,336	–
Bond refunding payments	–	–	(2,950,000)
Total other financing sources (uses)	<u>123,402</u>	<u>2,010,336</u>	<u>40,000</u>
Net change in fund balances	685,276	(13,268,238)	(194,761)
Fund balances			
Beginning of year	<u>8,688,491</u>	<u>14,396,398</u>	<u>1,062,337</u>
End of year	<u>\$ 9,373,767</u>	<u>\$ 1,128,160</u>	<u>\$ 867,576</u>

Nonmajor Funds	Total Governmental Funds	
	2019	2018
\$ 278,578	\$ 17,370,790	\$ 16,476,583
18,505	575,422	707,479
4,102,336	6,334,523	5,527,204
153,540	25,303,879	23,888,544
257,207	841,851	860,304
<u>4,810,166</u>	<u>50,426,465</u>	<u>47,460,114</u>
–	1,448,004	1,408,662
–	1,742,369	1,822,054
–	18,727,494	18,155,931
–	288,572	283,104
–	4,615,399	4,436,551
–	2,434,834	2,255,018
–	3,033,796	2,737,127
–	5,696,569	6,344,981
–	401,279	218,719
1,551,564	1,551,564	1,489,003
3,263,556	3,263,556	3,015,234
103,749	15,547,052	15,352,154
–	3,997,044	3,356,843
–	2,739,097	4,114,072
<u>4,918,869</u>	<u>65,486,629</u>	<u>64,989,453</u>
(108,703)	(15,060,164)	(17,529,339)
–	–	10,931
–	123,402	1,767,500
–	1,900,000	–
–	2,990,000	–
–	110,336	–
–	(2,950,000)	(33,510,000)
–	<u>2,173,738</u>	<u>(31,731,569)</u>
(108,703)	(12,886,426)	(49,260,908)
<u>1,405,920</u>	<u>25,553,146</u>	<u>74,814,054</u>
<u>\$ 1,297,217</u>	<u>\$ 12,666,720</u>	<u>\$ 25,553,146</u>

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INDEPENDENT SCHOOL DISTRICT NO. 278

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2019
(With Partial Comparative Information for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Total net change in fund balances – governmental funds	\$ (12,886,426)	\$ (49,260,908)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	15,705,889	17,275,919
Depreciation expense	(2,875,514)	(2,729,146)
The amount of debt issued is reported in the governmental funds as a source of financing, but constitutes a long-term liability in the governmental activities.		
General obligation bonds issued	(4,890,000)	–
Capital leases issued	(123,402)	(1,767,500)
Repayment of long-term liabilities does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	6,725,000	36,700,000
Capital leases payable	222,044	166,843
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Claims and judgements payable	68,997	(132,997)
Net pension liabilities	41,375,201	12,308,967
Net OPEB liability	(454,386)	(246,873)
Severance payable	72,394	299,658
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.		
	360,596	490,728
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.		
	34,705	545,969
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.		
	(297,031)	219,000
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 of resources – pension plan deferments	(8,415,117)	(11,947,801)
Deferred outflows of resources – OPEB plan deferments	80,963	23,031
Deferred inflows of resources – delinquent property taxes	39,839	62,280
Deferred inflows of resources – pension plan deferments	(24,769,030)	(9,729,078)
Deferred inflows of resources – OPEB plan deferments	(28,452)	(133,303)
Change in net position – governmental activities	<u>\$ 9,946,270</u>	<u>\$ (7,855,211)</u>

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INDEPENDENT SCHOOL DISTRICT NO. 278

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended June 30, 2019

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 11,520,228	\$ 11,142,706	\$ 11,035,340	\$ (107,366)
Investment earnings	105,000	335,000	291,909	(43,091)
Other	1,577,869	2,107,678	2,232,187	124,509
State sources	24,584,879	24,752,304	25,119,839	367,535
Federal sources	564,400	585,248	584,644	(604)
Total revenue	<u>38,352,376</u>	<u>38,922,936</u>	<u>39,263,919</u>	<u>340,983</u>
Expenditures				
Current				
Administration	1,459,462	1,476,544	1,448,004	(28,540)
District support services	1,764,731	1,800,294	1,742,369	(57,925)
Elementary and secondary regular instruction	17,980,608	18,657,104	18,727,494	70,390
Vocational education instruction	286,749	292,708	288,572	(4,136)
Special education instruction	4,961,618	4,750,504	4,615,399	(135,105)
Instructional support services	2,433,091	2,458,919	2,434,834	(24,085)
Pupil support services	2,768,827	2,905,535	3,033,796	128,261
Sites and buildings	5,104,679	4,843,240	5,696,569	853,329
Fiscal and other fixed cost programs	184,730	422,540	401,279	(21,261)
Debt service				
Principal	120,240	222,044	222,044	–
Interest and fiscal charges	30,096	91,686	91,685	(1)
Total expenditures	<u>37,094,831</u>	<u>37,921,118</u>	<u>38,702,045</u>	<u>780,927</u>
Excess (deficiency) of revenue over expenditures	1,257,545	1,001,818	561,874	(439,944)
Other financing sources				
Capital lease issued	–	–	123,402	123,402
Net change in fund balances	<u>\$ 1,257,545</u>	<u>\$ 1,001,818</u>	<u>685,276</u>	<u>\$ (316,542)</u>
Fund balances				
Beginning of year			<u>8,688,491</u>	
End of year			<u>\$ 9,373,767</u>	

INDEPENDENT SCHOOL DISTRICT NO. 278

Statement of Net Position
 Internal Service Funds
 as of June 30, 2019
 (With Partial Comparative Information as of June 30, 2018)

	<u>2019</u>	<u>2018</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 944,680	\$ 961,610
Receivables		
Accounts and interest	<u>13,444</u>	<u>12,866</u>
Total current assets	<u>958,124</u>	<u>974,476</u>
Liabilities		
Current liabilities		
Accounts and contracts payable	554,494	316,408
Unearned revenue	<u>368,084</u>	<u>325,491</u>
Total current liabilities	<u>922,578</u>	<u>641,899</u>
Net position		
Unrestricted	<u>\$ 35,546</u>	<u>\$ 332,577</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Statement of Revenue, Expenses, and Changes in Net Position
 Internal Service Funds
 Year Ended June 30, 2019
 (With Partial Comparative Information for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Operating revenue		
Charges for services		
Assessed to governmental funds	\$ 3,648,763	\$ 1,903,742
Operating expenses		
Dental benefit claims	269,683	245,301
Medical benefit claims	<u>3,683,552</u>	<u>1,440,358</u>
Total operating expenses	<u>3,953,235</u>	<u>1,685,659</u>
Operating income (loss)	(304,472)	218,083
Nonoperating revenue		
Investment earnings	<u>7,441</u>	<u>917</u>
Change in net position	(297,031)	219,000
Net position		
Beginning of year	<u>332,577</u>	<u>113,577</u>
End of year	<u>\$ 35,546</u>	<u>\$ 332,577</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Statement of Cash Flows
 Internal Service Funds
 Year Ended June 30, 2019
 (With Partial Comparative Information for the Year Ended June 30, 2018)

	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Received from assessments made to governmental funds	\$ 3,690,778	\$ 2,216,367
Payments for dental claims	(255,852)	(236,912)
Payments for medical claims	<u>(3,459,297)</u>	<u>(1,137,511)</u>
Net cash flows from operating activities	(24,371)	841,944
Cash flows from investing activities		
Interest on investments	<u>7,441</u>	<u>917</u>
Net change in cash and cash equivalents	(16,930)	842,861
Cash and cash equivalents		
Beginning of year	<u>961,610</u>	<u>118,749</u>
End of year	<u>\$ 944,680</u>	<u>\$ 961,610</u>
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	\$ (304,472)	\$ 218,083
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Accounts and interest receivable	(578)	(12,866)
Accounts and contracts payable	238,086	311,236
Unearned revenue	<u>42,593</u>	<u>325,491</u>
Net cash flows from operating activities	<u>\$ (24,371)</u>	<u>\$ 841,944</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Statement of Fiduciary Net Position
Fiduciary Funds
as of June 30, 2019

	Private-Purpose Trust Funds	Post-Employment Benefits Trust Fund
Assets		
Cash and temporary investments	\$ 706,807	\$ -
Cash and investments held by trustee		
Cash and temporary investments	-	3,385,300
Investments at fair value		
MNTrust Investment Shares Portfolio	-	257,980
Negotiable certificates of deposit	-	246,645
State and local general obligations	-	482,155
Accounts and interest receivable	1,021	56,967
Total assets	<u>707,828</u>	<u>4,429,047</u>
Liabilities		
Accounts and contracts payable	2,250	-
Due to governmental funds	-	341,944
Total liabilities	<u>2,250</u>	<u>341,944</u>
Net position		
Held in trust for employee benefits and other purposes	<u>\$ 705,578</u>	<u>\$ 4,087,103</u>

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2019

	Private-Purpose Trust Funds	Post-Employment Benefits Trust Fund
Additions		
Private donations	\$ 25,925	\$ -
Investment earnings	14,095	63,808
Total additions	<u>40,020</u>	<u>63,808</u>
Deductions		
Scholarships	58,132	-
Benefits	-	341,944
Total deductions	<u>58,132</u>	<u>341,944</u>
Change in net position	(18,112)	(278,136)
Net position		
Beginning of year	<u>723,690</u>	<u>4,365,239</u>
End of year	<u>\$ 705,578</u>	<u>\$ 4,087,103</u>

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INDEPENDENT SCHOOL DISTRICT NO. 278

Notes to Basic Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 278 (the District) was formed and operates pursuant to applicable Minnesota laws. The District is governed by a 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 (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

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

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

D. Fund Financial Statement Presentation

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

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

- 1. Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be 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. Debt proceeds or acquisitions under capital leases are reported as other financing sources.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term obligations, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Internal service funds are presented in the proprietary fund financial statements. Because the principal users of the internal services are the District’s governmental activities, the internal service funds are consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

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

Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust and private-purpose trust. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Description of Funds

The existence of the various district funds has been established (or allowed) by the Minnesota Department of Education (MDE). 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. The District maintains two internal accounts within the General Fund. The Operating Account is used to account for the general operations of the District. The Capital Expenditure Account is used to account for the maintenance of facilities, equipment purchases, and pay-as-you-go long-term facilities maintenance projects.

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, generally authorized by bond 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 District maintains a separate Other Post-Employment Benefits (OPEB) Debt Service Account within the Debt Service Fund to account for OPEB-related debt activity. All other debt service is reported in the Regular Debt Service Account.

Nonmajor Governmental Funds

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

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

Proprietary Funds

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's internal service funds are used to account for and finance the self-insured risk of loss of the District's employee dental and medical healthcare plans.

Fiduciary Funds

Private-Purpose Trust Funds – The private-purpose trust funds are used to account for resources held in trust for the Memorial and Scholarship Fund and the Orono Education Fund.

Post-Employment Benefits Trust Fund – The Post-Employment Benefits Trust Fund is used to administer assets held in an irrevocable trust to fund post-employment insurance benefits for eligible employees.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. During the fiscal year ended June 30, 2019, expenditures exceeded budgeted amounts in the General Fund, Food Service Special Revenue Fund, and the Capital Projects – Building Construction Fund by \$780,927, \$22,243, and \$294,148, respectively. Revenues and other financing sources in excess of budget, along with available fund balance, funded 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. Earnings from the investments of the Capital Projects – Building Construction Fund and all trust funds are allocated specifically to those funds.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

At year-end, the District reported the following receivables due from other governmental units:

Due from the MDE	\$	2,724,355
Due from other Minnesota school districts		33,773
Due from other governmental units		<u>26,985</u>
Total due from other governmental units	\$	<u>2,785,113</u>

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, fuel, and surplus commodities received from the federal government. Purchased food, supplies, and fuel 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 recorded as expenses/expenditures 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 aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the “tax shift,” which periodically changes the District’s recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year’s levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$919,008 of the property tax levy collectible in 2019 as revenue to the District in fiscal year 2018–2019. The remaining portion of the taxes collectible in 2019 is recorded as deferred inflow of resources (property taxes levied for subsequent year).

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 \$3,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the 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 10 to 50 years for land improvements and buildings, and 5 to 25 years for furniture and equipment. Land and construction in progress are not depreciated.

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

L. Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period as other financing sources or uses, respectively. The face amount of debt issued is reported as other financing sources.

M. Employee Benefits

- 1. Compensated Absences** – Under the terms of certain collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates. Vacation and sick pay are accrued in the governmental funds to the extent they have been used or otherwise matured prior to year-end. Because teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no liability for unused vacation is recorded in the financial statements. Some employee bargaining groups are eligible to be compensated for unused sick leave upon termination subject to certain conditions. Convertible sick leave is recorded as a liability (severance payable) in the government-wide financial statements as it is earned and it becomes probable that it will vest at some point in the future.
- 2. Post-Employment Healthcare Benefits** – The District provides post-employment healthcare benefits to eligible employee groups in accordance with provisions in certain collectively bargained contracts based on years of service and/or minimum age requirements. See the Other Post-Employment Benefits (OPEB) Plan note for further information.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 3. State-Wide Pension Plans** – District employees participate in cost-sharing, multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA), to which the District contributes. See the Defined Benefit Pension Plans – State-Wide note for further information.

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

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

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

N. Risk Management

- 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 commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in the current fiscal year.
- 2. Self-Insurance** – The District has established two internal service funds to account for and finance its self-insured risk of loss for respective employee dental and medical health insurance plans. Under these plans, the internal service funds provide coverage to participating employees and their dependents for various dental and healthcare costs as described in the plans.

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

District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

<u>Fiscal Year Ended</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
June 30, 2018	\$ 5,172	\$ 245,301	\$ 236,912	\$ 13,561
June 30, 2019	\$ 13,561	\$ 269,683	\$ 255,852	\$ 27,392

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

<u>Fiscal Year Ended</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year-End</u>
June 30, 2018	\$ –	\$ 1,440,358	\$ 1,137,511	\$ 302,847
June 30, 2019	\$ 302,847	\$ 3,683,552	\$ 3,459,297	\$ 527,102

O. Claims and Judgements Payable

Claims and judgements payable are recorded in the government-wide and proprietary fund financial statements when probable and reasonably estimable. Claims and judgements payable are recorded in the governmental fund financial statements when due and payable.

P. Deferred Outflows/Inflows of Resources

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

The District reports deferred outflows and inflows of resources related to pensions 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted 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.”

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

R. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District’s superintendent 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 the resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Use of Estimates

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

T. 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, 2018, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	\$ 11,107,128
Investments	<u>15,362,512</u>
Total cash and investments	<u><u>\$ 26,469,640</u></u>

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

Statement of Net Position	
Cash and temporary investments	\$ 21,390,753
Statement of Fiduciary Net Position	
Cash and temporary investments	706,807
Cash and investments held by trustee	<u>4,372,080</u>
Total cash and investments	<u><u>\$ 26,469,640</u></u>

B. Deposits

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

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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 \$11,107,128 while the balance on the bank records was \$11,423,371. At June 30, 2019, all deposits were fully covered by federal deposit insurance, surety bonds, or collateral held by the District’s agent in the District’s name.

C. Investments

The District has the following investments at year-end:

Investment Type	Credit Rating	Rating Agency	Fair Value Measurements Using	Interest Risk – Maturity Duration in Years		Carrying Value
				Less Than 1	1 to 5	
U.S. treasury securities	AA	S&P	Level 2	\$ 756,095	\$ –	\$ 756,095
State and local obligations	Aa	Moody’s	Level 2	\$ –	\$ 482,155	482,155
Negotiable certificates of deposit	N/R	N/A	Level 2	\$ 246,645	\$ –	246,645
Investment pools/mutual funds						
MSDLAF – Liquid Class	AAA	S&P	N/A	N/A	N/A	4,867,040
MSDLAF – MAX Class	AAA	S&P	N/A	N/A	N/A	17,064
MNTrust Investment Shares Portfolio	AAA	S&P	N/A	N/A	N/A	5,493,513
MNTrust Term Series	N/R	N/A	N/A	\$ 3,500,000	\$ –	3,500,000
Total investments						<u>\$ 15,362,512</u>

N/A – Not Applicable

N/R – Not Rated

The District’s investments include investment pools managed by MNTrust and the Minnesota School District Liquid Asset Fund (MSDLAF), which are external investment pools regulated by Minnesota Statutes not registered with the Securities and Exchange Commission. The District’s investments in these investment pools are measured at the net asset value per share provided by the pools, which are based on amortized cost methods that approximate fair value. There are no restrictions or limitations on withdrawals from the MNTrust Investment Shares Portfolio or MSDLAF Liquid Class investment pools. Investments in the MSDLAF MAX Class must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties. MNTrust Term Series Portfolios are intended to be held until maturity; a Participant’s withdrawal prior to maturity will require seven-days’ notice of redemption and will likely carry a penalty which could be substantial in that it would be intended to allow the Term Series Portfolio to recoup any associated penalties, charges, losses or other costs associated with the early redemption of the investments therein.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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. 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. 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.

In addition to statutory restrictions, the District’s investment policy limits the types of investments to United States securities, state and local securities, commercial paper, and time deposits, as defined in Minnesota Statutes § 118A.04.

Concentration Risk – This is the risk associated with investing a significant portion of the District’s investments (considered 5.0 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s investment policies do not address concentration risk.

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

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year is as follows:

	Beginning of Year	Additions	Deletions	End of Year
Capital assets, not depreciated				
Land	\$ 602,074	\$ –	\$ –	\$ 602,074
Construction in progress	15,390,333	14,581,638	(1,916,259)	28,055,712
Total capital assets, not depreciated	<u>15,992,407</u>	<u>14,581,638</u>	<u>(1,916,259)</u>	<u>28,657,786</u>
Capital assets, depreciated				
Land improvements	5,408,376	69,965	(582,200)	4,896,141
Buildings	78,035,539	2,305,575	–	80,341,114
Furniture and equipment	4,308,616	664,970	(835,058)	4,138,528
Total capital assets, depreciated	<u>87,752,531</u>	<u>3,040,510</u>	<u>(1,417,258)</u>	<u>89,375,783</u>
Less accumulated depreciation for				
Land improvements	(2,175,553)	(187,262)	582,200	(1,780,615)
Buildings	(32,075,214)	(2,392,962)	–	(34,468,176)
Furniture and equipment	(3,064,611)	(295,290)	835,058	(2,524,843)
Total accumulated depreciation	<u>(37,315,378)</u>	<u>(2,875,514)</u>	<u>1,417,258</u>	<u>(38,773,634)</u>
Net capital assets, depreciated	<u>50,437,153</u>	<u>164,996</u>	<u>–</u>	<u>50,602,149</u>
Total capital assets, net	<u>\$ 66,429,560</u>	<u>\$ 14,746,634</u>	<u>\$ (1,916,259)</u>	<u>\$ 79,259,935</u>

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

Administration	\$ 160
District support services	16,965
Elementary and secondary regular instruction	1,617,435
Special education instruction	13,118
Instructional support services	12,331
Sites and buildings	1,162,780
Food service	40,413
Community service	12,312
Total depreciation expense	<u>\$ 2,875,514</u>

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Bond Issue	Issue Date	Interest Rate	Original Principal	Final Maturity	Principal Outstanding
2016A G. O. Refunding	08/04/2016	2.50–4.00%	\$ 36,450,000	02/01/2029	\$ 31,745,000
2017A G. O. Building	02/22/2017	3.00–5.00%	\$ 27,375,000	02/01/2033	27,375,000
2017B G. O. Facilities Maintenance	05/18/2017	4.00–5.00%	\$ 2,865,000	02/01/2027	2,390,000
2018A G. O. Taxable OPEB Refunding	11/07/2018	2.95–3.80%	\$ 2,990,000	02/01/2029	2,990,000
2018B G. O. Tax Abatement	11/07/2018	3.00–5.00%	\$ 1,900,000	02/01/2029	1,900,000
Total general obligation bonds payable					\$ 66,400,000

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

In November 2018, the District issued \$2,990,000 of General Obligation Taxable OPEB Refunding Bonds, Series 2018A. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, the remaining maturities of the District’s General Obligation Taxable OPEB Bonds, Series 2008B. This current refunding reduced the District’s total future debt service payments by \$521,045, and resulted in a present value savings of approximately \$426,321. The difference between the carrying amount of the refunded debt and its reacquisition price was not material, and was included in current year expense on the government-wide financial statements.

B. Capital Leases Payable

The District is obligated under a capital lease for improvements to the high school athletic field and track. Repayments will be made from the General Fund over a 15-year period ending May 1, 2023, at an interest rate of 4.76 percent.

On September 12, 2017, the District entered into a capital lease agreement to finance the purchase and renovation of a transportation facility. The lease has a 3-year term, bears an interest rate of 3.45 percent, and has a final maturity of September 2022. This capital lease will be repaid by the General Fund.

During the 2019 fiscal year, the District entered into a capital lease agreement to finance the purchase of exercise equipment for the Activities Center. The equipment purchased consists of multiple items that do not individually meet the District’s capitalization threshold of \$3,000, therefore, the equipment acquired is not included as part of capital assets. The lease has a 5-year term, bears an interest rate of 6.41 percent, and has a final maturity of January 2024. This capital lease will be repaid by the General Fund.

The amortization of assets acquired through the capital leases is included in depreciation expense. At year-end, the capitalized value and accumulated depreciation of leased assets were:

	Land Improvements	Buildings
Assets	\$ 1,600,000	\$ 1,767,500
Less accumulated depreciation	(352,000)	(35,350)
Net book value	\$ 1,248,000	\$ 1,732,150

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

C. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including: compensated absences, 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 state-wide, cost-sharing, multiple-employer plans administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2019:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	\$ 4,499,096	\$ 1,079,993	\$ 1,219,864	\$ 250,805
TRA	18,943,303	26,515,660	34,188,863	(7,862,463)
Total	<u>\$ 23,442,399</u>	<u>\$ 27,595,653</u>	<u>\$ 35,408,727</u>	<u>\$ (7,611,658)</u>

D. Minimum Debt Payments

Future principal and interest payments for general obligation bonds and capital leases payable are as follows:

Year Ending June 30,	General Obligation Bonds		Capital Leases Payable	
	Principal	Interest	Principal	Interest
2020	\$ 3,855,000	\$ 2,415,878	\$ 244,438	\$ 86,158
2021	4,130,000	2,225,870	255,324	75,272
2022	4,290,000	2,067,145	1,590,385	44,107
2023	4,465,000	1,895,075	172,046	7,205
2024	4,655,000	1,708,170	16,512	355
2025–2029	25,440,000	5,657,685	–	–
2030–2033	19,565,000	1,568,900	–	–
	<u>\$ 66,400,000</u>	<u>\$ 17,538,723</u>	<u>\$ 2,278,705</u>	<u>\$ 213,097</u>

E. Changes in Long-Term Liabilities

	Beginning of Year	Additions	Retirements	End of Year	Due Within One Year
General obligation bonds payable	\$ 68,235,000	\$ 4,890,000	\$ 6,725,000	\$ 66,400,000	\$ 3,855,000
Premium (discount) on bonds	5,185,755	110,336	470,932	4,825,159	–
Capital leases payable	2,377,347	123,402	222,044	2,278,705	244,438
Net pension liabilities	64,817,600	1,111,984	42,487,185	23,442,399	–
Net OPEB liability	1,471,361	454,386	–	1,925,747	–
Severance payable	1,383,997	168,784	241,178	1,311,603	288,994
	<u>\$ 143,471,060</u>	<u>\$ 6,858,892</u>	<u>\$ 50,146,339</u>	<u>\$ 100,183,613</u>	<u>\$ 4,388,432</u>

NOTE 5 – FUND BALANCES

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

A. Classifications

At June 30, 2019, a summary of the District’s governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	\$ 56,084	\$ –	\$ –	\$ 27,426	\$ 83,510
Prepaid items	169,607	–	–	1,305	170,912
Total nonspendable	225,691	–	–	28,731	254,422
Restricted					
Staff development	39,347	–	–	–	39,347
Capital projects levy	101,233	–	–	–	101,233
Operating capital	1,776,588	–	–	–	1,776,588
Basic skills extended time	1,352	–	–	–	1,352
Food service	–	–	–	368,797	368,797
Community education programs	–	–	–	636,930	636,930
Early childhood family education programs	–	–	–	138,428	138,428
School readiness	–	–	–	124,331	124,331
Building construction	–	1,128,160	–	–	1,128,160
Debt service	–	–	867,576	–	867,576
Total restricted	1,918,520	1,128,160	867,576	1,268,486	5,182,742
Assigned					
Curriculum and development	176,721	–	–	–	176,721
Future projects	110,072	–	–	–	110,072
Building carryover	127,089	–	–	–	127,089
Wellness	74,134	–	–	–	74,134
Insurance recovery	141,147	–	–	–	141,147
Separation/retirement benefits	501,437	–	–	–	501,437
Total assigned	1,130,600	–	–	–	1,130,600
Unassigned					
Long-term facilities maintenance restricted account deficit	(300,476)	–	–	–	(300,476)
Unassigned	6,399,432	–	–	–	6,399,432
Total unassigned	6,098,956	–	–	–	6,098,956
Total	\$ 9,373,767	\$ 1,128,160	\$ 867,576	\$ 1,297,217	\$ 12,666,720

B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance (excluding any restricted account deficits) of 5.0 percent of the annual projected expenditures. At June 30, 2019, the unassigned fund balance of the General Fund was 16.4 percent of the 2020 budgeted expenditures.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul Public Schools or Minnesota State Colleges and Universities (MnSCU)). Educators first hired by MnSCU may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan within one year of eligible employment.

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.

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. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated Plan members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated Plan members is 1.7 percent of average salary for all years 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.

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

Benefit increases are provided to benefit recipients each January. GERP benefit recipients receive a future annual increase equal to 50.0 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. TRA Benefits

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

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

Tier I Benefits

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

With these provisions:

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

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

Tier II Benefits

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

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

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

C. Contributions

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2019 and 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, 2019, were \$447,359. The District’s contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

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

	Year Ended June 30,					
	2017		2018		2019	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic Plan	11.00 %	11.50 %	11.00 %	11.50 %	11.00 %	11.71 %
Coordinated Plan	7.50 %	7.50 %	7.50 %	7.50 %	7.50 %	7.71 %

The District’s contributions to the TRA for the plan’s fiscal year ended June 30, 2019, were \$1,340,741. The District’s contributions were equal to the required contributions for each year as set by state statutes.

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

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

	<i>in thousands</i>
Employer contributions reported in the TRA’s CAFR Statement of Changes in Fiduciary Net Position	\$ 378,728
Add employer contributions not related to future contribution efforts	522
Deduct the TRA’s contributions not included in allocation	<u>(471)</u>
Total employer contributions	378,779
Total nonemployer contributions	<u>35,588</u>
Total contributions reported in the Schedule of Employer and Nonemployer Pension Allocations	<u>\$ 414,367</u>

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2019, the District reported a liability of \$4,499,096 for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of the PERA’s participating employers. The District’s proportionate share was 0.0811 percent at the end of the measurement period and 0.0832 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 \$16 million. The state of Minnesota is considered a nonemployer contributing entity and the state’s contribution meets the definition of a special funding situation. The amounts recognized by the District as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the District were as follows:

District’s proportionate share of the net pension liability	\$ 4,499,096
State’s proportionate share of the net pension liability associated with the District	\$ 147,648

For the year ended June 30, 2019, the District recognized pension expense of \$216,374 for its proportionate share of the GERF’s pension expense. In addition, the District recognized an additional \$34,431 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota’s contribution of \$16 million to the GERF.

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

At June 30, 2019, the District reported its proportionate share of the GERF’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 122,029	\$ 133,323
Changes in actuarial assumptions	436,667	514,481
Difference between projected and actual investment earnings	–	471,513
Changes in proportion	73,938	100,547
District’s contributions to the GERF subsequent to the measurement date	447,359	–
Total	<u>\$ 1,079,993</u>	<u>\$ 1,219,864</u>

A total of \$447,359 reported as deferred outflows or resources related to pensions resulting from district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 176,444
2021	\$ (265,500)
2022	\$ (404,270)
2023	\$ (93,904)

2. TRA Pension Costs

At June 30, 2019, the District reported a liability of \$18,943,303 for its proportionate share of the TRA’s net pension liability. The net pension liability was measured as of June 30, 2018, 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 0.3016 percent at the end of the measurement period and 0.2981 percent for the beginning of the period.

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

District’s proportionate share of the net pension liability	\$ 18,943,303
State’s proportionate share of the net pension liability associated with the District	\$ 1,779,586

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

For the year ended June 30, 2019, the District recognized negative pension expense of \$6,620,431. It also recognized \$1,242,032 as a decrease to pension expense (and grant revenue) for the support provided by direct aid.

At June 30, 2019, the District reported its proportionate share of the TRA’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 203,983	\$ 378,085
Changes in actuarial assumptions	23,779,543	32,222,384
Difference between projected and actual investment earnings	–	1,499,500
Changes in proportion	1,191,393	88,894
District’s contributions to the TRA subsequent to the measurement date	<u>1,340,741</u>	<u>–</u>
Total	<u>\$ 26,515,660</u>	<u>\$ 34,188,863</u>

A total of \$1,340,741 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, 2020. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 1,920,689
2021	\$ 1,016,121
2022	\$ 59,227
2023	\$ (7,006,909)
2024	\$ (5,003,072)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50%	2.50%
Wage growth rate		2.85% for 10 years, and 3.25% thereafter
Active member payroll	3.25%	2.85% to 8.85% for 10 years, and 3.25% to 9.25% thereafter
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the GERF and 1.00 percent for January 2019 through January 2023, then increasing by 0.10 percent each year up to 1.50 percent annually for the TRA.

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

Actuarial assumptions used in the June 30, 2018 valuations were based on the results of actuarial experience studies. The most recent experience studies were completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2018:

1. GERF

CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter, to 1.25 percent per year.

CHANGES IN PLAN PROVISIONS

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to zero percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio, to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2. TRA

CHANGES IN ACTUARIAL ASSUMPTIONS

- The cost of living adjustment (COLA) was reduced from 2.00 percent each January 1 to 1.00 percent, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10 percent each year until reaching the ultimate rate of 1.50 percent in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.

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

- The COLA trigger provision, which would have increased the COLA to 2.50 percent if the funded ratio was at least 90.00 percent for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.00 percent to 3.00 percent, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50 percent to 7.50 percent, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years, (7.71 percent in 2018, 7.92 percent in 2019, 8.13 percent in 2020, 8.34 percent in 2021, 8.55 percent in 2022, and 8.75 percent in 2023). In addition, the employee contribution rate will increase from 7.50 percent to 7.75 percent on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate changed from 5.12 percent to 7.50 percent.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36 %	5.10 %
International stocks	17	5.30 %
Bonds (fixed income)	20	0.75 %
Alternative assets (private markets)	25	5.90 %
Cash	2	– %
Total	100 %	

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position 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 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2018 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 not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate.

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	\$ 7,311,606	\$ 4,499,096	\$ 2,177,448
TRA discount rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	\$ 30,062,945	\$ 18,943,303	\$ 9,769,671

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; 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 on the TRA website www.MinnesotaTRA.org; by writing to the TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 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 have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of certain employee groups, the District pays for all or part of the eligible retiree’s premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

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

C. Contributions

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

D. Membership

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

Retirees and beneficiaries receiving benefits	27
Active plan members	<u>364</u>
Total members	<u><u>391</u></u>

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

E. Net OPEB Liability of the District

The District’s net OPEB liability was measured as of June 30, 2019, 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	\$ 6,012,850
Plan fiduciary net position	(4,087,103)
	<hr/>
District’s net OPEB liability	<u>\$ 1,925,747</u>
	<hr/>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>68.0%</u>

F. Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the entry-age method, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	3.00%
Expected long-term investment return	2.40% (net of investment expenses)
20-year municipal bond yield	3.10%
Inflation rate	2.50%
Salary increases	3.00%
Healthcare trend rate	6.50% grading to 5.00% over 6 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.

The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Fixed income	95.00 %	2.50 %
Cash	5.00	1.00 %
	<hr/>	
Total	<u>100.00 %</u>	2.40 %

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

G. Rate of Return

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 1.50 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

H. Discount Rate

The discount rate used to measure the total OPEB liability was 3.00 percent. The projection of cash flows used to determine the discount rate was determined by projecting forward the fiduciary net position (assets) as of the valuation date, increasing by the investment return assumption, and reducing by benefit payments in each period until assets are exhausted. Expected benefit payments by year were discounted using the expected asset return assumptions for the years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate. The contribution and benefit payment history, as well as the funding policy, have also been considered. The District discount rate used in the prior measurement date was 3.20 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, 2018	\$ 5,836,600	\$ 4,365,239	\$ 1,471,361
Changes for the year			
Service cost	327,523	–	327,523
Interest cost	191,824	–	191,824
Assumption changes	82,521	–	82,521
Plan changes	1,361	–	1,361
Net investment income	–	63,808	(63,808)
Differences between expected and actual experience	(85,035)	–	(85,035)
Benefit payments	(341,944)	(341,944)	–
Total net changes	<u>176,250</u>	<u>(278,136)</u>	<u>454,386</u>
Ending balance – June 30, 2019	<u>\$ 6,012,850</u>	<u>\$ 4,087,103</u>	<u>\$ 1,925,747</u>

Assumption and plan changes since the prior measurement date include the following:

- The mortality table was updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- Healthcare trend rates were changed to better anticipate short-term and long-term medical increases. The trend rate on post-age 65 subsidies for three administrators was changed to 4.00 percent per year.
- The discount rate was changed from 3.20 percent to 3.00 percent.
- The District's post-employment medical subsidy for one retired employee was changed from \$580 per month to the full district-paid single premium.

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

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

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
OPEB discount rate	2.00%	3.00%	4.00%
Net OPEB liability (asset)	\$ 2,348,630	\$ 1,925,747	\$ 1,519,950

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

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
OPEB healthcare trend rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years
Net OPEB liability (asset)	\$ 1,255,939	\$ 1,925,747	\$ 2,715,236

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 \$401,875. 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 expected and actual economic experience	\$ –	\$ 72,887
Changes in actuarial assumptions	70,732	88,868
Differences between projected and actual investment earnings	86,942	–
Total	<u>\$ 157,674</u>	<u>\$ 161,755</u>

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

<u>Year Ending June 30,</u>	<u>OPEB Expense Amount</u>
2020	\$ (14,067)
2021	\$ (14,069)
2022	\$ 16,943
2023	\$ 7,831
2024	\$ (359)
Thereafter	\$ (360)

NOTE 8 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan, which is classified as a “cafeteria plan” (the Plan) under § 125 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the Plan for health insurance, healthcare, and dependent care benefits.

Before the beginning of the Plan year, which is from January 1 to December 31, each participant designates a total amount of pretax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions to the Plan, whether or not such contributions have been made.

Payments of health insurance premiums are made by the District directly to the designated insurance companies and are accounted for in the General Fund. Amounts withheld for medical and dependent care reimbursement are accounted for by an independent contract plan administrator. Payments are made to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the employee. The medical and dependent care reimbursement activity plan is included in the financial statements in the General Fund.

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

NOTE 9 – INTERFUND BALANCES

The District’s General Fund has a receivable of \$341,944 at year-end, due from the Post-Employment Benefits Trust Fund to reimburse OPEB costs. Interfund receivables and payables reported in the fund financial statements are eliminated to the extent possible in the government-wide financial statements. However, receivables and payables between the District’s governmental activities and the fiduciary funds are not eliminated.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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

B. Legal Claims

The District has the usual and customary legal claims pending at year-end, mostly of a minor nature and/or covered by insurance. The District’s government-wide financial statements include an estimated liability related to current legal claims. Although the outcomes of these claims are not presently determinable, the District does not believe the resolution of these matters will not have a material adverse effect on its financial position beyond the estimated liability accrued.

C. Construction Commitments

At June 30, 2019, the District had commitments totaling \$54,253 under various construction contracts for which the work was not yet completed.

NOTE 11 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, *Fiduciary Activities*, is intended to enhance consistency and comparability of fiduciary activity reporting by state and local governments. It is also meant to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries.

This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. This statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

The MDE has also issued guidance for implementing this standard, which will impact the reporting of extracurricular student activity accounts previously not under School Board control, beginning in the 2019–2020 fiscal year. This new guidance provided by the MDE will require the activities currently presented separately in this financial statement to be operated under School Board control and reported as part of the District’s General Fund for the year ending June 30, 2020.

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 278

Public Employees Retirement Association Pension Benefits Plan
 Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
 Year Ended June 30, 2019

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	0.0826%	\$ 3,880,134	\$ -	\$ 3,880,134	\$ 4,348,782	89.22%	78.70%
06/30/2016	06/30/2015	0.0792%	\$ 4,104,555	\$ -	\$ 4,104,555	\$ 4,653,351	88.21%	78.20%
06/30/2017	06/30/2016	0.0824%	\$ 6,690,471	\$ 87,405	\$ 6,777,876	\$ 4,848,272	138.00%	68.90%
06/30/2018	06/30/2017	0.0832%	\$ 5,311,432	\$ 66,776	\$ 5,378,208	\$ 5,318,213	99.87%	75.90%
06/30/2019	06/30/2018	0.0811%	\$ 4,499,096	\$ 147,648	\$ 4,646,744	\$ 5,453,435	82.50%	79.50%

Public Employees Retirement Association Pension Benefits Plan
 Schedule of District Contributions
 Year Ended June 30, 2019

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	\$ 343,252	\$ 343,252	\$ -	\$ 4,653,351	7.38%
06/30/2016	\$ 363,557	\$ 363,557	\$ -	\$ 4,848,272	7.50%
06/30/2017	\$ 398,006	\$ 398,006	\$ -	\$ 5,318,213	7.48%
06/30/2018	\$ 408,983	\$ 408,983	\$ -	\$ 5,453,435	7.50%
06/30/2019	\$ 447,359	\$ 447,359	\$ -	\$ 5,964,762	7.50%

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Teachers Retirement Association Pension Benefits Plan
 Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
 Year Ended June 30, 2019

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the 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	0.3080%	\$ 14,192,418	\$ 998,516	\$ 15,190,934	\$ 14,057,289	100.96%	81.50%
06/30/2016	06/30/2015	0.2900%	\$ 17,939,368	\$ 2,200,629	\$ 20,139,997	\$ 14,720,573	121.87%	76.80%
06/30/2017	06/30/2016	0.2953%	\$ 70,436,096	\$ 7,069,067	\$ 77,505,163	\$ 15,468,330	455.36%	44.88%
06/30/2018	06/30/2017	0.2981%	\$ 59,506,168	\$ 5,751,982	\$ 65,258,150	\$ 16,096,552	369.68%	51.57%
06/30/2019	06/30/2018	0.3016%	\$ 18,943,303	\$ 1,779,586	\$ 20,722,889	\$ 16,664,426	113.68%	78.07%

Teachers Retirement Association Pension Benefits Plan
 Schedule of District Contributions
 Year Ended June 30, 2019

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	\$ 1,104,043	\$ 1,104,043	\$ -	\$ 14,720,573	7.50%
06/30/2016	\$ 1,160,919	\$ 1,160,919	\$ -	\$ 15,468,330	7.51%
06/30/2017	\$ 1,209,519	\$ 1,209,519	\$ -	\$ 16,096,552	7.51%
06/30/2018	\$ 1,249,682	\$ 1,249,682	\$ -	\$ 16,664,426	7.50%
06/30/2019	\$ 1,340,741	\$ 1,340,741	\$ -	\$ 17,400,046	7.71%

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Other Post-Employment Benefits Plan
 Schedule of Changes in the District's Net
 OPEB Liability and Related Ratios
 Year Ended June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB liability			
Service cost	\$ 327,523	\$ 327,106	\$ 345,050
Interest cost	191,824	161,748	156,808
Assumption changes	82,521	(177,738)	-
Plan changes	1,361	-	-
Differences between expected and actual experience	(85,035)	-	-
Benefit payments	<u>(341,944)</u>	<u>(274,363)</u>	<u>(327,157)</u>
Net change in total OPEB liability	176,250	36,753	174,701
Total OPEB liability – beginning of year	<u>5,836,600</u>	<u>5,799,847</u>	<u>5,625,146</u>
Total OPEB liability – end of year	6,012,850	5,836,600	5,799,847
Plan fiduciary net position			
Contributions	-	-	327,157
Net investment income	63,808	64,243	41,707
Benefit payments	<u>(341,944)</u>	<u>(274,363)</u>	<u>(327,157)</u>
Net change in plan fiduciary net position	(278,136)	(210,120)	41,707
Plan fiduciary net position – beginning of year	<u>4,365,239</u>	<u>4,575,359</u>	<u>4,533,652</u>
Plan fiduciary net position – end of year	<u>4,087,103</u>	<u>4,365,239</u>	<u>4,575,359</u>
Net OPEB liability (asset)	<u>\$ 1,925,747</u>	<u>\$ 1,471,361</u>	<u>\$ 1,224,488</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>67.97%</u>	<u>74.79%</u>	<u>78.89%</u>
Covered-employee payroll	<u>\$ 21,872,773</u>	<u>\$ 20,730,611</u>	<u>\$ 20,126,807</u>
Net OPEB liability as a percentage of covered-employee payroll	<u>8.80%</u>	<u>7.10%</u>	<u>6.08%</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Other Post-Employment Benefits Plan
Schedule of Investment Returns
Year Ended June 30, 2019

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2017	0.92 %
2018	1.40
2019	1.50

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.

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INDEPENDENT SCHOOL DISTRICT NO. 278

Notes to Required Supplementary Information
June 30, 2019

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2018 CHANGES IN PLAN PROVISIONS

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to zero percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio, to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044, and 2.50 percent per year thereafter, to 1.25 percent per year.

2017 CHANGES IN PLAN PROVISIONS

- The state's special funding contribution increased from \$6 million to \$16 million.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Notes to Required Supplementary Information (continued)
June 30, 2019

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2015 CHANGES IN PLAN PROVISIONS

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

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Notes to Required Supplementary Information (continued)
June 30, 2019

TEACHERS RETIREMENT ASSOCIATION (TRA)

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The cost of living adjustment (COLA) was reduced from 2.00 percent each January 1 to 1.00 percent, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10 percent each year until reaching the ultimate rate of 1.50 percent on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.50 percent if the funded ratio was at least 90.00 percent for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.00 percent to 3.00 percent, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50 percent to 7.50 percent, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years, (7.71 percent in 2018, 7.92 percent in 2019, 8.13 percent in 2020, 8.34 percent in 2021, 8.55 percent in 2022, and 8.75 percent in 2023). In addition, the employee contribution rate will increase from 7.50 percent to 7.75 percent on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate changed from 5.12 percent to 7.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The COLA was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.

INDEPENDENT SCHOOL DISTRICT NO. 278

Notes to Required Supplementary Information (continued)
June 30, 2019

TEACHERS RETIREMENT ASSOCIATION (TRA) (CONTINUED)

2017 CHANGES IN ACTUARIAL ASSUMPTIONS (CONTINUED)

- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2015 CHANGES IN PLAN PROVISIONS

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

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Notes to Required Supplementary Information (continued)
June 30, 2019

OTHER POST-EMPLOYMENT BENEFITS PLAN

2019 CHANGES IN PLAN PROVISIONS

- The District's post-employment medical subsidy for one retired employee was changed from up to \$580 per month to the full district-paid single premiums.

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality table was updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- Healthcare trend rates were changed to better anticipate short-term and long-term medical increases. The trend rate on post-age 65 subsidies for three administrators was changed to 4 percent per year.
- The discount rate was changed from 3.20 percent to 3.00 percent.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate was changed from 2.70 percent to 3.20 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The healthcare trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP-2000 projected to 2014 with Scale BB to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and retirement tables for only employees eligible to retire with Rule of 90 also were updated.
- The discount rate was changed from 3.50 percent to 2.70 percent.
- The percentage of food service employees who are assumed to continue on one of the District's medical plans post-employment was reduced from 50 percent to 10 percent.

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SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 278

Nonmajor Governmental Funds
 Combining Balance Sheet
 as of June 30, 2019

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Food Service</u>	<u>Community Service</u>	
Assets			
Cash and temporary investments	\$ 423,917	\$ 1,151,070	\$ 1,574,987
Receivables			
Current taxes	-	140,029	140,029
Delinquent taxes	-	5,041	5,041
Accounts and interest	102	38,446	38,548
Due from other governmental units	-	9,031	9,031
Inventory	27,426	-	27,426
Prepaid items	410	895	1,305
	<u>410</u>	<u>895</u>	<u>1,305</u>
Total assets	<u>\$ 451,855</u>	<u>\$ 1,344,512</u>	<u>\$ 1,796,367</u>
Liabilities			
Salaries and compensated absences payable	\$ -	\$ 112,608	\$ 112,608
Accounts and contracts payable	965	43,594	44,559
Due to other governmental units	-	-	-
Unearned revenue	54,257	768	55,025
Total liabilities	<u>55,222</u>	<u>156,970</u>	<u>212,192</u>
Deferred inflows of resources			
Unavailable revenue – delinquent taxes	-	3,270	3,270
Property taxes levied for subsequent year	-	283,688	283,688
Total deferred inflows of resources	<u>-</u>	<u>286,958</u>	<u>286,958</u>
Fund balances			
Nonspendable	27,836	895	28,731
Restricted	368,797	899,689	1,268,486
Total fund balances	<u>396,633</u>	<u>900,584</u>	<u>1,297,217</u>
	<u>\$ 451,855</u>	<u>\$ 1,344,512</u>	<u>\$ 1,796,367</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 451,855</u>	<u>\$ 1,344,512</u>	<u>\$ 1,796,367</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Nonmajor Governmental Funds
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Year Ended June 30, 2019

	Special Revenue Funds		Total
	Food Service	Community Service	
Revenue			
Local sources			
Property taxes	\$ -	\$ 278,578	\$ 278,578
Investment earnings	6,162	12,343	18,505
Other	1,270,204	2,832,132	4,102,336
State sources	37,849	115,691	153,540
Federal sources	257,207	-	257,207
Total revenue	<u>1,571,422</u>	<u>3,238,744</u>	<u>4,810,166</u>
Expenditures			
Current			
Food service	1,551,564	-	1,551,564
Community service	-	3,263,556	3,263,556
Capital outlay	59,632	44,117	103,749
Total expenditures	<u>1,611,196</u>	<u>3,307,673</u>	<u>4,918,869</u>
Net change in fund balances	(39,774)	(68,929)	(108,703)
Fund balances			
Beginning of year	<u>436,407</u>	<u>969,513</u>	<u>1,405,920</u>
End of year	<u>\$ 396,633</u>	<u>\$ 900,584</u>	<u>\$ 1,297,217</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

General Fund
Balance Sheet by Account
as of June 30, 2019
(With Comparative Totals as of June 30, 2018)

	2019			2018
	Operating	Capital Expenditure	Total	Total
Assets				
Cash and temporary investments	\$ 10,935,289	\$ 1,943,711	\$ 12,879,000	\$ 13,398,505
Receivables				
Current taxes	5,678,417	–	5,678,417	4,310,126
Delinquent taxes	185,336	–	185,336	21,089
Accounts and interest	469,537	218,589	688,126	254,915
Due from other governmental units	2,773,032	–	2,773,032	2,866,366
Due from other funds	341,944	–	341,944	274,363
Inventory	56,084	–	56,084	69,406
Prepaid items	169,367	240	169,607	201,105
Total assets	<u>\$ 20,609,006</u>	<u>\$ 2,162,540</u>	<u>\$ 22,771,546</u>	<u>\$ 21,395,875</u>
Liabilities				
Salaries and compensated absences payable	\$ 905,023	\$ –	\$ 905,023	\$ 747,599
Accounts and contracts payable	692,142	439,514	1,131,656	1,083,121
Due to other governmental units	142,100	6,808	148,908	85,555
Unearned revenue	512,864	–	512,864	629,927
Total liabilities	<u>2,252,129</u>	<u>446,322</u>	<u>2,698,451</u>	<u>2,546,202</u>
Deferred inflows of resources				
Unavailable revenue – delinquent taxes	114,320	–	114,320	84,793
Property taxes levied for subsequent year	10,585,008	–	10,585,008	10,076,389
Total deferred inflows of resources	<u>10,699,328</u>	<u>–</u>	<u>10,699,328</u>	<u>10,161,182</u>
Fund balances (deficits)				
Nonspendable for inventory	56,084	–	56,084	69,406
Nonspendable for prepaid items	169,367	240	169,607	201,105
Restricted for staff development	39,347	–	39,347	35,820
Restricted for capital projects levy	–	101,233	101,233	114,972
Restricted for operating capital	–	1,776,588	1,776,588	1,757,726
Restricted for basic skills extended time	1,352	–	1,352	–
Restricted for long-term facilities maintenance	–	–	–	45,039
Assigned for curriculum and development	176,721	–	176,721	–
Assigned for future projects	–	110,072	110,072	–
Assigned for building carryover	127,089	–	127,089	–
Assigned for wellness	74,134	–	74,134	–
Assigned for insurance recovery	–	141,147	141,147	–
Assigned for separation/retirement benefits	501,437	–	501,437	651,831
Unassigned – health and safety restriction deficit	–	–	–	(230,453)
Unassigned – long-term facilities maintenance restricted account deficit	–	(300,476)	(300,476)	–
Unassigned	6,512,018	(112,586)	6,399,432	6,043,045
Total fund balances	<u>7,657,549</u>	<u>1,716,218</u>	<u>9,373,767</u>	<u>8,688,491</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 20,609,006</u>	<u>\$ 2,162,540</u>	<u>\$ 22,771,546</u>	<u>\$ 21,395,875</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
 Year Ended June 30, 2019
 (With Comparative Totals for the Year Ended June 30, 2018)

	2019			2018
	Operating	Capital Expenditure	Total	Total
Revenue				
Local sources				
Property taxes	\$ 8,202,761	\$ 2,832,579	\$ 11,035,340	\$ 10,616,722
Investment earnings	291,909	–	291,909	112,396
Other	1,853,145	379,042	2,232,187	1,552,150
State sources	24,785,501	334,338	25,119,839	23,699,663
Federal sources	584,644	–	584,644	603,836
Total revenue	<u>35,717,960</u>	<u>3,545,959</u>	<u>39,263,919</u>	<u>36,584,767</u>
Expenditures				
Current				
Administration	1,448,004	–	1,448,004	1,408,662
District support services	1,441,068	301,301	1,742,369	1,822,054
Elementary and secondary regular instruction	18,380,908	346,586	18,727,494	18,155,931
Vocational education instruction	288,572	–	288,572	283,104
Special education instruction	4,615,399	–	4,615,399	4,436,551
Instructional support services	1,588,711	846,123	2,434,834	2,255,018
Pupil support services	3,033,796	–	3,033,796	2,737,127
Sites and buildings	3,815,427	1,881,142	5,696,569	6,344,981
Fiscal and other fixed cost programs	401,279	–	401,279	218,719
Debt service				
Principal	101,804	120,240	222,044	166,843
Interest and fiscal charges	61,589	30,096	91,685	59,166
Total expenditures	<u>35,176,557</u>	<u>3,525,488</u>	<u>38,702,045</u>	<u>37,888,156</u>
Excess (deficiency) of revenue over expenditures	541,403	20,471	561,874	(1,303,389)
Other financing sources				
Sale of assets	–	–	–	10,931
Capital lease issued	123,402	–	123,402	1,767,500
Total other financing sources	<u>123,402</u>	<u>–</u>	<u>123,402</u>	<u>1,778,431</u>
Net change in fund balances	664,805	20,471	685,276	475,042
Fund balances				
Beginning of year	<u>6,992,744</u>	<u>1,695,747</u>	<u>8,688,491</u>	<u>8,213,449</u>
End of year	<u>\$ 7,657,549</u>	<u>\$ 1,716,218</u>	<u>\$ 9,373,767</u>	<u>\$ 8,688,491</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

General Fund – Operating Account
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2019
 (With Comparative Actual Amounts for the Year Ended June 30, 2018)

	2019		Over (Under) Budget	2018
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 8,310,759	\$ 8,202,761	\$ (107,998)	\$ 8,138,964
Investment earnings	335,000	291,909	(43,091)	112,396
Other	1,915,198	1,853,145	(62,053)	1,383,786
State sources	24,409,622	24,785,501	375,879	23,408,809
Federal sources	585,248	584,644	(604)	603,836
Total revenue	<u>35,555,827</u>	<u>35,717,960</u>	<u>162,133</u>	<u>33,647,791</u>
Expenditures				
Current				
Administration	1,476,544	1,448,004	(28,540)	1,408,662
District support services	1,431,340	1,441,068	9,728	1,492,702
Elementary and secondary regular instruction	18,182,103	18,380,908	198,805	17,832,142
Vocational education instruction	292,708	288,572	(4,136)	283,104
Special education instruction	4,750,504	4,615,399	(135,105)	4,436,551
Instructional support services	1,593,917	1,588,711	(5,206)	1,574,529
Pupil support services	2,905,535	3,033,796	128,261	2,737,127
Sites and buildings	3,585,864	3,815,427	229,563	4,837,643
Fiscal and other fixed cost programs	422,540	401,279	(21,261)	218,719
Debt service				
Principal	101,804	101,804	–	52,128
Interest and fiscal charges	61,590	61,589	(1)	23,545
Total expenditures	<u>34,804,449</u>	<u>35,176,557</u>	<u>372,109</u>	<u>34,896,852</u>
Excess (deficiency) of revenue over expenditures	751,378	541,403	(209,976)	(1,249,061)
Other financing sources				
Capital lease issued	<u>–</u>	<u>123,402</u>	<u>123,402</u>	<u>1,767,500</u>
Net change in fund balances	<u>\$ 751,378</u>	<u>664,805</u>	<u>\$ (86,574)</u>	<u>518,439</u>
Fund balances				
Beginning of year		<u>6,992,744</u>		<u>6,474,305</u>
End of year		<u>\$ 7,657,549</u>		<u>\$ 6,992,744</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

General Fund – Capital Expenditure Account
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2019
 (With Comparative Actual Amounts for the Year Ended June 30, 2018)

	2019		Over (Under) Budget	2018
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 2,831,947	\$ 2,832,579	\$ 632	\$ 2,477,758
Other	192,480	379,042	186,562	168,364
State sources	342,682	334,338	(8,344)	290,854
Total revenue	<u>3,367,109</u>	<u>3,545,959</u>	<u>178,850</u>	<u>2,936,976</u>
Expenditures				
Current				
District support services	368,954	301,301	(67,653)	329,352
Elementary and secondary regular instruction	475,001	346,586	(128,415)	323,789
Instructional support services	865,002	846,123	(18,879)	680,489
Sites and buildings	1,257,376	1,881,142	623,766	1,507,338
Debt service				
Principal	120,240	120,240	–	114,715
Interest and fiscal charges	30,096	30,096	–	35,621
Total expenditures	<u>3,116,669</u>	<u>3,525,488</u>	<u>408,819</u>	<u>2,991,304</u>
Excess (deficiency) of revenue over expenditures	250,440	20,471	(229,969)	(54,328)
Other financing sources				
Sale of assets	<u>–</u>	<u>–</u>	<u>–</u>	<u>10,931</u>
Net change in fund balances	<u>\$ 250,440</u>	<u>20,471</u>	<u>\$ (229,969)</u>	<u>(43,397)</u>
Fund balances				
Beginning of year		<u>1,695,747</u>		<u>1,739,144</u>
End of year		<u>\$ 1,716,218</u>		<u>\$ 1,695,747</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Food Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and temporary investments	\$ 423,917	\$ 517,703
Receivables		
Accounts and interest	102	744
Inventory	27,426	21,988
Prepaid items	<u>410</u>	<u>205</u>
Total assets	<u>\$ 451,855</u>	<u>\$ 540,640</u>
Liabilities		
Salaries and compensated absences payable	\$ -	\$ 52,243
Accounts and contracts payable	965	2,451
Unearned revenue	<u>54,257</u>	<u>49,539</u>
Total liabilities	55,222	104,233
Fund balances		
Nonspendable for inventory	27,426	21,988
Nonspendable for prepaid items	410	205
Restricted for food service	<u>368,797</u>	<u>414,214</u>
Total fund balances	<u>396,633</u>	<u>436,407</u>
Total liabilities and fund balances	<u>\$ 451,855</u>	<u>\$ 540,640</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Food Service Special Revenue Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2019
 (With Comparative Actual Amounts for the Year Ended June 30, 2018)

	2019		Over (Under) Budget	2018
	Budget	Actual		Actual
Revenue				
Local sources				
Investment earnings	\$ 3,000	\$ 6,162	\$ 3,162	\$ 6,671
Other – primarily meal sales	1,350,550	1,270,204	(80,346)	1,185,258
State sources	38,000	37,849	(151)	35,785
Federal sources	170,500	257,207	86,707	256,468
Total revenue	<u>1,562,050</u>	<u>1,571,422</u>	<u>9,372</u>	<u>1,484,182</u>
Expenditures				
Current				
Salaries	571,113	571,444	331	548,513
Employee benefits	188,015	182,089	(5,926)	159,675
Purchased services	69,650	73,791	4,141	87,427
Supplies and materials	697,675	722,466	24,791	692,686
Other expenditures	1,500	1,774	274	702
Capital outlay	61,000	59,632	(1,368)	43,355
Total expenditures	<u>1,588,953</u>	<u>1,611,196</u>	<u>22,243</u>	<u>1,532,358</u>
Net change in fund balances	<u>\$ (26,903)</u>	<u>(39,774)</u>	<u>\$ (12,871)</u>	<u>(48,176)</u>
Fund balances				
Beginning of year		<u>436,407</u>		<u>484,583</u>
End of year		<u>\$ 396,633</u>		<u>\$ 436,407</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Community Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and temporary investments	\$ 1,151,070	\$ 1,209,003
Receivables		
Current taxes	140,029	109,418
Delinquent taxes	5,041	751
Accounts and interest	38,446	4,784
Due from other governmental units	9,031	46,444
Prepaid items	<u>895</u>	<u>4,770</u>
Total assets	<u>\$ 1,344,512</u>	<u>\$ 1,375,170</u>
Liabilities		
Salaries and compensated absences payable	\$ 112,608	\$ 74,458
Accounts and contracts payable	43,594	45,796
Due to other governmental units	-	2,716
Unearned revenue	<u>768</u>	<u>-</u>
Total liabilities	<u>156,970</u>	<u>122,970</u>
Deferred inflows of resources		
Unavailable revenue – delinquent taxes	3,270	2,692
Property taxes levied for subsequent year	<u>283,688</u>	<u>279,995</u>
Total deferred inflows of resources	<u>286,958</u>	<u>282,687</u>
Fund balances		
Nonspendable for prepaid items	895	4,770
Restricted for community education programs	636,930	789,768
Restricted for early childhood family education programs	138,428	66,837
Restricted for school readiness	<u>124,331</u>	<u>108,138</u>
Total fund balances	<u>900,584</u>	<u>969,513</u>
 Total liabilities, deferred inflows of resources, and fund balances	 <u>\$ 1,344,512</u>	 <u>\$ 1,375,170</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Community Service Special Revenue Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2019
 (With Comparative Actual Amounts for the Year Ended June 30, 2018)

	2019		Over (Under) Budget	2018
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 280,235	\$ 278,578	\$ (1,657)	\$ 267,866
Investment earnings	10,200	12,343	2,143	10,129
Other – primarily tuition and fees	2,875,621	2,832,132	(43,489)	2,789,796
State sources	169,249	115,691	(53,558)	149,001
Total revenue	<u>3,335,305</u>	<u>3,238,744</u>	<u>(96,561)</u>	<u>3,216,792</u>
Expenditures				
Current				
Salaries	1,942,261	2,044,285	102,024	1,837,970
Employee benefits	275,103	291,515	16,412	259,768
Purchased services	641,779	527,559	(114,220)	610,636
Supplies and materials	270,186	255,652	(14,534)	193,244
Other expenditures	158,310	144,545	(13,765)	113,616
Capital outlay	60,802	44,117	(16,685)	129,623
Total expenditures	<u>3,348,441</u>	<u>3,307,673</u>	<u>(40,768)</u>	<u>3,144,857</u>
Net change in fund balances	<u>\$ (13,136)</u>	<u>(68,929)</u>	<u>\$ (55,793)</u>	71,935
Fund balances				
Beginning of year		<u>969,513</u>		<u>897,578</u>
End of year		<u>\$ 900,584</u>		<u>\$ 969,513</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Capital Projects – Building Construction Fund
 Comparative Balance Sheet
 as of June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash and temporary investments	\$ 2,032,242	\$ 17,005,853
Receivables		
Accounts and interest	107,003	59,613
Prepaid items	<u>–</u>	<u>20,034</u>
Total assets	<u>\$ 2,139,245</u>	<u>\$ 17,085,500</u>
Liabilities		
Accounts and contracts payable	\$ 1,011,085	\$ 2,689,102
Fund balances		
Nonspendable for prepaid items	–	20,034
Restricted for long-term facilities maintenance	–	253,177
Restricted for building construction	<u>1,128,160</u>	<u>14,123,187</u>
Total fund balances	<u>1,128,160</u>	<u>14,396,398</u>
Total liabilities and fund balances	<u>\$ 2,139,245</u>	<u>\$ 17,085,500</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Capital Projects – Building Construction Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual

Year Ended June 30, 2019

(With Comparative Actual Amounts for the Year Ended June 30, 2018)

	2019		Over (Under) Budget	2018
	Budget	Actual		Actual
Revenue				
Local sources				
Investment earnings	\$ 173,000	\$ 207,486	\$ 34,486	\$ 324,025
Expenditures				
Capital outlay				
Purchased services	1,158,595	1,219,440	60,845	2,123,979
Capital expenditures	14,033,317	14,223,863	190,546	13,055,197
Debt service				
Fiscal charges and other	–	42,757	42,757	–
Total expenditures	<u>15,191,912</u>	<u>15,486,060</u>	<u>294,148</u>	<u>15,179,176</u>
Excess (deficiency) of revenue over expenditures	(15,018,912)	(15,278,574)	(259,662)	(14,855,151)
Other financing sources				
Bonds issued	1,900,000	1,900,000	–	–
Premiums on bonds issued	–	110,336	110,336	–
Total other financing sources	<u>1,900,000</u>	<u>2,010,336</u>	<u>110,336</u>	<u>–</u>
Net change in fund balances	<u>\$ (13,118,912)</u>	<u>(13,268,238)</u>	<u>\$ (149,326)</u>	<u>(14,855,151)</u>
Fund balances				
Beginning of year		<u>14,396,398</u>		<u>29,251,549</u>
End of year		<u>\$ 1,128,160</u>		<u>\$ 14,396,398</u>

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INDEPENDENT SCHOOL DISTRICT NO. 278

Debt Service Fund
 Balance Sheet by Account
 as of June 30, 2019
 (With Comparative Totals as of June 30, 2018)

	Regular Debt Service Account	OPEB Debt Service Account	Totals	
			2019	2018
Assets				
Cash and temporary investments	\$ 3,683,777	\$ 276,067	\$ 3,959,844	\$ 4,813,479
Receivables				
Current taxes	2,873,121	178,526	3,051,647	2,379,923
Delinquent taxes	90,004	7,952	97,956	11,417
Due from other governmental units	3,022	28	3,050	409
Total assets	\$ 6,649,924	\$ 462,573	\$ 7,112,497	\$ 7,205,228
Deferred inflows of resources				
Unavailable revenue – delinquent taxes	\$ 57,008	\$ 5,523	\$ 62,531	\$ 52,797
Property taxes levied for subsequent year	5,820,711	361,679	6,182,390	6,090,094
Total deferred inflows of resources	5,877,719	367,202	6,244,921	6,142,891
Fund balances				
Restricted for debt service	772,205	95,371	867,576	1,062,337
Total deferred inflows of resources and fund balances	\$ 6,649,924	\$ 462,573	\$ 7,112,497	\$ 7,205,228

INDEPENDENT SCHOOL DISTRICT NO. 278

Debt Service Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
 Budget and Actual
 Year Ended June 30, 2019
 (With Comparative Actual Amounts for the Year Ended June 30, 2018)

	Budget	2019 Actual	
		Regular Debt Service Account	OPEB Debt Service Account
Revenue			
Local sources			
Property taxes	\$ 6,065,096	\$ 5,634,445	\$ 422,427
Investment earnings	37,000	37,933	19,589
State sources	34,488	30,219	281
Total revenue	<u>6,136,584</u>	<u>5,702,597</u>	<u>442,297</u>
Expenditures			
Debt service			
Principal	3,990,000	3,560,000	215,000
Interest	2,552,465	2,341,687	210,778
Fiscal charges and other	52,190	950	51,240
Total expenditures	<u>6,594,655</u>	<u>5,902,637</u>	<u>477,018</u>
Excess (deficiency) of revenue over expenditures	(458,071)	(200,040)	(34,721)
Other financing sources (uses)			
Refunding bonds issued	2,990,000	–	2,990,000
Bond refunding payments	(2,950,000)	–	(2,950,000)
Total other financing sources (uses)	<u>40,000</u>	<u>–</u>	<u>40,000</u>
Net change in fund balances	<u>\$ (418,071)</u>	(200,040)	5,279
Fund balances			
Beginning of year		<u>972,245</u>	<u>90,092</u>
End of year		<u>\$ 772,205</u>	<u>\$ 95,371</u>

		2018	
Total	Over (Under) Budget	Actual	
\$ 6,056,872	\$ (8,224)	\$ 5,591,995	
57,522	20,522	254,258	
30,500	(3,988)	4,095	
<u>6,144,894</u>	<u>8,310</u>	<u>5,850,348</u>	
3,775,000	(215,000)	3,190,000	
2,552,465	–	4,052,607	
52,190	–	2,299	
<u>6,379,655</u>	<u>(215,000)</u>	<u>7,244,906</u>	
(234,761)	223,310	(1,394,558)	
2,990,000	–	–	
(2,950,000)	–	(33,510,000)	
<u>40,000</u>	<u>–</u>	<u>(33,510,000)</u>	
(194,761)	<u>\$ 223,310</u>	(34,904,558)	
<u>1,062,337</u>		<u>35,966,895</u>	
<u>\$ 867,576</u>		<u>\$ 1,062,337</u>	

INDEPENDENT SCHOOL DISTRICT NO. 278

Combining Statement of Net Position
 Internal Service Funds
 as of June 30, 2019
 (With Comparative Totals as of June 30, 2018)

	Dental	Medical	Totals	
	Self-Insurance	Self-Insurance	2019	2018
Assets				
Current assets				
Cash and cash equivalents	\$ 156,550	\$ 788,130	\$ 944,680	\$ 961,610
Receivables				
Accounts and interest	<u>3,746</u>	<u>9,698</u>	<u>13,444</u>	<u>12,866</u>
Total current assets	<u>160,296</u>	<u>797,828</u>	<u>958,124</u>	<u>974,476</u>
Liabilities				
Current liabilities				
Accounts and contracts payable	27,392	527,102	554,494	316,408
Unearned revenue	24,463	343,621	368,084	325,491
Total current liabilities	<u>51,855</u>	<u>870,723</u>	<u>922,578</u>	<u>641,899</u>
Net position				
Unrestricted	<u>\$ 108,441</u>	<u>\$ (72,895)</u>	<u>\$ 35,546</u>	<u>\$ 332,577</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Combining Statement of Revenue, Expenses, and Changes in Net Position
 Internal Service Funds
 Year Ended June 30, 2019
 (With Comparative Totals for the Year Ended June 30, 2018)

	Dental	Medical	Totals	
	Self-Insurance	Self-Insurance	2019	2018
Operating revenue				
Charges for services				
Assessed to governmental funds	\$ 248,498	\$ 3,400,265	\$ 3,648,763	\$ 1,903,742
Operating expenses				
Dental benefit claims	269,683	–	269,683	245,301
Medical benefit claims	–	3,683,552	3,683,552	1,440,358
Total operating expenses	<u>269,683</u>	<u>3,683,552</u>	<u>3,953,235</u>	<u>1,685,659</u>
Operating income (loss)	(21,185)	(283,287)	(304,472)	218,083
Nonoperating revenue				
Investment earnings	<u>1,510</u>	<u>5,931</u>	<u>7,441</u>	<u>917</u>
Change in net position	(19,675)	(277,356)	(297,031)	219,000
Net position				
Beginning of year	<u>128,116</u>	<u>204,461</u>	<u>332,577</u>	<u>113,577</u>
End of year	<u>\$ 108,441</u>	<u>\$ (72,895)</u>	<u>\$ 35,546</u>	<u>\$ 332,577</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Combining Statement of Cash Flows
 Internal Service Funds
 Year Ended June 30, 2019
 (With Comparative Totals for the Year Ended June 30, 2018)

	Dental	Medical	Totals	
	Self-Insurance	Self-Insurance	2019	2018
Cash flows from operating activities				
Contributions from governmental funds	\$ 269,215	\$ 3,421,563	\$ 3,690,778	\$ 2,216,367
Payments for dental claims	(255,852)	–	(255,852)	(236,912)
Payments for medical claims	–	(3,459,297)	(3,459,297)	(1,137,511)
Net cash flows from operating activities	13,363	(37,734)	(24,371)	841,944
Cash flows from investing activities				
Interest on investments	1,510	5,931	7,441	917
Net change in cash and cash equivalents	14,873	(31,803)	(16,930)	842,861
Cash and cash equivalents				
Beginning of year	141,677	819,933	961,610	118,749
End of year	\$ 156,550	\$ 788,130	\$ 944,680	\$ 961,610
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	\$ (21,185)	\$ (283,287)	\$ (304,472)	\$ 218,083
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Changes in assets and liabilities				
Accounts and interest receivable	(3,746)	3,168	(578)	(12,866)
Accounts and contracts payable	13,831	224,255	238,086	311,236
Unearned revenue	24,463	18,130	42,593	325,491
Net cash flows from operating activities	\$ 13,363	\$ (37,734)	\$ (24,371)	\$ 841,944

INDEPENDENT SCHOOL DISTRICT NO. 278

Combining Statement of Fiduciary Net Position
 Private-Purpose Trust Funds
 as of June 30, 2019
 (With Comparative Totals as of June 30, 2018)

	Memorial and Scholarship	Orono Education	Totals	
			2019	2018
Assets				
Cash and temporary investments	\$ 626,181	\$ 80,626	\$ 706,807	\$ 723,680
Accounts and interest receivable	1,016	5	1,021	10
Total assets	<u>627,197</u>	<u>80,631</u>	<u>707,828</u>	<u>723,690</u>
Liabilities				
Accounts and contracts payable	<u>2,250</u>	<u>—</u>	<u>2,250</u>	<u>—</u>
Net position				
Held in trust for other purposes	<u>\$ 624,947</u>	<u>\$ 80,631</u>	<u>\$ 705,578</u>	<u>\$ 723,690</u>

Combining Statement of Changes in Fiduciary Net Position
 Private-Purpose Trust Funds
 Year Ended June 30, 2019
 (With Comparative Totals for the Year Ended June 30, 2018)

	Memorial and Scholarship	Orono Education	Totals	
			2019	2018
Additions				
Private donations	\$ 24,425	\$ 1,500	\$ 25,925	\$ 53,751
Investment earnings	12,845	1,250	14,095	14,574
Total additions	37,270	2,750	40,020	68,325
Deductions				
Scholarships	<u>44,832</u>	<u>13,300</u>	<u>58,132</u>	<u>55,800</u>
Change in net position	(7,562)	(10,550)	(18,112)	12,525
Net position				
Beginning of year	<u>632,509</u>	<u>91,181</u>	<u>723,690</u>	<u>711,165</u>
End of year	<u>\$ 624,947</u>	<u>\$ 80,631</u>	<u>\$ 705,578</u>	<u>\$ 723,690</u>

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STATISTICAL SECTION (UNAUDITED)

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STATISTICAL SECTION (UNAUDITED)

This section of Independent School District No. 278's (the District) Comprehensive Annual Financial Report (CAFR) presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the District's overall financial health.

Contents

Financial Trends

These schedules contain trend information to help the reader understand how the District's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the District's most significant local revenue source, property taxes.

Debt Capacity

These schedules present information to help the reader assess the affordability of the District's current levels of outstanding debt and the District's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the District's financial activities take place.

Operating Indicators

These schedules contain service and infrastructure data to help the reader understand how the information in the District's CAFR relates to the services the District provides, and the activities it performs.

Source: Unless otherwise noted, the information in these schedules is derived from the District's CAFR for the relevant year.

INDEPENDENT SCHOOL DISTRICT NO. 278

Net Position by Component
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Fiscal Year 2013</u>
Governmental activities				
Net investment in capital assets	\$ 10,805,870	\$ 9,711,891	\$ 8,165,213	\$ 7,653,770
Restricted	1,655,052	2,192,508	3,314,005	3,620,076
Unrestricted	<u>3,703,275</u>	<u>3,836,539</u>	<u>4,320,806</u>	<u>4,678,806</u>
Total governmental activities net position	<u>\$ 16,164,197</u>	<u>\$ 15,740,938</u>	<u>\$ 15,800,024</u>	<u>\$ 15,952,652</u>

Note 1: The District implemented GASB Statement No. 68 in fiscal 2015. The District reported a change in accounting principle as a result of implementing this standard that decreased unrestricted net position by approximately \$21.0 million. Prior years were not restated.

Note 2: The District implemented GASB Statement No. 75 in fiscal 2017. The District reported a change in accounting principle as a result of implementing this standard that decreased unrestricted net position by approximately \$5.2 million. Prior years were not restated.

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ 7,393,374	\$ 7,868,907	\$ 8,753,841	\$ 6,534,251	\$ 7,778,439	\$ 9,268,412
3,756,494	3,844,782	2,979,828	4,065,675	3,560,209	3,223,874
<u>5,257,977</u>	<u>(15,287,877)</u>	<u>(15,210,721)</u>	<u>(29,672,163)</u>	<u>(38,266,096)</u>	<u>(29,473,464)</u>
<u>\$ 16,407,845</u>	<u>\$ (3,574,188)</u>	<u>\$ (3,477,052)</u>	<u>\$ (19,072,237)</u>	<u>\$ (26,927,448)</u>	<u>\$ (16,981,178)</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2010	2011	2012	2013
Governmental activities				
Expenses				
Administration	\$ 1,226,861	\$ 1,240,176	\$ 1,103,447	\$ 1,211,999
District support services	1,142,833	1,210,939	1,306,845	1,186,616
Elementary and secondary regular instruction	14,363,446	15,906,341	15,821,717	16,588,104
Vocational education instruction	215,347	227,041	228,139	232,415
Special education instruction	3,540,643	3,577,519	3,433,434	3,603,350
Instructional support services	1,446,529	1,371,005	1,178,776	1,132,586
Pupil support services	2,225,580	2,282,735	2,139,593	2,189,262
Sites and buildings	4,086,843	4,505,990	4,643,492	4,452,099
Fiscal and other fixed cost programs	87,095	106,788	121,810	152,429
Food service	1,290,998	1,375,569	1,324,369	1,487,498
Community service	2,927,640	3,130,688	3,103,963	3,089,958
Interest and fiscal charges	2,634,402	2,582,123	2,523,805	2,457,007
Total governmental activities expenses	35,188,217	37,516,914	36,929,390	37,783,323
Program revenues				
Charges for services				
District support services	-	-	-	-
Elementary and secondary regular instruction	437,853	439,665	466,099	462,156
Instructional support services	73,273	73,997	72,613	84,612
Sites and buildings	44,460	48,084	44,780	45,320
Food service	1,102,509	1,113,764	1,147,584	1,178,931
Community service	2,315,824	2,614,388	2,575,570	2,751,209
Operating grants and contributions	4,927,988	4,302,312	4,189,597	4,327,106
Total governmental activities program revenues	8,901,907	8,592,210	8,496,243	8,849,334
Net (expense) revenue	(26,286,310)	(28,924,704)	(28,433,147)	(28,933,989)
General revenues and other changes in net position				
Property taxes	11,839,077	13,878,356	11,328,567	11,437,738
General grants and aids	15,763,704	13,755,226	16,233,024	16,715,745
Investment earnings and other	1,184,400	867,863	930,642	933,134
Total general revenues and other changes in net position	28,787,181	28,501,445	28,492,233	29,086,617
Change in net position	\$ 2,500,871	\$ (423,259)	\$ 59,086	\$ 152,628

2014	2015	2016	2017	2018	2019
\$ 1,114,374	\$ 1,419,501	\$ 1,210,448	\$ 2,051,816	\$ 1,644,415	\$ 1,144,834
1,418,314	1,352,392	1,452,785	1,727,629	1,883,055	1,646,977
16,715,403	17,853,192	19,243,525	26,536,175	26,417,988	13,956,796
241,330	252,752	266,949	398,942	398,458	177,043
3,611,233	3,847,621	4,172,151	5,783,842	5,835,792	3,378,768
2,296,955	1,947,093	2,170,518	2,694,470	2,678,015	1,959,811
2,432,063	2,517,343	2,632,360	2,934,532	3,003,901	2,798,029
3,879,490	3,954,424	4,543,936	5,148,314	5,437,461	6,720,625
149,070	163,768	130,476	153,893	218,719	401,279
1,420,436	1,484,656	1,584,898	1,599,610	1,550,110	1,609,297
3,307,702	3,056,864	3,137,082	3,155,738	3,224,093	3,162,147
2,381,304	2,298,810	2,205,783	3,666,352	3,077,375	2,233,460
38,967,674	40,148,416	42,750,911	55,851,313	55,369,382	39,189,066
-	-	-	-	-	14,272
483,615	505,005	454,212	443,288	434,607	417,156
86,742	95,393	94,186	98,355	84,414	75,261
32,450	41,627	54,161	91,946	200,841	521,310
1,115,473	1,154,225	1,185,196	1,217,362	1,185,258	1,270,204
2,982,439	2,732,277	2,792,652	2,525,272	2,789,796	2,832,132
4,633,326	4,910,953	5,026,723	6,092,995	5,415,378	5,662,594
9,334,045	9,439,480	9,607,130	10,469,218	10,110,294	10,792,929
(29,633,629)	(30,708,936)	(33,143,781)	(45,382,095)	(45,259,088)	(28,396,137)
9,176,495	13,006,374	13,757,445	14,859,066	16,538,863	17,410,629
19,720,708	17,755,988	18,724,777	19,186,103	19,324,330	19,144,727
1,191,619	998,139	758,695	945,725	1,540,684	1,787,051
30,088,822	31,760,501	33,240,917	34,990,894	37,403,877	38,342,407
\$ 455,193	\$ 1,051,565	\$ 97,136	\$(10,391,201)	\$ (7,855,211)	\$ 9,946,270

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INDEPENDENT SCHOOL DISTRICT NO. 278

Governmental Activities Tax Revenues by Source and Levy Type
 Last Ten Fiscal Years
 (Accrual Basis of Accounting)

Fiscal Year	Property Tax				Total
	General Purposes	Community Service	Capital Projects – Building Construction	Debt Service	
2010	\$ 6,735,926	\$ 283,868	\$ 979,226	\$ 3,840,057	\$ 11,839,077
2011	8,521,682	410,087	1,024,716	3,921,871	13,878,356
2012	6,911,002	279,714	–	4,137,851	11,328,567
2013	6,994,866	280,086	–	4,162,786	11,437,738
2014	4,678,374	147,551	–	4,350,570	9,176,495
2015	8,271,967	266,886	–	4,467,521	13,006,374
2016	8,811,854	277,619	–	4,667,972	13,757,445
2017	9,730,224	270,784	–	4,585,058	14,586,066
2018	10,655,450	268,792	–	5,614,621	16,538,863
2019	11,064,867	279,156	–	6,066,606	17,410,629

Note: The change in “tax shift” as approved in legislation impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. Changes in the amount of revenue recognized due to the tax shift are offset by an adjustment to state aid payments by an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 278

Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

	Fiscal Year			
	2010	2011	2012	2013
General Fund				
Reserved	\$ 1,024,098	\$ -	\$ -	\$ -
Unreserved	5,510,560	-	-	-
Nonspendable	-	516,868	163,719	216,880
Restricted	-	1,518,496	2,630,437	2,798,031
Assigned	-	2,209,746	2,364,311	1,932,960
Unassigned	-	2,999,391	2,997,703	3,642,622
Total General Fund	<u>\$ 6,534,658</u>	<u>\$ 7,244,501</u>	<u>\$ 8,156,170</u>	<u>\$ 8,590,493</u>
All other governmental funds				
Reserved				
Community Service Fund	\$ 51,592	\$ -	\$ -	\$ -
Capital project funds	10,301,303	-	-	-
Unreserved, reported in				
Special revenue funds	569,589	-	-	-
Debt service funds	153,948	-	-	-
Nonspendable	-	35,251	35,298	27,005
Restricted	-	2,286,911	1,185,684	1,301,385
Total all other governmental funds	<u>\$ 11,076,432</u>	<u>\$ 2,322,162</u>	<u>\$ 1,220,982</u>	<u>\$ 1,328,390</u>
Total all governmental funds	<u>\$ 17,611,090</u>	<u>\$ 9,566,663</u>	<u>\$ 9,377,152</u>	<u>\$ 9,918,883</u>

Note: The District implemented GASB Statement No. 54 in fiscal 2011. The new fund balance classifications under GASB Statement No. 54 are not available for previous fiscal years.

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
241,431	297,934	233,587	568,630	270,511	225,691
2,682,295	2,453,121	1,669,709	1,805,594	1,953,557	1,918,520
1,383,557	1,420,294	1,289,948	903,865	651,831	1,130,600
4,568,437	4,767,214	4,725,281	4,935,360	5,812,592	6,098,956
<u>\$ 8,875,720</u>	<u>\$ 8,938,563</u>	<u>\$ 7,918,525</u>	<u>\$ 8,213,449</u>	<u>\$ 8,688,491</u>	<u>\$ 9,373,767</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
38,918	35,421	37,822	25,244	46,997	28,731
1,627,111	1,826,739	1,818,629	66,575,361	16,817,658	3,264,222
<u>\$ 1,666,029</u>	<u>\$ 1,862,160</u>	<u>\$ 1,856,451</u>	<u>\$ 66,600,605</u>	<u>\$ 16,864,655</u>	<u>\$ 3,292,953</u>
<u>\$ 10,541,749</u>	<u>\$ 10,800,723</u>	<u>\$ 9,774,976</u>	<u>\$ 74,814,054</u>	<u>\$ 25,553,146</u>	<u>\$ 12,666,720</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Changes in Fund Balances of Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2010	2011	2012	2013
Revenues				
Local sources				
Property taxes	\$ 11,753,007	\$ 13,977,592	\$ 11,302,357	\$ 11,417,290
Investment earnings	383,324	16,247	5,730	8,946
Other	4,772,117	5,141,102	5,231,350	5,446,123
State sources	18,083,298	16,806,502	19,309,387	20,111,316
Federal sources	2,608,394	1,251,036	1,113,234	931,535
Total revenues	<u>37,600,140</u>	<u>37,192,479</u>	<u>36,962,058</u>	<u>37,915,210</u>
Expenditures				
Current				
Administration	1,226,541	1,239,856	1,204,821	1,232,397
District support services	1,108,017	1,184,927	1,291,926	1,156,567
Elementary and secondary regular instruction	13,507,202	13,881,798	14,265,971	14,900,909
Vocational education instruction	215,347	227,041	228,139	232,415
Special education instruction	3,539,995	3,576,871	3,469,533	3,613,323
Instructional support services	1,429,910	1,354,842	1,181,729	1,126,459
Pupil support services	2,225,580	2,282,735	2,139,593	2,189,262
Sites and buildings	3,269,172	2,960,689	3,925,813	3,892,468
Fiscal and other fixed cost programs	87,095	106,788	121,810	152,429
Food service	1,201,407	1,301,862	1,267,152	1,398,291
Community service	2,893,990	3,101,348	3,059,733	3,049,239
Capital outlay	16,556,784	10,079,802	861,963	71,252
Debt service				
Principal	1,197,418	1,341,874	1,596,544	1,881,440
Interest and fiscal charges	2,700,920	2,596,483	2,542,149	2,479,741
Total expenditures	<u>51,159,378</u>	<u>45,236,916</u>	<u>37,156,876</u>	<u>37,376,192</u>
Excess of revenues over (under) expenditures	(13,559,238)	(8,044,437)	(194,818)	539,018
Other financing sources (uses)				
Sale of capital assets	-	-	5,307	2,713
Bonds issued	-	-	-	-
Refunding bonds issued	-	-	-	-
Premium on debt issued	-	-	-	-
Capital leases issued	-	-	-	-
Payment to refunded bond escrow agent	-	-	-	-
Transfer in	3,489	-	558,308	-
Transfer (out)	(3,489)	-	(558,308)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>5,307</u>	<u>2,713</u>
Net change in fund balances	<u>\$ (13,559,238)</u>	<u>\$ (8,044,437)</u>	<u>\$ (189,511)</u>	<u>\$ 541,731</u>
Debt service as a percentage of noncapital expenditures	<u>11.1%</u>	<u>10.9%</u>	<u>11.4%</u>	<u>11.8%</u>

	2014	2015	2016	2017	2018	2019
\$	9,325,440	\$ 12,994,742	\$ 13,771,864	\$ 14,862,494	\$ 16,476,583	\$ 17,370,790
	20,976	18,875	37,152	238,884	707,479	575,422
	5,871,288	5,507,722	5,301,775	5,082,564	5,527,204	6,334,523
	23,389,076	21,632,879	22,849,359	23,472,665	23,888,544	25,303,879
	964,958	990,504	902,141	913,924	860,304	841,851
	<u>39,571,738</u>	<u>41,144,722</u>	<u>42,862,291</u>	<u>44,570,531</u>	<u>47,460,114</u>	<u>50,426,465</u>
	1,279,471	1,292,593	1,292,336	1,311,624	1,408,662	1,448,004
	1,390,862	1,389,978	1,464,316	1,645,753	1,822,054	1,742,369
	14,926,668	16,190,951	17,504,473	17,599,749	18,155,931	18,727,494
	241,330	256,702	268,482	271,638	283,104	288,572
	3,670,933	3,892,207	4,169,778	4,342,829	4,436,551	4,615,399
	2,291,844	1,956,114	2,166,451	2,207,738	2,255,018	2,434,834
	2,432,063	2,528,801	2,634,668	2,622,242	2,737,127	3,033,796
	3,460,180	4,091,578	4,726,177	4,461,292	6,344,981	5,696,569
	149,070	163,768	130,476	153,893	218,719	401,279
	1,331,466	1,418,152	1,520,656	1,510,636	1,489,003	1,551,564
	3,179,435	3,017,133	2,941,196	2,810,283	3,015,234	3,263,556
	108,731	39,522	253,428	1,384,838	15,352,154	15,547,052
	2,080,038	2,319,616	2,579,414	2,854,443	3,356,843	3,997,044
	2,406,781	2,328,633	2,239,597	3,356,288	4,114,072	2,739,097
	<u>38,948,872</u>	<u>40,885,748</u>	<u>43,891,448</u>	<u>46,533,246</u>	<u>64,989,453</u>	<u>65,486,629</u>
	622,866	258,974	(1,029,157)	(1,962,715)	(17,529,339)	(15,060,164)
	–	–	3,410	275	10,931	–
	–	–	–	30,240,000	–	1,900,000
	–	–	–	36,450,000	–	2,990,000
	–	–	–	6,161,518	–	110,336
	–	–	–	–	1,767,500	123,402
	–	–	–	(5,850,000)	(33,510,000)	(2,950,000)
	–	–	–	–	–	–
	–	–	–	–	–	–
	<u>–</u>	<u>–</u>	<u>3,410</u>	<u>67,001,793</u>	<u>(31,731,569)</u>	<u>2,173,738</u>
\$	<u>622,866</u>	<u>\$ 258,974</u>	<u>\$ (1,025,747)</u>	<u>\$ 65,039,078</u>	<u>\$ (49,260,908)</u>	<u>\$ (12,886,426)</u>
	<u>11.4%</u>	<u>11.6%</u>	<u>11.3%</u>	<u>13.8%</u>	<u>15.7%</u>	<u>13.5%</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

General Governmental Tax Revenues by Source and Levy Type
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)

Fiscal Year	Property Tax				Total
	General Fund	Community Service Fund	Capital Projects – Building Construction	Debt Service Fund	
2010	\$ 6,723,485	\$ 281,175	\$ 979,226	\$ 3,769,121	\$ 11,753,007
2011	8,578,774	415,192	1,024,716	3,958,910	13,977,592
2012	6,897,326	279,373	–	4,125,658	11,302,357
2013	6,985,415	279,437	–	4,152,438	11,417,290
2014	4,771,862	151,188	–	4,402,390	9,325,440
2015	8,264,484	266,720	–	4,463,538	12,994,742
2016	8,820,421	278,040	–	4,673,403	13,771,864
2017	9,735,050	270,784	–	4,856,660	14,862,494
2018	10,616,722	267,866	–	5,591,995	16,476,583
2019	11,035,340	278,578	–	6,056,872	17,370,790

Note: The change in “tax shift” as approved in legislation impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. Changes in the amount of revenue recognized due to the tax shift are offset by an adjustment to state aid payments by an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 278

Assessed and Actual Value of Taxable Property
Last Ten Fiscal Years

Payable Year	(1) Real Estate Property	(2) Personal Property	Total Net Tax Capacity Value	Total Direct Tax Rate
2010	\$ 42,116,140	\$ 253,254	\$ 42,369,394	17.013 %
2011	38,656,546	277,550	38,934,096	19.380
2012	35,589,316	282,588	35,871,904	19.939
2013	33,441,747	309,093	33,750,840	22.325
2014	33,005,685	310,406	33,316,091	22.613
2015	34,834,094	325,356	35,159,450	22.601
2016	36,175,699	334,353	36,510,052	23.166
2017	38,769,896	347,527	39,117,423	23.352
2018	40,886,558	379,128	41,265,686	24.024
2019	42,187,119	432,976	42,620,095	23.552

(1) Real estate property includes residential, agricultural, public utility, railroad operating property, all other commercial and industrial property, nonhomestead residential/multiple dwelling, and commercial and seasonal recreational property.

(2) Personal property includes certain utility systems, railroad docks and wharves, certain manufactured homes, and flight property.

Source: Hennepin County

INDEPENDENT SCHOOL DISTRICT NO. 278

Property Tax Rates – Direct and Overlapping Governments
Last Ten Fiscal Years

Tax Collection Calendar Year	ISD No. 278 Certified Levies			Total Direct School Tax Rate (1)	Overlapping Rates (1)		
	General Fund	Community Service	General Obligation Debt Service		City of Independence	City of Long Lake	City of Maple Plain
2010	\$ 7,035,236	\$ 274,316	\$ 3,961,782	17.013	32.622	37.502	50.069
2011	6,830,653	260,447	4,173,469	19.380	34.152	37.105	57.639
2012	6,784,053	276,487	4,203,065	19.939	34.178	44.388	69.255
2013	7,094,049	289,074	4,365,435	22.325	36.266	43.989	79.650
2014	8,167,479	267,687	4,480,196	22.613	37.451	44.229	71.322
2015	8,695,765	278,445	4,681,099	22.601	38.856	44.491	80.776
2016	9,575,016	270,461	4,851,771	23.166	39.788	43.796	76.817
2017	10,604,537	268,492	5,606,134	23.352	39.967	39.180	75.349
2018	11,032,761	280,275	6,096,166	24.024	40.448	37.157	66.514
2019	11,506,020	283,918	6,187,223	23.552	40.361	36.417	63.221

- (1) Tax rates shown above are tax capacity rates only, and do not include tax rates for taxes that are spread on referendum market value.
- (2) Special districts include Metropolitan Mosquito Control District, Metropolitan Council, Metro Transit, Park Museum, Hennepin County Regional Railroad Authority, and Hennepin Housing and Redevelopment Authority.
- (3) The total rate shown above is for property in the City of Orono.

Source: Data compiled by Ehlers from information provided by Hennepin County

City of Medina	City of Minnetonka Beach	City of Orono	City of Wayzata	Hennepin County	Three Rivers Park District	Other (2)	Sample Direct and Overlapping Tax Rate (3)
17.241	21.588	13.677	20.358	42.056	3.499	4.639	80.8840
18.977	23.240	14.991	23.032	45.187	3.765	5.407	88.7300
21.342	24.563	16.283	24.274	48.231	3.943	5.580	93.9760
24.639	27.467	17.667	26.020	49.461	4.054	6.035	99.5420
25.501	32.772	17.815	26.311	49.959	4.169	6.392	100.9480
23.577	26.798	17.387	25.705	46.398	3.789	5.996	96.1710
23.301	27.030	17.325	24.673	45.356	3.601	3.929	93.3770
22.270	25.948	16.759	23.352	44.087	3.365	5.929	93.4920
21.521	24.613	16.555	21.749	42.808	3.161	5.812	92.3600
21.529	24.710	16.406	21.672	41.861	2.961	5.589	90.3690

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INDEPENDENT SCHOOL DISTRICT NO. 278

Principal Property Taxpayers
Current Year and Nine Years Ago (1)

Taxpayer	2019			2017		
	Net Tax Capacity	Rank	Percentage of Tax Capacity Value	Net Tax Capacity	Rank	Percentage of Tax Capacity Value
Private residence	\$ 148,775	1	0.35 %	\$ 130,988	2	0.31 %
Private residence	128,138	2	0.30	215,663	1	0.51
Private residence	123,488	3	0.29	109,413	4	0.26
Private residence	118,521	4	0.28	111,808	3	0.26
Private residence	107,550	5	0.25	98,663	7	0.23
WJM Properties	107,190	6	0.25	98,470	8	0.23
Private residence	107,013	7	0.25	101,400	5	0.24
Private residence	102,375	8	0.24	96,013	9	0.23
Private residence	97,663	9	0.23	–	–	–
Bohns Point LLC	96,975	10	0.23	–	–	–
Private residence	–	–	–	99,108	6	0.23
Private residence	–	–	–	90,113	10	0.21
Total	<u>\$ 1,137,688</u>		<u>2.67 %</u>	<u>\$ 1,151,639</u>		<u>2.72 %</u>

(1) Information on principal taxpayers is not available prior to 2017.

Source: Hennepin County

INDEPENDENT SCHOOL DISTRICT NO. 278

Property Tax Levies, Collections, and Receivables
Last Ten Fiscal Years

For Taxes Collectible	Taxes Levied for the Fiscal Year					Collected Within the First Year of Levy	
	General Fund Basic Levy	Community Service Levy	Debt Service Levy	OPEB Debt Levy	Total Tax Levy	Current Tax Collection	Percentage of Levy
2010	\$ 7,035,236	\$ 274,316	\$ 3,510,116	\$ 451,666	\$ 11,271,334	\$ 11,271,334	100.0 %
2011	6,830,653	260,447	3,724,165	449,304	11,264,569	11,044,847	98.0
2012	6,784,053	276,487	3,784,598	418,467	11,263,605	11,116,730	98.7
2013	7,094,049	289,074	3,913,769	451,666	11,748,558	11,687,284	99.5
2014	8,167,479	267,687	4,030,351	449,845	12,915,362	12,802,871	99.1
2015	8,695,765	278,445	4,230,677	450,422	13,655,309	13,577,519	99.4
2016	9,575,016	270,461	4,406,783	444,988	14,697,248	14,702,430	100.0
2017	10,604,537	268,492	5,178,495	427,639	16,479,163	16,560,894	100.5
2018	11,032,761	280,275	5,671,071	425,095	17,409,202	17,188,659	98.7
2019	11,506,020	283,918	5,825,431	361,793	17,977,161	9,107,068	50.7

Note 1: Collections include amounts collected through state paid tax credits along with any net levy adjustments.

Note 2: Collections for the most recent year are first half collections (through June 30) only.

Source: State of Minnesota School Tax Report

Collections in Subsequent Years	Total Collections to Date		Outstanding Delinquent Taxes	Percent
	Total Tax Collection	Percentage of Levy		
\$ -	\$ 11,271,334	100.0 %	\$ -	- %
219,722	11,264,569	100.0	-	-
146,875	11,263,605	100.0	-	-
61,274	11,748,558	100.0	-	-
100,169	12,903,040	99.9	12,322	0.1
75,023	13,645,643	99.9	9,666	0.1
27,032	14,680,928	99.9	16,320	0.1
(20,961)	16,539,933	100.4	61,838	0.4
188,187	17,376,845	99.8	188,187	1.1
-	9,107,068	-	-	-
			<u>\$ 288,333</u>	

INDEPENDENT SCHOOL DISTRICT NO. 278

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities			Percentage of Personal Income (2)	Per Capita (3)
	General Obligation Bonds (1)	Capital Leases	Total Primary Government		
2010	\$ 57,960,141	\$ 1,490,059	\$ 59,450,200	– %	\$ –
2011	56,722,518	1,393,185	58,115,703	–	–
2012	55,234,147	1,291,641	56,525,788	–	–
2013	53,465,776	1,185,201	54,650,977	–	4,406
2014	51,487,405	1,090,163	52,577,568	–	4,239
2015	49,274,034	990,547	50,264,581	–	4,053
2016	46,805,663	886,133	47,691,796	–	3,845
2017	110,611,483	776,690	111,388,173	–	8,902
2018	73,420,755	2,377,347	75,798,102	–	6,086
2019	71,225,159	2,278,705	73,503,864	–	5,687

(1) Presented net of issuance premiums and discounts.

(2) Personal income information for residents living within the District is not available.

(3) See Demographics and Economic Statistics table for source of estimated population. Estimated population not available for years prior to 2013.

Note: Details regarding the District's outstanding debt can be found in the notes to basic financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 278

Ratio of Net General Obligation Bonded Debt
to Market Value and Net General Obligation Bonded Debt
per Capita
Last Ten Fiscal Years

Fiscal Year	Gross Bonded Debt (1)	Less Debt Service Funds on Hand (2)	Net Bonded Debt	Market Value	Percent of Net Debt to Market Value	Estimated Population (3)	Net Bonded Debt per Capita
2010	\$ 57,960,141	\$ 153,948	\$ 57,806,193	\$ 3,642,037,700	1.59 %	–	\$ –
2011	56,722,518	366,883	56,355,635	3,366,727,400	1.67	–	–
2012	55,234,147	551,769	54,682,378	3,145,159,200	1.74	–	–
2013	53,465,776	513,373	52,952,403	2,978,858,100	1.78	12,403	4,269
2014	51,487,405	583,420	50,903,985	2,945,824,100	1.73	12,403	4,104
2015	49,274,034	554,213	48,719,821	3,100,033,300	1.57	12,403	3,928
2016	46,805,663	570,580	46,235,083	3,213,352,100	1.44	12,403	3,728
2017	110,611,483	35,966,895	74,644,588	3,422,899,200	2.18	12,513	5,965
2018	73,420,755	1,062,337	72,358,418	3,594,504,400	2.01	12,454	5,810
2019	71,225,159	867,576	70,357,583	3,684,163,400	1.91	12,926	5,443

(1) Presented net of issuance premiums and discounts.

(2) Includes all restricted fund balances in the Debt Service Fund. We believe this is the most accurate and consistent representation of the resources restricted for debt service as it includes crossover refunding bond proceeds held in escrow when applicable, which are not included in the governmental activities net position restricted for debt service, due to the conversion for full accrual accounting.

(3) See Demographics and Economic Statistics table for source of estimated population. Estimated population is not available for years prior to 2013.

Source: Annual school district census and U.S. Census

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INDEPENDENT SCHOOL DISTRICT NO. 278

Direct and Overlapping Debt
as of June 30, 2019

Governmental Unit	Debt Outstanding	Percent Allocable to ISD No. 278	Portion Allocable to ISD No. 278
Independent School District No. 278	\$ 73,503,864	100.00 %	\$ 73,503,864
Overlapping debt			
Hennepin County	1,056,890,798	2.43	25,682,446
City of Independence	156,353	48.33	75,565
City of Long Lake	2,000,000	100.00	2,000,000
City of Maple Plain	205,000	100.00	205,000
City of Medina	5,665,000	39.49	2,237,109
City of Minnetonka Beach	1,240,486	100.00	1,240,486
City of Orono	6,315,647	62.70	3,959,911
City of Wayzata	8,604,317	0.57	49,045
Metropolitan Council	75,902,689	1.16	880,471
Three Rivers Park District	43,575,708	3.40	1,481,574
Hennepin Regional Railroad Authority	24,600,380	3.40	836,413
Total overlapping debt			38,648,020
Total direct and overlapping debt			\$ 112,151,884

Note: The percentage of overlapping debt applicable is estimated using taxable net tax capacity values. Applicable percentages were estimated by determining the portion of the overlapping entity's taxable net tax capacity value that is within the District's boundaries and dividing it by the overlapping government's total taxable net tax capacity value.

Source: Taxable value data used to estimate applicable percentages and debt outstanding data provided by the District's financial advisor, Ehlers & Associates

INDEPENDENT SCHOOL DISTRICT NO. 278

Legal Debt Margin Information
 Last Ten Fiscal Years
 (Dollars in Thousands)

	Fiscal Year			
	2010	2011	2012	2013
Debt limit	\$ 546,305,655	\$ 505,009,110	\$ 471,773,880	\$ 446,828,715
Total debt applicable to the limit	<u>57,806,193</u>	<u>56,355,635</u>	<u>54,682,378</u>	<u>52,952,403</u>
Legal debt margin	<u>\$ 488,499,462</u>	<u>\$ 448,653,475</u>	<u>\$ 417,091,502</u>	<u>\$ 393,876,312</u>
Total debt applicable to the limit as a percentage of debt limit	10.58%	11.16%	11.59%	11.85%

Note: Under state finance law, the District's outstanding general obligation debt should not exceed 15 percent of total market property value. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds.

Source: State of Minnesota School Tax

2014	2015	2016	2017	2018	2019
\$ 441,873,615	\$ 465,004,995	\$ 482,002,815	\$ 513,434,880	\$ 539,175,660	\$ 552,624,510
50,903,985	48,719,821	46,235,083	68,968,105	67,172,663	65,532,424
<u>\$ 390,969,630</u>	<u>\$ 416,285,174</u>	<u>\$ 435,767,732</u>	<u>\$ 444,466,775</u>	<u>\$ 472,002,997</u>	<u>\$ 487,092,086</u>

11.52% 10.48% 9.59% 13.43% 12.46% 11.86%

Legal Debt Margin Calculation for Fiscal Year 2019

Market value	\$ 3,684,163,400
Debt limit (15% of market value)	552,624,510
Debt applicable to the limit	
General obligation bonds	<u>65,532,424</u>
Legal debt margin	<u>\$ 487,092,086</u>

INDEPENDENT SCHOOL DISTRICT NO. 278

Demographic and Economic Statistics
Last Seven Fiscal Years

Fiscal Year	Orono School District			School Enrollment	Unemployment Rate (3)
	Population (1)	Personal Income (2)	Per Capita Personal Income (2)		
2013	12,403	\$ -	\$ -	2,762	4.6 %
2014	12,403	-	-	2,776	3.8
2015	12,403	-	-	2,779	3.3
2016	12,403	-	-	2,815	2.9
2017	12,513	-	-	2,811	3.7
2018	12,454	-	-	2,841	3.6
2019	12,926	-	-	2,877	3.3

(1) District estimate. Information is not available for years prior to 2013.

(2) Personal income information for residents living within the District is not available.

(3) Official Metropolitan Council estimate.

INDEPENDENT SCHOOL DISTRICT NO. 278

Principal Employers
Current Year and Nine Years Ago (1)

Employer	Fiscal Year					
	2019			2017		
	Employees	Rank	Percentage of Total (2) Employment	Employees	Rank	Percentage of Total (2) Employment
Proto Labs, Inc.	500	1	29.14 %	500	1	28.72 %
ISD No. 278	356	2	20.75	352	2	20.22
ServiceMaster Co.	200	3	11.66	200	3	11.49
Woodhill Country Club	150	4	8.74	150	4	8.62
Herc-U-Lift, Inc.	120	5	6.99	120	5	6.89
American Custom Rotomolding	110	6	6.41	110	6	6.32
Lafayette Club	100	7	5.83	100	7	5.74
Wenck Associates	70	8	4.08	–	–	–
Haven Homes of Maple Plain	60	9	3.50	95	8	5.46
Otten Brothers Nursery	50	10	2.91	64	9	3.68
Maple Plain Food Center	–	–	–	50	10	2.87
Total	1,716		100.00 %	1,741		100.00 %
Total ISD No. 278 population (see the Schedule of Demographic and Economic Statistics)	12,926			12,513		
Percent of principal employers to total ISD No. 278 population	13.3%			13.9%		

(1) Information on principal employers is not available prior to 2017.

(2) Total employment within district boundary is not available. Percentage is of total employment for employers shown in table.

Source: City of Orono

INDEPENDENT SCHOOL DISTRICT NO. 278

Employees by Classification
Last Ten Fiscal Years

Employees	Fiscal Year			
	2010	2011	2012	2013
Administrative staff	22.0	22.0	23.0	23.0
Support service staff	121.0	123.0	125.0	126.0
Classroom teachers	158.8	158.8	159.1	160.2
Special education teachers	34.9	35.0	35.0	35.0
Total	336.7	338.8	342.1	344.2

Source: This information is derived from the Minnesota Department of Education STARS report

2014	2015	2016	2017	2018	2019
23.0	23.0	23.0	23.5	23.0	24.0
126.0	126.0	129.0	130.0	130.0	136.0
161.8	160.3	160.0	165.0	175.0	178.0
35.6	35.5	35.1	35.3	35.0	35.0
<u>346.4</u>	<u>344.8</u>	<u>347.1</u>	<u>353.8</u>	<u>363.0</u>	<u>373.0</u>

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INDEPENDENT SCHOOL DISTRICT NO. 278

Operating Statistics
Last Ten Fiscal Years

Fiscal Year	Enrollment	Total Governmental Activities Expenses	Cost per Pupil	Percentage Change	Teaching Staff	Pupil/Teacher Ratio
2010	2,709	\$ 35,188,217	\$ 12,989	1.2 %	193.7	13.9
2011	2,766	37,516,914	13,564	4.4	193.8	15.1
2012	2,707	36,929,390	13,642	0.6	194.1	14.8
2013	2,762	37,783,323	13,680	0.3	195.2	14.9
2014	2,776	38,967,674	14,037	2.6	197.4	14.0
2015	2,779	40,148,416	14,447	2.9	195.8	14.2
2016	2,815	42,750,911	15,187	5.1	195.1	14.9
2017	2,811	55,851,313	19,869	30.8	200.3	14.1
2018	2,841	55,369,382	19,487	(1.9)	210.0	13.4
2019	2,877	39,189,066	13,620	(30.1)	213.0	13.3

Source: District records

INDEPENDENT SCHOOL DISTRICT NO. 278

School Building Information
Last Ten Fiscal Years

	Fiscal Year			
	2010	2011	2012	2013
Elementary Schools				
Orono Schuman Elementary (1987)				
Enrollment (1)	546	567	541	553
Square feet	89,764	89,764	89,764	89,764
Orono Intermediate (1972)				
Enrollment (1)	615	622	592	600
Square feet	127,324	127,324	127,324	127,324
Middle School				
Orono Middle School (2000)				
Enrollment (1)	681	684	699	691
Square feet	122,000	122,000	122,000	122,000
High School				
Orono High School (1960)				
Enrollment (1)	849	891	862	903
Square feet	186,444	186,444	186,444	186,444
Total enrollment	2,691	2,764	2,694	2,747
Total square feet	525,532	525,532	525,532	525,532
Athletics				
Football fields	3	3	3	3
Soccer fields	13	13	13	13
Running tracks	1	1	1	1
Baseball/softball	6	6	6	6
Swimming pools	1	1	1	1
Playgrounds	3	3	3	3

(1) Enrollment reflects average daily membership (ADM) served by site. Resident students served under tuition agreements are excluded from this enrollment data.

Source: Square footage, capacity, and athletic statistics are derived from district records. Enrollment was obtained from a combination of district records and school ADM reports available on the Minnesota Department of Education website.

2014	2015	2016	2017	2018	2019
525	537	563	573	563	573
89,764	89,764	89,764	89,764	89,764	89,764
649	635	625	608	619	658
127,324	127,324	127,324	127,324	127,324	127,324
671	684	676	698	697	688
122,000	122,000	122,000	122,000	122,000	122,000
912	909	927	922	931	936
186,444	186,444	186,444	186,444	186,444	282,740
2,757	2,765	2,791	2,801	2,810	2,855
525,532	525,532	525,532	525,532	525,532	621,828
3	3	3	4	4	3
13	13	13	13	13	12
1	1	1	1	1	2
6	6	6	6	6	4
1	1	1	1	1	1
3	3	3	3	3	3

INDEPENDENT SCHOOL DISTRICT NO. 278

Food Service
School Lunch Program Data
Last Ten Fiscal Years

<u>Year Ended June 30,</u>	<u>Program Adult Meals</u>	<u>Meals Served Students</u>	<u>Full Price Meals Served</u>	<u>Free Meals Served</u>	<u>Reduced-Price Meals Served</u>
2010	8,973	256,368	227,255	19,136	9,977
2011	9,051	258,598	228,998	18,752	10,848
2012	9,063	258,950	230,108	22,858	5,984
2013	8,911	254,590	223,974	23,454	7,162
2014	8,705	248,711	220,360	22,336	6,015
2015	9,920	276,849	249,649	20,087	7,113
2016	10,226	274,214	178,992	21,229	5,839
2017	11,363	272,340	245,425	18,396	8,519
2018	6,581	253,279	226,757	18,641	7,881
2019	6,897	251,511	226,793	16,451	8,267

<u>Year Ended June 30,</u>	<u>Student Regular Lunch Prices</u>		
	<u>Elementary</u>	<u>Middle</u>	<u>High School</u>
2010	\$ 2.15	\$ 2.25	\$ 2.40
2011	2.15	2.25	2.40
2012	2.25	2.35	2.50
2013	2.30	2.40	2.55
2014	2.40	2.55	2.70
2015	2.45	2.60	2.75
2016	2.50	2.65	2.80
2017	2.55	2.70	2.85
2018	2.65	2.80	2.95
2019	2.70	2.85	3.00

INDEPENDENT SCHOOL DISTRICT NO. 278

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Average Daily Membership (ADM)					Total Pupil Units
	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	
2010	21	145	1,218	1,325	2,709	3,156
2011	19	177	1,212	1,357	2,766	3,209
2012	15	138	1,212	1,342	2,707	3,162
2013	18	156	1,197	1,391	2,762	3,224
2014	13	162	1,205	1,395	2,776	3,237
2015	18	151	1,224	1,387	2,779	3,057
2016	23	171	1,219	1,402	2,815	3,095
2017	25	151	1,235	1,400	2,811	3,091
2018	24	169	1,233	1,415	2,841	3,124
2019	24	177	1,263	1,413	2,877	3,160

Note 1: Student enrollment for the latest fiscal year is estimated.

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

	Pre-Kindergarten	Handicapped Kindergarten	Kindergarten Half-Day/Full-Day	Elementary 1-3	Elementary 4-6	Secondary
Fiscal 2010 through 2015	1.250	1.000	0.612	1.115	1.060	1.300
Fiscal 2016 through 2019	1.000	1.000	0.550/1.000	1.000	1.000	1.200

Source: Minnesota Department of Education student reporting system

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