Independent School District No. 271
Bloomington, Minnesota

Financial Statements

June 30, 2019

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Independent School District No. 271
Board of Education and Administration
June 30, 2019

Board of Education	Position	Term Expires
Maureen Bartolotta	Chair	January 6, 2020
Dick Bergstrom	Vice Chair	January 6, 2020
Tom Bennett	Clerk	January 3, 2022
Jim Sorum	Treasurer	January 3, 2022
Nelly Korman	Director	January 6, 2020
Dawn Steigauf	Director	January 3, 2022
Beth Beebe	Director	January 3, 2022

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

Independent Auditor's Report

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

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of June 30, 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, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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.

Bergan KDV Ltd.

Minneapolis, Minnesota
November 21, 2019

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

This section of the Independent School District No. 271, Bloomington Public Schools' (the "District") annual financial report presents the Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The MD&A is required supplementary information specified in the GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999*. Certain comparative information is required to be presented in the MD&A between the current year (2018-2019) and the prior year (2017-2018).

FINANCIAL HIGHLIGHTS

- Total net position at June 30, 2019, was a negative $79.0 million, $38.6 million more than the prior year's balance.
- Overall program and general revenues were $186.3 million, $38.6 million more than related expenses of $147.7 million. The increase was mainly due to a negative net pension expense for PERA & TRA. This is a result of some changes in actuarial assumptions and a significant decrease in net pension liability at the plan levels.
- Total General Fund balance (under the governmental fund presentation) decreased $2.7 million from the prior year. This was a budgeted decline with actual results $2.3 million better than expected.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts:

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

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

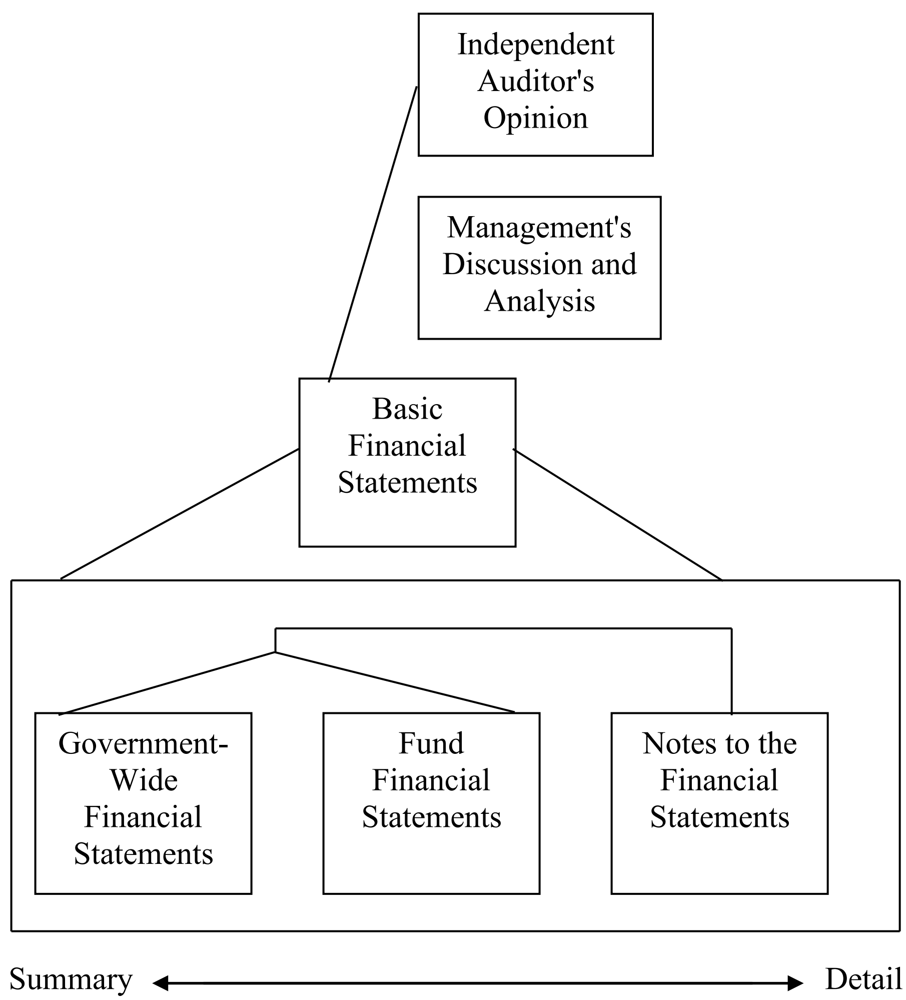
1. The government-wide financial statements provide both short-term and long-term information about the District's overall financial status. These include:
    - The Statement of Net Position
    - The Statement of Activities
2. The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
    - The governmental funds statements examine how basic services, such as regular and special education were financed in the short-term, as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- Proprietary funds statements present short-term and long-term financial information about the activities the District operates like businesses, such as dental and medical self insurance, retiree severance and vacation funds.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. The District is the Agent for the Bloomington Education Cable Television Fund. The District is also holding funds to be paid to Bloomington Kennedy graduates for college scholarships.

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

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



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS (CONTINUED)

The District has three kinds of funds:

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

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

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

FUND FINANCIAL STATEMENTS (CONTINUED)

Net Position: The District's combined net position on June 30, 2019 was negative $79.0 million, $38.6 million more than the prior year's balance. (See Figure A-3.) The increase was mainly due to a negative net pension expense for PERA & TRA.

Figure A-3
Net Position - Governmental Activities

	Year Ended 2019	Year Ended 2018	Percentage Change
Assets			
Current and other assets	$ 167,130,876	$ 156,553,891	6.76%
Capital assets	126,568,424	119,663,325	5.77%
Total assets	293,699,300	276,217,216	6.33%
Deferred Outflows of Resources	124,844,033	154,033,063	-18.95%
Total assets and deferred outflows of resources	$ 418,543,333	$ 430,250,279	-2.72%
Liabilities			
Other liabilities	$ 32,018,485	$ 35,657,116	-10.20%
Long-term liabilities	251,989,998	408,652,473	-38.34%
Total liabilities	$ 284,008,483	$ 444,309,589	-36.08%
Deferred Inflows of Resources	$ 213,532,391	$ 103,524,420	106.26%
Net Position			
Net investment in capital assets	$ 15,686,495	$ 14,720,909	6.56%
Restricted	16,712,478	19,127,805	-12.63%
Unrestricted	(111,396,514)	(151,432,444)	26.44%
Total net position	$ (78,997,541)	$ (117,583,730)	32.82%

Changes in Net Position: The District's total revenues were $186.3 million for the year ended June 30, 2019. (See figure A-4.) Property taxes and state formula aid accounted for 68% of the District's revenue. (See Figure A-5.) Another 25% came from grants and contributions restricted for specific programs. The remainder came from fees charged for services and miscellaneous sources. The total cost of all programs and services was $147.7 million. The District's expenses are predominantly related to direct instruction, instructional, and pupil support services (65%). (See Figure A-6.) The District's administration and district support expenses are 6% of total costs.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-4
Change in Net Position

	Year Ended 2019	Year Ended 2018	Percentage Change
Revenues			
Program revenues			
Charges for services	$ 9,066,397	$ 8,869,505	2.22%
Operating grants and contributions	45,832,862	43,790,703	4.66%
Capital grants and contributions	1,708,236	-	Undefined
General revenues			
Property taxes	56,938,079	50,806,046	12.07%
State aid-formula grants	68,366,336	73,259,833	-6.68%
Other	4,360,979	3,603,008	21.04%
Total revenues	186,272,889	180,329,095	3.30%
Expenses			
Administration	$4,404,293	6,891,240	-36.09%
District support services	3,899,408	4,672,656	-16.55%
Elementary and secondary regular instruction	47,801,836	91,609,257	-47.82%
Vocational education instruction	1,081,409	1,639,906	-34.06%
Special education instruction	24,999,473	41,713,529	-40.07%
Instructional support services	9,743,532	14,522,006	-32.91%
Pupil support services	11,905,725	13,901,667	-14.36%
Sites and buildings	15,123,388	19,146,659	-21.01%
Fiscal and other fixed cost programs	357,357	380,275	-6.03%
Food service	5,149,622	5,242,904	-1.78%
Community education and services	10,646,697	12,350,253	-13.79%
Unallocated depreciation	8,949,395	8,529,120	4.93%
Interest and fiscal charges on long-term debt	3,624,565	3,425,272	5.82%
Total expenses	147,686,700	224,024,744	-34.08%
Increase (decrease) in net position	38,586,189	(43,695,649)	-188.31%
Net Position			
Net position - beginning, as previously stated	(117,583,730)	(66,797,303)	76.03%
Change in accounting principle	-	(7,090,778)	
Beginning of year	(117,583,730)	(73,888,081)	-59.14%
End of year	$ (78,997,541)	$ (117,583,730)	32.82%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-5
Source of Revenues for Fiscal Year 2019

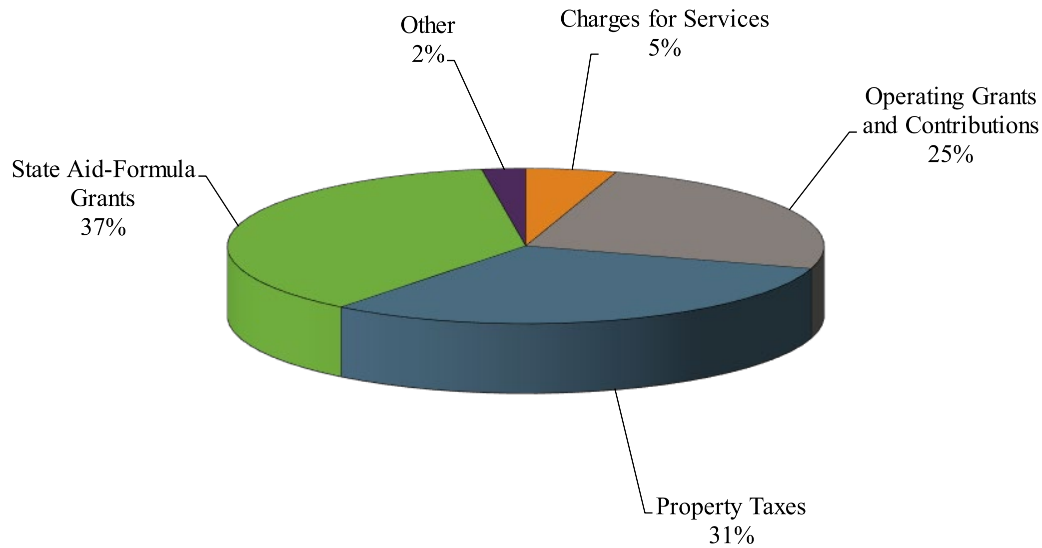
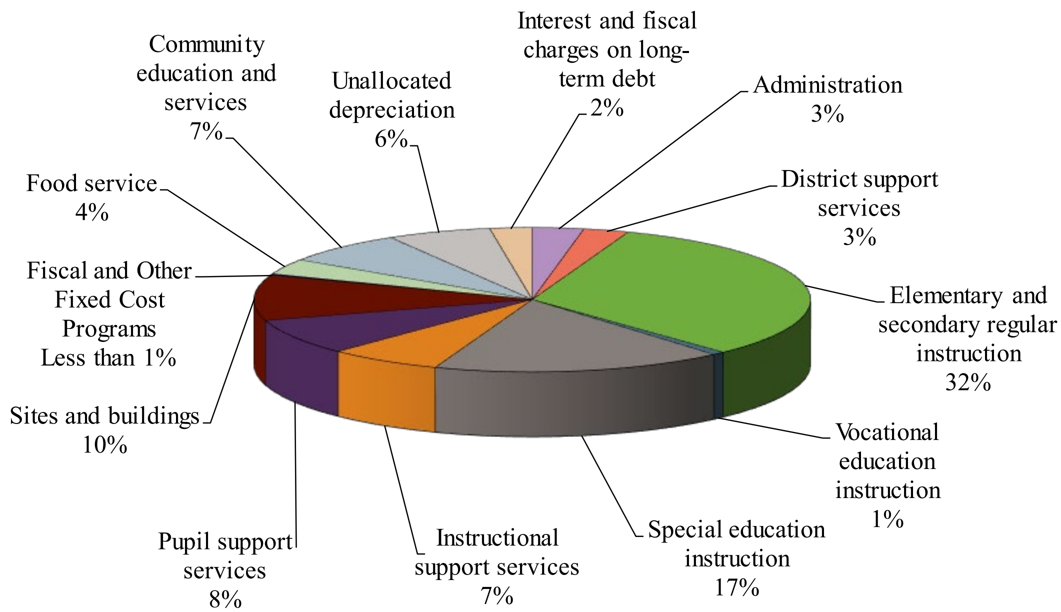


Figure A-6
Expenses for Fiscal Year 2019



GOVERNMENTAL ACTIVITIES

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

	Total Cost of Services	Net Cost of Services
Administrative	$ 4,404,293	$ 4,404,293
District support services	3,899,408	3,899,408
Elementary and secondary regular instruction	47,801,836	30,907,055
Vocational education instruction	1,081,409	994,269
Special education instruction	24,999,473	2,520,948
Instructional support services	9,743,532	9,743,532
Pupil support services	11,905,725	11,487,970
Sites and buildings	15,123,388	13,267,137
Fiscal and other fixed cost programs	357,357	357,357
Food service	5,149,622	115,408
Community education and services	10,646,697	807,868
Unallocated depreciation	8,949,395	8,949,395
Interest and fiscal charges on long-term debt	3,624,565	3,624,565
Total	$ 147,686,700	$ 91,079,205

- Approximately 6.1% or $9.0 million, of expenses were paid by users of District services through various fees and charges.
- Other specific program costs are offset with grants and contributions totaling $47.5 million, or 32.2%, of expenses for 2018-2019.
- The net cost of District services ($91.1 million) was paid for with local property taxes, state aid, federal grants and from District fund balances when expenses exceed revenues.

FINANCIAL ANALYSIS OF THE DISTRICT''S FUNDS

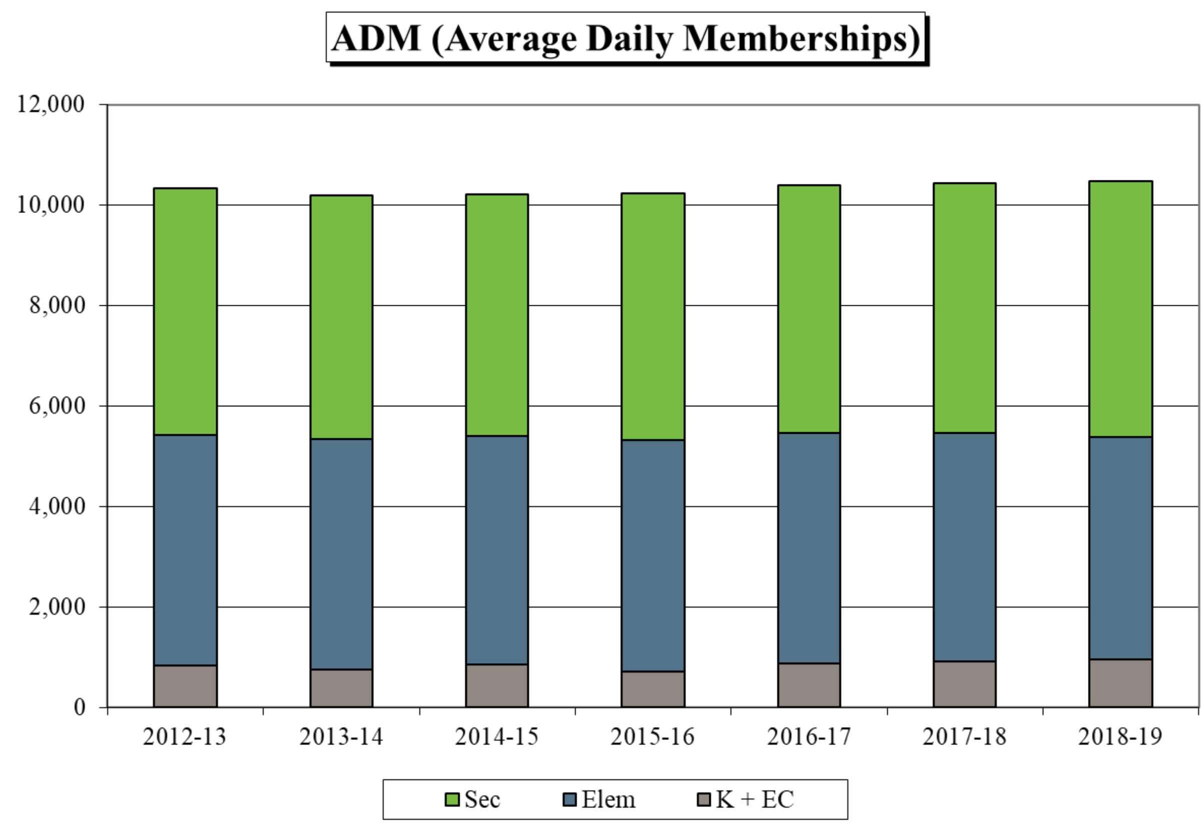
At the end of the 2018-2019 fiscal year, the District's governmental funds reported a combined fund balance of $51.6 million, an increase of $9.2 million from the June 30, 2018, combined fund balance of $42.4 million. The main increase was due to a $11.3 million net impact of bond sales for deferred maintenance projects. This is offset by planned spend down in General Fund.

GENERAL FUND

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

School funding in Minnesota is driven largely by pupil enrollment. In 2018-2019, the District saw an increase of 28 average daily membership (ADM) over 2017-2018. Current ADM is 10,469.

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



GENERAL FUND BUDGETARY HIGHLIGHTS

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

While the District's amended budget for the General Fund projected a net decrease in the fund balance of $5.1 million, the actual performance shows a net decrease of $2.7 million. The majority of this difference was due to higher than expected state special education revenue. There was also a MDE reporting change moving deferred maintenance levy revenue and expense to the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Actual revenues were $161.3 million or $5.7 million over the budget of $155.6 million. Actual expenditures were $163.6 million, or $3.2 million over the budget of $160.4 million.

Figure A-8
General Fund Expenditures

	Final Budget	Net Actual Amounts	Variance with Final Budget - Over (Under)
Administrative	$ 6,025,390	$ 5,850,161	$ (175,229)
District support services	4,694,280	3,974,945	(719,335)
Elementary and secondary regular instruction	70,800,268	72,490,615	1,690,347
Vocational education instruction	1,492,460	1,465,168	(27,292)
Special education instruction	34,162,032	34,963,418	801,386
Instructional support services	10,803,408	9,266,312	(1,537,096)
Pupil support services	12,690,515	12,795,131	104,616
Sites and buildings	9,669,875	11,603,945	1,934,070
Fiscal and other fixed cost programs	387,000	357,357	(29,643)
Capital outlay	9,594,768	10,763,039	1,168,271
Debt service	69,844	69,844	-
Total	$ 160,389,840	$ 163,599,935	$ 3,210,095

FOOD SERVICE FUND

The Food Service Fund is used to record financial activity for the purpose of preparation and service of milk, meals and snacks in connection with school and community service activities. The Food Service Fund expenditures exceed revenues by $164,246 in 2018-2019. The lost revenue was due to five days of school cancellation for weather closures.

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

COMMUNITY SERVICE FUND

The Community Service Fund is used to record financial activities of the Community Services Preschool to Senior Citizens Programs. The Community Service Fund balance decreased $103,002 in 2018-2019. The decrease is a result of planned spend down of Early Childhood programming.

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

DEBT SERVICE FUND

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital or for initial or refunding bonds. The Debt Service Fund balance for 2018-2019 totaled $1.5 million. This is an increase of $787 thousand over the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019, the District had invested $126.6 million in a broad range of capital assets, including school buildings, athletic facilities, computers and audio-visual equipment. (See Figure A-9.) (More detailed information about capital assets can be found in Note 4 to the financial statements.)

Figure A-9
Capital Assets (Net of Accumulated Depreciation)

	Year Ended 2019	Year Ended 2018
Land	$ 2,085,954	$ 2,085,954
Construction in progress	2,331,601	1,336,889
Buildings and buildings improvement	118,267,829	111,516,244
Furniture and equipment	3,883,040	4,724,238
Total capital assets	$ 126,568,424	$ 119,663,325

DEBT ADMINISTRATION

Figure A-10
Outstanding Long-Term Liabilities

	Year Ended 2019	Year Ended 2018
General Obligation (G.O.) bonds and loans	$ 143,176,202	$ 126,453,290
Benefits payable	1,509,972	1,631,909
Total long-term liabilities	$ 144,686,174	$ 128,085,199

DEBT ADMINISTRATION (CONTINUED)

At year-end, the District had $144.7 million in long-term liabilities, including G.O. bonds, capital leases, severance benefits, and compensated absences. (More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements).

The June 30, 2019, Debt Service Fund balance of $1.5 million is available for meeting future debt service obligations, in addition to levied property taxes payable in 2019.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- The District continues to position itself financially for anticipated flat or limited funding in the future. The District's 2019-20 budget required a $2.0 million in budget cuts and funding shifts in addition to $1.2 million spend down of fund balance. The District is anticipating additional budget cuts in 2020-21 fiscal years.
- The District is projecting flat to slightly declining enrollment in the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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

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BASIC FINANCIAL STATEMENTS

Independent School District No. 271
Statement of Net Position
June 30, 2019

		Governmental Activities
Assets		
Cash and investments	$	119,461,655
Current property taxes receivable		29,493,292
Delinquent property taxes receivable		352,405
Accounts receivable		592,392
Interest receivable		574,221
Due from Department of Education		12,596,905
Due from other Minnesota school districts		254,740
Due from Federal Government through Department of Education		3,071,985
Due from other governmental units		109,569
Inventory		380,584
Prepaid items		243,128
Capital assets not being depreciated		
Land		2,085,954
Construction in progress		2,331,601
Capital assets net of depreciation		
Buildings and building improvements		118,267,829
Furniture and equipment		3,883,040
Total assets		293,699,300
Deferred Outflows of Resources		
Deferred amount on refunding		382,558
Deferred outflows related to OPEB		911,417
Deferred outflows related to pensions		123,550,058
Total deferred outflows of resources		124,844,033
Total assets and deferred outflows of resources	$	418,543,333
Liabilities		
Accounts and contracts payable	$	4,529,880
Salaries and benefits payable		16,427,748
Interest payable		2,062,512
Due to other Minnesota school districts		292,359
Due to other governmental units		56,569
Unearned revenue		744,286
Net bond principal payable		
Due within one year		7,695,000
Due in more than one year		135,292,492
Loan payable		
Due within one year		59,134
Due in more than one year		129,576
Compensated absences payable		
Due within one year		116,627
Due in more than one year		1,049,646
Severance payable		
Due within one year		34,370
Due in more than one year		309,329
OPEB Liability		11,237,919
Net pension liability		103,971,036
Total liabilities		284,008,483
Deferred Inflows of Resources		
Property taxes levied for subsequent year's expenditures		55,344,131
Deferred inflows related to OPEB		1,237,935
Deferred inflows related to pensions		156,950,325
Total deferred inflows of resources		213,532,391
Net Position		
Net investment in capital assets		15,686,495
Restricted for		
Capital projects		165,423
Other purposes		16,547,055
Unrestricted		(111,396,514)
Total net position		(78,997,541)
Total liabilities, deferred inflows of resources, and net position	$	418,543,333

See notes to financial statements.

Independent School District No. 271
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 4,404,293	$ -	$ -	$ -	$ (4,404,293)
District support services	3,899,408	-	-	-	(3,899,408)
Elementary and secondary regular instruction	47,801,836	598,067	16,296,714	-	(30,907,055)
Vocational education instruction	1,081,409	-	87,140	-	(994,269)
Special education instruction	24,999,473	569,914	21,908,611	-	(2,520,948)
Instructional support services	9,743,532	-	-	-	(9,743,532)
Pupil support services	11,905,725	72,192	345,563	-	(11,487,970)
Sites and buildings	15,123,388	148,015	-	1,708,236	(13,267,137)
Fiscal and other fixed cost programs	357,357	-	-	-	(357,357)
Food service	5,149,622	1,771,580	3,262,634	-	(115,408)
Community education and services	10,646,697	5,906,629	3,932,200	-	(807,868)
Unallocated depreciation	8,949,395	-	-	-	(8,949,395)
Interest and fiscal charges on long-term debt	3,624,565	-	-	-	(3,624,565)
Total governmental activities	$ 147,686,700	$ 9,066,397	$ 45,832,862	$ 1,708,236	(91,079,205)
General revenues					
Taxes					
Property taxes, levied for general purposes					43,899,937
Property taxes, levied for debt service					10,938,926
Property taxes, levied for community service					2,099,216
State aid-formula grants					68,366,336
Other general revenues					2,122,186
Investment income					2,238,793
Total general revenues					129,665,394
Change in net position					38,586,189
Net position - beginning					(117,583,730)
Net position - ending					$ (78,997,541)

See notes to financial statements.

Balance Sheet - Governmental Funds
June 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 44,770,440	$ 6,320,817	$ 23,560,577	$ 8,164,828	$ 82,816,662
Current property taxes receivable	23,205,517	4,949,977	-	1,337,798	29,493,292
Delinquent property taxes receivable	268,415	66,743	-	17,247	352,405
Accounts receivable	494,176	-	-	98,216	592,392
Interest receivable	286,087	-	71,157	-	357,244
Due from Department of Education	12,114,596	169,145	-	313,164	12,596,905
Due from Federal Government through Department of Education	2,602,327	-	-	469,658	3,071,985
Due from other Minnesota school districts	25,909	-	-	228,831	254,740
Due from other governmental units	108,542	-	-	-	108,542
Inventory	243,803	-	-	136,781	380,584
Prepaid items	182,203	-	-	60,925	243,128
Total assets	$ 84,302,015	$ 11,506,682	$ 23,631,734	$ 10,827,448	$130,267,879
Liabilities					
Accounts payable	$ 1,910,213	$ -	$ 2,219,549	$ 24,969	$ 4,154,731
Contracts payable	-	-	355,569	-	355,569
Salaries and benefits payable	13,429,222	-	28,716	1,180,810	14,638,748
Due to other Minnesota school districts	286,226	-	6,133	-	292,359
Due to other governmental units	55,994	-	-	575	56,569
Interfund payable	2,532,713	-	4,629	245,103	2,782,445
Unearned revenue	481,035	-	-	263,251	744,286
Total liabilities	18,695,403	-	2,614,596	1,714,708	23,024,707
Deferred inflows of resources					
Property tax levied for subsequent year's expenditures	42,677,676	9,971,458	-	2,694,997	55,344,131
Unavailable revenue - delinquent property taxes	233,871	58,314	-	15,213	307,398
Total deferred inflows of resources	42,911,547	10,029,772	-	2,710,210	55,651,529
Fund Balances					
Nonspendable for					
Inventory	243,803	-	-	136,781	380,584
Prepaid items	182,203	-	-	60,925	243,128
Restricted for					
Capital projects levy	3,297,635	-	-	-	3,297,635
Operating capital	6,020,797	-	-	-	6,020,797
Medical assistance	576,368	-	-	-	576,368
State approved alternative program	817,254	-	-	-	817,254
Long-term facilities maintenance	-	-	21,017,138	-	21,017,138
Fund purpose	-	1,476,910	-	6,204,824	7,681,734
Committed for					
Wellness	131,265	-	-	-	131,265
Uniform and instrument replacement	113,783	-	-	-	113,783
Athletic activities	245,315	-	-	-	245,315
Site department carryover funds	826,593	-	-	-	826,593
Staff development	161,193	-	-	-	161,193
Assigned for					
Q Comp collaborative	10	-	-	-	10
Unassigned	10,078,846	-	-	-	10,078,846
Total fund balances	22,695,065	1,476,910	21,017,138	6,402,530	51,591,643
Total liabilities, deferred inflows of resources, and fund balances	$ 84,302,015	$ 11,506,682	$ 23,631,734	$ 10,827,448	$130,267,879

Independent School District No. 271

Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2019

Total fund balances - governmental funds	$ 51,591,643
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	275,331,949
Less accumulated depreciation	(148,763,525)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(138,020,000)
Loan payable	(188,710)
Bond premiums	(4,967,492)
Deferred amount on refunding	382,558
Compensated absences payable	(1,166,273)
Severance payable	(343,699)
OPEB liability	(11,237,919)
Net pension liability	(103,971,036)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows related to pensions	123,550,058
Deferred inflows related to pensions	(156,950,325)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to OPEB that are not recognized in the governmental funds.	
Deferred inflows related to OPEB	(1,237,935)
Deferred outflows related to OPEB	911,417
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	307,398
The retiree benefit and OPEB internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	17,460,789
The dental and self insured medical benefit plans internal service funds are used by management to charge the costs of the self-insured plans. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position and interfund activity is removed.	20,376,073
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(2,062,512)
Total net position - governmental activities	$ (78,997,541)

See notes to financial statements.

Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 43,974,951	$ 10,191,888	$ -	$ 2,871,360	$ 57,038,199
Other local and county revenues	4,495,604	101,657	228,175	5,895,840	10,721,276
Revenue from state sources	108,724,729	1,708,366	-	3,437,352	113,870,447
Revenue from federal sources	4,068,649	-	-	3,673,694	7,742,343
Sales and other conversion of assets	5,025	-	-	1,796,640	1,801,665
Interdistrict revenue	-	-	-	228,831	228,831
Total revenues	161,268,958	12,001,911	228,175	17,903,717	191,402,761
Expenditures					
Current					
Administration	5,850,161	-	-	-	5,850,161
District support services	3,974,945	-	-	-	3,974,945
Elementary and secondary regular instruction	72,490,615	-	-	114,629	72,605,244
Vocational education instruction	1,465,168	-	-	-	1,465,168
Special education instruction	34,963,418	-	-	-	34,963,418
Instructional support services	9,266,312	-	-	-	9,266,312
Pupil support services	12,795,131	-	-	-	12,795,131
Sites and buildings	11,603,945	-	9,658	-	11,613,603
Fiscal and other fixed cost programs	357,357	-	-	-	357,357
Food service	-	-	-	5,247,367	5,247,367
Community education and services	-	-	-	12,354,766	12,354,766
Capital outlay					
Administration	6,909	-	-	-	6,909
District support services	321,158	-	-	-	321,158
Elementary and secondary regular instruction	970,991	-	-	-	970,991
Special education instruction	72,345	-	-	-	72,345
Instructional support services	2,921,223	-	-	-	2,921,223
Pupil support services	34,157	-	-	-	34,157
Sites and buildings	6,436,256	-	14,084,686	-	20,520,942
Food service	-	-	-	23,537	23,537
Community education and services	-	-	-	34,123	34,123
Debt service					
Principal	55,658	6,875,000	-	430,000	7,360,658
Interest and fiscal charges	14,186	4,340,153	218,242	301,603	4,874,184
Total expenditures	163,599,935	11,215,153	14,312,586	18,506,025	207,633,699
Excess of revenues over (under) expenditures	(2,330,977)	786,758	(14,084,411)	(602,308)	(16,230,938)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	3,506	3,506
Bond issuance	-	-	23,935,000	-	23,935,000
Bond premium	-	-	1,493,514	-	1,493,514
Transfers in	-	-	-	377,215	377,215
Transfers out	(377,215)	-	-	-	(377,215)
Total other financing sources (uses)	(377,215)	-	25,428,514	380,721	25,432,020
Net change in fund balances	(2,708,192)	786,758	11,344,103	(221,587)	9,201,082
Fund Balances					
Beginning of year	25,403,257	690,152	9,673,035	6,624,117	42,390,561
End of year	$ 22,695,065	$ 1,476,910	$ 21,017,138	$ 6,402,530	$ 51,591,643

See notes to financial statements.

Independent School District No. 271

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds Year Ended June 30, 2019

Net change in fund balances - total governmental funds	$ 9,201,082
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the useful lives as depreciation expense.	
Capital outlays	16,946,961
Depreciation expense	(9,855,394)
Loss on disposal	(186,468)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	121,937
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(719,504)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	7,360,658
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	36,812,813
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(130,044)
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	1,379,663
Proceeds from long-term debt are recognized as an other financing source, increasing fund balance in the governmental fund statements, but have no effect on net position in the Statement of Activities.	(25,428,514)
The retiree benefit internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities and obligations.	(424,673)
The dental and self-insured medical benefit plans internal service funds are used by management to charge the costs of the self insured plans. The increase in net position is reported within the governmental activities in the Statement of Activities.	3,607,792
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(100,120)
Change in net position - governmental activities	$ 38,586,189

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 42,707,529	$ 42,111,945	$ 43,974,951	$ 1,863,006
Other local and county revenues	3,803,120	3,891,521	4,495,604	604,083
Revenue from state sources	104,562,710	105,265,828	108,724,729	3,458,901
Revenue from federal sources	3,069,072	4,323,765	4,068,649	(255,116)
Sales and other conversion of assets	-	-	5,025	5,025
Total revenues	154,142,431	155,593,059	161,268,958	5,675,899
Expenditures				
Current				
Administration	5,960,168	6,025,390	5,850,161	(175,229)
District support services	4,640,496	4,694,280	3,974,945	(719,335)
Elementary and secondary regular instruction	70,139,018	70,800,268	72,490,615	1,690,347
Vocational education instruction	1,492,460	1,492,460	1,465,168	(27,292)
Special education instruction	33,862,326	34,162,032	34,963,418	801,386
Instructional support services	10,699,328	10,803,408	9,266,312	(1,537,096)
Pupil support services	12,072,879	12,690,515	12,795,131	104,616
Sites and buildings	8,926,875	9,669,875	11,603,945	1,934,070
Fiscal and other fixed cost programs	387,000	387,000	357,357	(29,643)
Capital outlay				
Administration	104,662	104,662	6,909	(97,753)
District support services	232,213	232,213	321,158	88,945
Elementary and secondary regular instruction	300,531	298,048	970,991	672,943
Vocational education instruction	6,000	6,000	-	(6,000)
Special education instruction	92,100	92,100	72,345	(19,755)
Instructional support services	2,468,320	2,968,320	2,921,223	(47,097)
Pupil support services	636,425	636,425	34,157	(602,268)
Sites and buildings	5,257,000	5,257,000	6,436,256	1,179,256
Debt service				
Principal	55,658	55,658	55,658	-
Interest and fiscal charges	14,186	14,186	14,186	-
Total expenditures	157,347,645	160,389,840	163,599,935	3,210,095
Excess of revenues under expenditures	(3,205,214)	(4,796,781)	(2,330,977)	2,465,804
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	50,000	50,000	-	(50,000)
Transfers out	(308,503)	(308,503)	(377,215)	(68,712)
Total other financing sources (uses)	(258,503)	(258,503)	(377,215)	(118,712)
Net change in fund balance	$ (3,463,717)	$ (5,055,284)	(2,708,192)	$ 2,347,092
Fund Balance				
Beginning of year			25,403,257	
End of year			$ 22,695,065	

See notes to financial statements.

Independent School District No. 271
Statement of Net Position - Proprietary Funds
As of June 30, 2019

	Governmental Activities - Internal Service Funds
Assets	
Cash and cash equivalents	$ 23,175,392
Investments	13,469,601
Due from other governments	1,027
Interfund receivable	2,782,445
Interest receivable	216,977
Total assets	$ 39,645,442
Liabilities and Net Position	
Liabilities	
Accounts payable	$ 19,580
Incurred but not reported claims	1,789,000
Benefits payable	1,166,273
Unearned revenue	4,983,458
Total liabilities	7,958,311
Net Position	
Unrestricted	31,687,131
Total liabilities and net position	$ 39,645,442

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2019

	Governmental Activities - Internal Service Funds
Operating Revenue	
Charges for services	$ 22,787,140
District contribution	515,091
Total revenue	23,302,231
Operating Expenses	
Salaries and benefits	33,000
Employee benefits	19,125,805
Administrative	1,861,459
Total operating expenses	21,020,264
Operating income	2,281,967
Nonoperating Revenue	
Investment income	773,509
Income before transfers	3,055,476
Net Position	
Beginning of year	28,631,655
End of year	$ 31,687,131

See notes to financial statements.

Independent School District No. 271
Statement of Cash Flows - Proprietary Funds
Bloomington, Minnesota
As of June 30, 2019

	Governmental Activities - Internal Service Funds
Cash Flows - Operating Activities	
Receipts from employee contributions	$ 22,862,621
Receipts from district contributions	470,864
Employee claims paid	(18,608,714)
Payments to employees	(548,091)
Payments to suppliers	(1,841,879)
Net cash flows - operating activities	2,334,801
Cash Flows - Investment Activities	
Investment purchases	(399,082)
Interest received	912,836
Net cash flows - investment activities	513,754
Net change in cash and cash equivalents	2,848,555
Cash and Cash Equivalents	
Beginning of year	20,326,837
End of year	$ 23,175,392
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	$ 2,281,967
Adjustments to reconcile operating income	
To net cash flows - operating activities	
Accounts payable	19,580
Benefits payable	(44,227)
Incurred but not reported dental claims	2,000
Accounts receivable	1,015
Due from other governments	(1,027)
Interfund receivable	(96,377)
Unearned revenue	171,870
Net adjustments	52,834
Net cash flows - operating activities	$ 2,334,801

See notes to financial statements.

Independent School District No. 271
Statement of Fiduciary Net Position
Year Ended June 30, 2019

	Agency Fund	Private Purpose Trust Fund
Assets		
Current		
Cash and investments	$ 372,132	$ 58,402
Liabilities		
Accounts payable	$ 140,383	$ -
Due to other governments	1,027	-
Salaries and benefits payable	6,408	-
Other liabilities	224,314	-
Total liabilities	$ 372,132	$ -
Net Position		
Held in trust		$ 58,402

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

	Private Purpose Trust Fund
Additions	
Interest revenue	$ 1,511
Deductions	
Scholarships	18,996
Change in net position	(17,485)
Net Position	
Beginning of year	75,887
End of year	$ 58,402

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

The student activity accounts of the District are not under the School Board's control; therefore, separate audited financial statements have been issued. As of July 1, 2019, these accounts have been taken under board control and will not be reported separately.

B. Basic Financial Statement Information

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

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

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

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

Description of Funds:

Major Funds:

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

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

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

Nonmajor Funds:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued):

Nonmajor Funds: (Continued)

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

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

Fiduciary Funds:

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

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

Proprietary Funds:

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

D. Deposits and Investments

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

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

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

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

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following fiscal year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2018, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in 2019. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenditures at the time of consumption.

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. County are the collecting agency for the levy and remit the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $4,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

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

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

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has three items that qualify for reporting in this category. A deferred charge on refunding, deferred outflows of resources related to pensions, and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. Deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to OPEB is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

L. Long-Term Obligations

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

The District compensates most full-time classified employees upon termination of employment for unused vacation up to a set maximum. At June 30, 2019, the District recorded a liability of $1,166,273 for unused vacation in the Internal Service Fund. District employees are entitled to sick leave at various rates for each month of full-time service. Certain employees are compensated for unused sick leave upon termination of employment; unused sick leave also enters into the calculation of some employee's severance pay.

N. Pensions

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

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

O. Fund Equity

1. Classification

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Equity (Continued)

1. Classification (Continued)

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

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

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

2. Minimum Fund Balance Policy

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

P. Net Position

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

Q. Use of Estimates

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

R. Budgetary Information

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

1. Prior to July 1, the Executive Director of Finance and Support Services submits to the School Board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Budgetary Information (Continued)

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: The District has a policy in place to address custodial credit risk for deposits, stating all deposits will be invested at financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) system and be willing and capable of posting collateral, private insurance or letters of credit for funds in excess of FDIC insurable limits and in amounts required by the District. The District had certificates of deposit totaling $42,062,744 at June 30, 2019, the District was not exposed to custodial credit risk on deposits.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

As of June 30, 2019, the District had the following investments:

Investment	Weighted Average Maturities (in Years)	Fair Value	Moody's/ S&P Rating
Pooled Investments			
MSDLAF+ Liquid Class	N/A	$ 14,440,959	AAAm
MSDLAF+ Max Class	N/A	448,717	AAAm
Minnesota Trust Investment Shares	N/A	20,528,771	AAAm
U.S. Treasury Notes	1.11	5,484,380	AAA
Government Agency Securities	0.21	1,997,576	AA+
Term Series	0.07	10,000,000	AAAm
Limited Term Series	N/A	5,203,000	AAAm
Total pooled investments		58,103,403	
OPEB Investments			
Minnesota Trust Investment Shares	N/A	102,191	AAAm
Negotiable Certificates of Deposit	0.38	348,796	N/A
Local Government Obligations	14.95	4,781,403	A3, Aa2
Total OPEB investments		5,232,390	
Capital Project Investments			
Minnesota Trust Investment Shares	N/A	4,719,452	AAAm
Local Governmental Obligations	0.02	3,772,100	AA, AA+
Term Series	0.08	6,000,000	AAAm
Total capital projects investments		14,491,552	
Total investments		$ 77,827,345	

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

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

The District has the following recurring fair value measurements as of June 30, 2019:

- Investments of $21,587,255 are significant other observable inputs (Level 2 inputs)

C. Deposits and Investments

Summary of cash, deposits, and investments as of June 30, 2019:

Deposits	$ 42,062,744
Investments (Note 3.B.)	77,827,345
Petty cash	2,100
Total deposits and investments	$ 119,892,189

Cash, deposits, and investments are presented in the June 30, 2019, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 119,461,655
Statement of Fiduciary Net Position	
Agency fund	372,132
Private purpose trust fund	58,402
Total	$ 119,892,189

NOTE 3 – INTERFUND TRANSACTIONS

A. Interfund Transfers

	Transfers in
	Other Nonmajor
Transfers out	
General Fund	$ 377,215

A transfer of $341,110 was made from the General Fund to the other nonmajor funds to subsidize certain costs at the Pond and Southwood Early Learning Centers. A transfer of $36,105 was made from the General Fund to the other nonmajor funds to eliminate deficit school lunch balances.

B. Interfund Receivable/Payable

	Interfund Payable			
	General	Capital Projects	Other Nonmajor	Total
Interfund receivable				
Internal service fund	$ 2,532,713	$ 4,629	$ 245,103	$ 2,782,445

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

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land and land improvements	$ 2,085,954	$ -	$ -	$ 2,085,954
Construction in progress	1,336,889	16,582,123	15,587,411	2,331,601
Total capital assets not being depreciated	3,422,843	16,582,123	15,587,411	4,417,555
Capital assets being depreciated				
Buildings and building	239,918,515	15,587,410	-	255,505,925
Improvements, furniture, and equipment	15,925,811	364,839	882,181	15,408,469
Total capital assets being depreciated	255,844,326	9,754,562	882,181	270,914,394
Less accumulated Depreciation for				
Buildings and building improvements	128,402,271	8,835,825	-	137,238,096
Furniture and equipment	11,201,573	1,019,569	695,713	11,525,429
Total accumulated depreciation	139,603,844	9,855,394	695,713	148,763,525
Total capital assets being depreciated, net	116,240,482	(100,832)	186,468	122,150,869
Governmental activities, capital assets, net	$ 119,663,325	$ 16,481,291	$ 15,773,879	$ 126,568,424

Depreciation expense for the year ended June 30, 2019, was charged to the following functions:

Administration	$ 1,073
District support services	21,859
Elementary and secondary regular instruction	176,270
Vocational education instruction	1,999
Special education instruction	5,135
Community service	4,486
Instructional support	32,398
Pupil support	631,252
Food service	31,527
Unallocated	8,949,395
Total depreciation expense	$ 9,855,394

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2013A Alternative Faclities Bonds	06/04/13	3.00%-5.00%	$ 16,275,000	02/01/34	$ 16,175,000	$ -
2013B School Refunding Bonds	06/04/13	1.50%-2.00%	11,780,000	02/01/20	1,935,000	1,935,000
2014A School Refunding Bonds	12/30/14	1.08%	23,490,000	02/01/20	5,135,000	5,135,000
2014B Alternative Facilities Bonds	12/30/14	3.47%	25,965,000	02/01/38	25,965,000	-
2015A School Refunding Bonds	12/30/15	2.00-5.00%	29,390,000	02/01/24	28,900,000	180,000
2017A Facility Maintenance Bonds	03/23/17	3.375-4.00%	24,915,000	02/01/41	24,915,000	-
2017B Taxable Refunding OPEB Bonds	03/23/17	0.85-2.70%	11,470,000	02/01/25	11,060,000	445,000
2019A Facility Maintenance Bonds	03/14/19	3.00-5.00%	23,935,000	02/01/42	23,935,000	-
Build America Bonds	09/29/10	6.15%	600,000	05/15/22	188,710	59,134
Total G.O. bonds					138,208,710	7,754,134
Unamortized bond premiums					4,967,492	
Other long-term liabilities						
Compensated absences payable					1,166,273	116,627
Severance payable					343,699	34,370
Total long-term liabilities					$ 144,686,174	$ 7,905,131

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

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

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

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds and Loans

Year Ending	G.O. Bonds			Build America Bonds		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2020	$ 7,695,000	$ 5,093,669	$ 12,788,669	$ 59,134	$ 10,710	$ 69,844
2021	8,195,000	4,890,758	13,085,758	62,827	7,018	69,845
2022	8,890,000	4,484,158	13,374,158	66,749	3,095	69,844
2023	8,820,000	4,042,598	12,862,598	-	-	-
2024	9,040,000	3,604,458	12,644,458	-	-	-
2025-2029	17,205,000	15,168,830	32,373,830	-	-	-
2030-2034	24,390,000	11,959,150	36,349,150	-	-	-
2035-2039	37,205,000	6,953,190	44,158,190	-	-	-
2040-2042	16,580,000	930,975	17,510,975	-	-	-
Total	$ 138,020,000	$ 57,127,786	$ 195,147,786	$ 188,710	$ 20,823	$ 209,533

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 121,390,000	$ 23,935,000	$ 7,305,000	$ 138,020,000
Unamortized bond premiums	4,818,922	1,493,514	1,344,944	4,967,492
Build America Bonds	244,368	-	55,658	188,710
Compensated absence payable	1,210,500	927,633	971,860	1,166,273
Severance benefits payable	421,409	-	77,710	343,699
Total long-term liabilities	$ 128,085,199	$ 26,356,147	$ 9,755,172	$ 144,686,174

NOTE 6 – FUND BALANCES

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

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

A. Restricted/Reserved Fund Equity

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

NOTE 6 – FUND BALANCES (CONTINUED)

A. Restricted/Reserved Fund Equity (Continued)

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

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

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

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

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

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

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

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

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statues* 124D.16).

NOTE 6 – FUND BALANCES (CONTINUED)

B. Committed Fund Equity

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

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

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

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

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

C. Government-Wide Restrictions

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2019, was ($33,933,748). The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidates the Liability related to the pensions.

Teachers' Retirement Association

A. Plan Description

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

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

Tier II Benefits

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2017, June 30, 2018, and June 30, 2019, were:

	June 30, 2017		June 30, 2018		June 30, 2019	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%	11.0%	11.71%
Coordinated	7.5%	7.5%	7.5%	7.5%	7.5%	7.71%

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$	378,728
Deduct Employer contributions not related to future contribution efforts		522
Deduct TRA's contributions not included in allocation		(471)
Total employer contributions		378,779
Total non-employer contributions		35,588
Total contributions reported in S*chedule of Employer and Non-Employer Pension Allocations*	$	414,367

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2018
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumption	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

Teachers' Retirement Association (Continued)

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

Asset Class	Allocations as of June 30, 2018	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	33 %	36 %	5.10 %
International stocks	16	17	5.30
Private markets	25	25	5.90
Fixed income	16	20	0.75
Treasuries	8	0	0.50
Unallocated cash	2	2	0.00
Total	100 %	100 %	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience", "Changes of Assumptions", and "Changes in Proportion" use the amortization period of six years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of five years as required by GASB 68.

Changes in actuarial assumptions since the 2017 valuation:

- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% 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 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 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 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 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 (SEIR).

F. Net Pension Liability

On June 30, 2019, the District reported a liability of $82,268,864 for its proportionate share of the 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 TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 1.3098% at the end of the measurement period and 1.2555% for the beginning of the year.

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

District's proportionate share of net pension liability	$	82,268,864
State's proportionate share of the net pension liability associated with the District		7,729,497

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

For the year ended June 30, 2019, the District recognized pension expense of ($34,025,540). It recognized ($5,394,689) as an increase to this pension expense for the support provided by direct aid.

On June 30, 2019, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 901,953	$ 1,598,182
Net difference between projected and actual earnings on plan investments	-	6,227,684
Changes of assumptions	102,205,752	139,063,475
Changes in proportion	9,503,112	3,025,676
Contributions to TRA subsequent to the measurement date	5,933,711	-
Total	$ 118,544,528	$ 149,915,017

$5,933,711 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Year Ended June 30,	Pension Expense Amount
2020	$ 8,412,047
2021	4,643,791
2022	(430,587)
2023	(29,502,469)
2024	(20,426,982)
Total	$ (37,304,200)

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

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%) than the current rate.

District proportionate share of NPL		
1% decrease (6.50%)	Current (7.50%)	1% increase (8.50%)
$ 130,560,354	$ 82,268,864	$ 42,428,703

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

H. Pension Plan Fiduciary Net Position
Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That can be obtained at www.MinnesotaTRA.org, or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

Public Employees' Retirement Association

A. Plan Description
The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

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

B. Benefits Provided
PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. 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 annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members 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 66.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. 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.

C. Contributions

Minnesota Statutes Chapter 353 set the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were $2,174,050. The District's contributions were equal to the required contributions as set by state statute.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2019, the District reported a liability of $21,702,172 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $711,813. 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 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 PERA's participating employers. At June 30, 2018, the District's proportionate share was 0.3912% at the end of the measurement period and 0.4075% for the beginning of the period.

District's proportionate share of net pension liability	$ 21,702,172
State's proportionate share of the net pension liability associated with the District	711,813
Total	$ 22,413,985

For the year ended June 30, 2019, the District recognized pension expense of $91,792 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $165,993 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At June 30, 2019, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources as listed on the following page.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 597,282	$ 682,144
Changes in actuarial assumptions	2,234,198	2,508,016
Difference between projected and actual investments earnings	-	2,097,120
Change in proportion	-	1,748,028
Contributions paid to PERA subsequent to the measurement date	2,174,050	-
Total	$ 5,005,530	$ 7,035,308

$2,174,050 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2020	$ 12,899
2021	(1,698,502)
2022	(2,065,267)
2023	(452,958)
Total	$ (4,203,828)

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

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

Inflation	2.50 %	Per year
Active member payroll growth	3.25 %	Per year
Investment rate of return	7.50 %	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was 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 occurred in 2018:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% 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 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, 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 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, 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.

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The State Board of Investment, which manages the investments of PERA, 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	20	0.75
Alternative assets	25	5.90
Cash	2	0.00
Total	100 %	

F. Discount Rates

The discount rate used to measure the total pension liability in 2018 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 35,268,808	$ 21,702,172	$ 10,503,301

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

Public Employees' Retirement Association (Continued)

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description
The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by Corporate Health. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees. No assets are acclimated in a trust.

B. Benefits Provided
The District provides benefits to certain employees and retirees based on different bargaining groups. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

C. Contributions
Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Corporate Health. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2019, the District contributed $590,516 to the plan.

D. Members

As of June 30, 2019, the following were covered by the benefit terms:

Active employees electing coverage	1,409
Active employees waiving coverage	449
Retirees electing coverage	45
Total	1,903

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Discount Rate	3.62%
Expected Return	n/a
Inflation	2.50%
Healthcare cost trend increases	6.9% initially, decreasing over several decades to an ultimate rate of 4.0%
Mortality Assumption	RP-2014 mortality tables with projected mortality improvements based on Scale MP-2017 and other adjustments

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2017 – June 30, 2018.

Actuary's assumption changes:

- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2015 PERA General Employees Retirement Plan and 7/1/2015 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.
- The percent of future retirees not eligible for a direct subsidy assumed to elect coverage at retirement changed from 20% to 10% to reflect recent plan experience.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

The discount rate used to measure the total OPEB liability was 3.62% based on updated 20-year municipal bond rates.

F. Total OPEB Liability

The District's total OPEB liability of $11,237,919 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at June 30, 2018	$ 11,456,017
Changes for the year	
Service cost	968,403
Interest	428,159
Differences between expected and actual economic experience	(437,742)
Changes in assumptions	(586,402)
Employer contributions	-
Net investment income	-
Benefit payments	(590,516)
Administrative expense	-
Other charges	-
Net changes	(218,098)
Balances at June 30, 2019	$ 11,237,919

Changes of assumptions and other inputs reflect a change in the discount rate from 3.53% in 2017 to 3.62% in 2018 based on updated 20-year municipal bond rates.

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.62% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.62%)	Current (3.62%)	1% increase (4.62%)
Total OPEB liability (asset)	$ 11,898,685	$ 11,237,919	$ 10,590,439

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity (Continued)

	1% decrease (5.9% decreasing to 3.0%)	Current (6.9% decreasing to 4.0%)	1% increase (7.9% decreasing to 5.0%)
Total OPEB liability (asset)	$ 10,486,716	$ 11,237,919	$ 12,127,578

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of $1,228,158. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ -
Differences between expected and actual economic experience	-	386,182
Changes of assumptions	-	851,753
Contributions made subsequent to measurement date	911,417	-
Total	$ 911,417	$ 1,237,935

$911,417 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Year Ending December 31,	Total
2020	$ (168,404)
2021	(168,404)
2022	(168,404)
2023	(168,404)
2024	(168,404)
Thereafter	(395,915)
Total	$ (1,237,935)

NOTE 9 – CONTINGENCIES

Program Compliance

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

NOTE 10 – RISK MANAGEMENT

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

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

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Dental Insurance Internal Service Fund includes a reserve of $1,210,701 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2019, is $29,000 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

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

	Balance Beginning of Year	Claims, Expense, and Estimates	Claims Payments	Balance End of Year
2016-2017	$ 20,000	$ 1,148,187	$ (1,131,187)	$ 37,000
2017-2018	37,000	1,170,194	(1,180,194)	27,000
2018-2019	27,000	1,236,026	(1,234,026)	29,000

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

NOTE 10 – RISK MANAGEMENT (CONTINUED)

The General, Food Service, Community Service, and Agency Funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2019, is $1,760,000 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

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

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2016-2017	$ 1,710,691	$ 18,670,528	$ (18,670,528)	$ 1,710,691
2017-2018	1,710,691	17,414,089	(17,364,780)	1,760,000
2018-2019	1,760,000	16,606,209	(16,606,209)	1,760,000

NOTE 11 – COMMITMENTS

At June 30, 2019, the District had various construction contract commitments for projects outstanding totaling $8,480,685.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, Fiduciary Activities 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. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending June 30, 2020.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 271
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2018	June 30, 2019
Total OPEB Liability		
Service cost	$ 1,004,898	$ 968,403
Interest	341,865	428,159
Differenced between expected and actual experience	-	(437,742)
Changes of assumptions	(429,969)	(586,402)
Benefit payments	(902,286)	(590,516)
Net change in total OPEB liability	14,508	(218,098)
Beginning of year	11,441,509	11,456,017
End of year	$ 11,456,017	$ 11,237,919
Covered payroll	$ 87,324,967	$ 95,356,875
Total OPEB liability as a percentage of covered-employee payroll	13.1%	11.8%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.4741%	$ 22,270,843	$ -	$ 22,270,843	$ 24,890,469	89.5%	78.7%
2016	0.4521%	23,430,168	-	23,430,168	26,129,960	89.7%	78.2%
2017	0.4216%	34,231,829	447,074	34,678,903	26,160,187	132.6%	68.9%
2018	0.4075%	26,014,531	327,077	26,341,608	26,249,387	100.4%	75.9%
2019	0.3912%	21,702,172	711,813	22,413,985	26,290,387	85.3%	79.5%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	1.3465%	$ 62,045,751	$ 4,364,762	$ 66,410,513	$ 61,461,929	100.9%	81.5%
2016	1.3409%	82,947,927	10,174,529	93,122,456	68,056,160	121.9%	76.8%
2017	1.2585%	300,182,278	30,130,021	330,312,299	65,462,973	458.6%	44.9%
2018	1.2555%	250,620,575	24,227,300	274,847,875	67,587,093	370.8%	51.6%
2019	1.3098%	82,268,864	7,729,497	89,998,361	72,366,120	113.7%	78.1%

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

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 1,804,559	$ 1,804,559	$ -	$ 24,890,469	7.25%
2015	1,959,747	1,959,747	-	26,129,960	7.50%
2016	1,962,014	1,962,014	-	26,160,187	7.50%
2017	1,968,704	1,968,704	-	26,249,387	7.50%
2018	1,971,779	1,971,779	-	26,290,387	7.50%
2019	2,174,050	2,174,050	-	28,987,333	7.50%

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

Schedule Of District Contributions
TRA Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 4,302,335	$ 4,302,335	$ -	$ 61,461,929	7.00%
2015	5,104,212	5,104,212	-	68,056,160	7.50%
2016	4,909,723	4,909,723	-	65,462,973	7.50%
2017	5,069,032	5,069,032	-	67,587,093	7.50%
2018	5,427,459	5,427,459	-	72,366,120	7.50%
2019	5,933,711	5,933,711	-	76,961,232	7.71%

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

Independent School District No. 271
Notes to the Required Supplementary Information

TRA Retirement Fund

2018 Changes
Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% 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 2.5% if the funded ratio was at least 90% 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 July 1, 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 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes
Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

TRA Retirement Fund (Continued)

2016 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

Independent School District No. 271
Notes to the Required Supplementary Information

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% 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 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, 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 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, 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.

2017 Changes

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes

Changes in Actuarial Assumptions

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

Independent School District No. 271
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2015 Changes
Changes in Plan Provisions

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

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

Post Employment Health Care Plan
No assets are acclimated in a trust.

2018 Changes

- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2015 PERA General Employees Retirement Plan and 7/1/2015 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.
- The percent of future retirees not eligible for a direct subsidy assumed to elect coverage at retirement changed from 20% to 10% to reflect recent plan experience.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- The discount rate used to measure the total OPEB liability was 3.62% based on updated 20-year municipal bond rates.

2017 Changes

- Changes of assumption and other inputs reflect a change in the discount rate from 2.85% in 2016 to 3.53% in 2017.

SUPPLEMENTARY INFORMATION

Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds				
	Food Service	Community Service	Total	OPEB Debt Service	Total Nonmajor Funds
Assets					
Cash and investments	$ 1,267,299	$ 6,348,115	$ 7,615,414	$ 549,414	$ 8,164,828
Current property taxes receivable	-	971,164	971,164	366,634	1,337,798
Delinquent property taxes receivable	-	11,556	11,556	5,691	17,247
Accounts receivable	469	97,747	98,216	-	98,216
Due from Department of Education	-	313,164	313,164	-	313,164
Due from other Minnesota school districts	-	228,831	228,831	-	228,831
Due from Federal Government through Department of Education	46,742	422,916	469,658	-	469,658
Inventory	136,781	-	136,781	-	136,781
Prepaid items	-	60,925	60,925	-	60,925
Total assets	$ 1,451,291	$ 8,454,418	$ 9,905,709	$ 921,739	$ 10,827,448
Liabilities					
Accounts payable	$ 21,111	$ 3,858	$ 24,969	$ -	$ 24,969
Salaries and benefits payable	344,586	836,224	1,180,810	-	1,180,810
Due to other governmental units	-	575	575	-	575
Interfund payable	115,602	129,501	245,103	-	245,103
Unearned revenue	136,137	127,114	263,251	-	263,251
Total liabilities	617,436	1,097,272	1,714,708	-	1,714,708
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	-	1,956,401	1,956,401	738,596	2,694,997
Unavailable revenue - delinquent property taxes	-	10,169	10,169	5,044	15,213
Total deferred inflows of resources	-	1,966,570	1,966,570	743,640	2,710,210
Fund Balances					
Nonspendable					
Inventory	136,781	-	136,781	-	136,781
Prepaid items	-	60,925	60,925	-	60,925
Restricted					
Community education programs	-	3,416,980	3,416,980	-	3,416,980
Adult basic education	-	953,147	953,147	-	953,147
Early childhood family and education programs	-	720,870	720,870	-	720,870
School readiness	-	238,654	238,654	-	238,654
Fund purpose	697,074	-	697,074	178,099	875,173
Total fund balances	833,855	5,390,576	6,224,431	178,099	6,402,530
Total liabilities, deferred inflows of resources, and fund balances	$ 1,451,291	$ 8,454,418	$ 9,905,709	$ 921,739	$ 10,827,448

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

	Special Revenue Funds				Total
	Food Service	Community Service	Total	OPEB Debt Service	Total Nonmajor Funds
Revenues					
Local property taxes	$ -	$ 2,103,048	$ 2,103,048	$ 768,312	$ 2,871,360
Other local and county revenues	-	5,886,888	5,886,888	8,952	5,895,840
Revenue from state sources	306,233	3,131,119	3,437,352	-	3,437,352
Revenue from federal sources	2,964,174	709,520	3,673,694	-	3,673,694
Sales and other conversion of assets	1,796,640	-	1,796,640	-	1,796,640
Interdistrict revenue	-	228,831	228,831	-	228,831
Total revenues	5,067,047	12,059,406	17,126,453	777,264	17,903,717
Expenditures					
Current					
Elementary and secondary regular instruction	-	114,629	114,629	-	114,629
Food service	5,247,367	-	5,247,367	-	5,247,367
Community education and services	-	12,354,766	12,354,766	-	12,354,766
Capital outlay					
Food service	23,537	-	23,537	-	23,537
Community education and services	-	34,123	34,123	-	34,123
Debt service					
Principal	-	-	-	430,000	430,000
Interest and fiscal charges	-	-	-	301,603	301,603
Total expenditures	5,270,904	12,503,518	17,774,422	731,603	18,506,025
Excess of revenues over (under) expenditures	(203,857)	(444,112)	(647,969)	45,661	(602,308)
Other Financing Source					
Proceeds from sale of capital assets	3,506	-	3,506	-	3,506
Transfers in	36,105	341,110	377,215	-	377,215
Total other financing sources	39,611	341,110	380,721	-	380,721
Net change in fund balances	(164,246)	(103,002)	(267,248)	45,661	(221,587)
Fund Balances					
Beginning of year	998,101	5,493,578	6,491,679	132,438	6,624,117
End of year	$ 833,855	$ 5,390,576	$ 6,224,431	$ 178,099	$ 6,402,530

Independent School District No. 271
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local and county revenues	$ 44,663	$ 44,663	$ (3,455)	$ (48,118)
Revenue from state sources	274,593	274,593	306,233	31,640
Revenue from federal sources	2,846,891	2,846,891	2,964,174	117,283
Sales and other conversion of assets	1,822,391	1,822,391	1,800,095	(22,296)
Total revenues	4,988,538	4,988,538	5,067,047	78,509
Expenditures				
Current				
Food service	5,149,728	5,149,728	5,247,367	97,639
Capital outlay				
Food service	-	-	23,537	23,537
Total expenditures	5,149,728	5,149,728	5,270,904	121,176
Excess of revenues under expenditures	(161,190)	(161,190)	(203,857)	(42,667)
Other Financing Sources				
Proceeds from sale of capital asset	-	-	3,506	3,506
Transfers in	-	-	36,105	36,105
Total other financing sources	-	-	39,611	39,611
Net change in fund balance	$ (161,190)	$ (161,190)	(164,246)	$ (3,056)
Fund Balance				
Beginning of year			998,101	
End of year			$ 833,855	

Independent School District No. 271
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 2,162,667	$ 2,158,919	$ 2,103,048	$ (55,871)
Other local and county revenues	6,013,701	6,021,200	5,886,888	(134,312)
Revenue from state sources	3,069,761	3,160,411	3,131,119	(29,292)
Revenue from federal sources	287,452	780,717	709,520	(71,197)
Interdistrict revenue	226,910	226,910	228,831	1,921
Total revenues	11,760,491	12,348,157	12,059,406	(288,751)
Expenditures				
Current				
Elementary and secondary regular instruction	60,000	141,000	114,629	(26,371)
Community education and services	11,926,677	12,569,144	12,354,766	(214,378)
Capital outlay				
Community education and services	58,613	38,113	34,123	(3,990)
Total expenditures	12,045,290	12,748,257	12,503,518	(244,739)
Excess of revenues under expenditures	(284,799)	(400,100)	(444,112)	(44,012)
Other Financing Sources				
Transfers in	308,476	308,476	341,110	32,634
Net change in fund balance	$ 23,677	$ (91,624)	(103,002)	$ (11,378)
Fund Balance				
Beginning of year			5,493,578	
End of year			$ 5,390,576	

Independent School District No. 271
Combining Statement of
Net Position - Internal Service Funds
June 30, 2019

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Assets					
Cash and cash equivalents	$ 3,672,020	$ 1,351,237	$ 18,049,944	$ 102,191	$ 23,175,392
Investments	-	-	-	13,469,601	13,469,601
Due from other governments	-	-	1,027	-	1,027
Interfund receivable	-	141,336	2,641,109	-	2,782,445
Interest receivable	-	-	-	216,977	216,977
Total assets	$ 3,672,020	$ 1,492,573	$ 20,692,080	$ 13,788,769	$ 39,645,442
Liabilities					
Accounts payable	$ -	$ -	$ 19,580	$ -	$ 19,580
Incurred but not reported claims	-	29,000	1,760,000	-	1,789,000
Benefits payable	1,166,273	-	-	-	1,166,273
Unearned revenue	-	252,872	4,730,586	-	4,983,458
Total liabilities	1,166,273	281,872	6,510,166	-	7,958,311
Net Position					
Unrestricted	2,505,747	1,210,701	14,181,914	13,788,769	31,687,131
Total liabilities and net position	$ 3,672,020	$ 1,492,573	$ 20,692,080	$ 13,788,769	$ 39,645,442

Independent School District No. 271
Combining Statement of Revenues, Expenses. and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2019

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Operating revenues					
Charges for services	$ -	$ 1,308,758	$ 21,478,382	$ -	$ 22,787,140
Contribution	515,091	-	-	-	515,091
Total revenue	515,091	1,308,758	21,478,382	-	23,302,231
Operating expenses					
Salaries and benefits	-	33,000	-	-	33,000
Employee benefits	515,091	1,236,026	16,606,209	768,479	19,125,805
Administrative	-	95,028	1,766,181	250	1,861,459
Total operating expenses	515,091	1,364,054	18,372,390	768,729	21,020,264
Operating income (loss)	-	(55,296)	3,105,992	(768,729)	2,281,967
Nonoperating revenues					
Investment income	80,235	27,450	357,777	308,047	773,509
Income before transfers	80,235	(27,846)	3,463,769	(460,682)	3,055,476
Net position					
Beginning of year	2,425,512	1,238,547	10,718,145	14,249,451	28,631,655
End of year	$ 2,505,747	$ 1,210,701	$ 14,181,914	$ 13,788,769	$ 31,687,131

Independent School District No. 271
Combining Statement of Cash Flows -
Internal Service Funds
As of June 30, 2019

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Cash Flows - Operating Activities					
Receipts from employee contributions	$ -	$ 1,311,943	$ 21,550,678	$ -	$ 22,862,621
Receipts from district contributions	470,864	-	-	-	470,864
Employee claims paid	-	(1,234,026)	(16,606,209)	(768,479)	(18,608,714)
Payments to employees	(515,091)	(33,000)	-	-	(548,091)
Payments to suppliers	-	(95,028)	(1,746,601)	(250)	(1,841,879)
Net cash flows - operating activities	(44,227)	(50,111)	3,197,868	(768,729)	2,334,801
Cash Flows - Investment Activities					
Investment purchases	-	-	-	(399,082)	(399,082)
Interest received	80,235	27,450	357,777	447,374	912,836
Net cash flows - investment activities	80,235	27,450	357,777	48,292	513,754
Net change in cash and cash equivalents	36,008	(22,661)	3,555,645	(720,437)	2,848,555
Cash and Cash Equivalents					
Beginning of year	3,636,012	1,373,898	14,494,299	822,628	20,326,837
End of year	$ 3,672,020	$ 1,351,237	$ 18,049,944	$ 102,191	$ 23,175,392
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities					
Operating income (loss)	$ -	$ (55,296)	$ 3,105,992	$ (768,729)	$ 2,281,967
Adjustments to reconcile operating income (loss) to net cash flows - operating activities					
Accounts payable	-	-	19,580	-	19,580
Benefits payable	(44,227)	-	-	-	(44,227)
Incurred but not reported					
Accounts receivable	-	55	960	-	1,015
claims	-	2,000	-	-	2,000
Due from other governments	-	-	(1,027)	-	(1,027)
Interfund receivable	-	(4,181)	(92,196)	-	(96,377)
Unearned revenue	-	7,311	164,559	-	171,870
Net adjustments	(44,227)	5,185	91,876	-	52,834
Net cash flows - operating activities	$ (44,227)	$ (50,111)	$ 3,197,868	$ (768,729)	$ 2,334,801

Independent School District No. 271
Statement of Changes in Agency Fund
Assets and Liabilities
Year Ended June 30, 2019

	June 30, 2018	Additions	Deductions	June 30, 2019
Assets				
Cash and investments	$ 309,314	$ 793,265	$ (730,447)	$ 372,132
Due from other governments	4,467	-	(4,467)	-
Total assets	$ 313,781	$ 793,265	$ (734,914)	$ 372,132
Liabilities				
Accounts payable	$ 124,891	$ 156,707	$ (141,215)	$ 140,383
Due to other governments	1,017	1,027	(1,017)	1,027
Salaries and benefits payable	9,215	198,965	(201,772)	6,408
Other liabilities	178,658	234,768	(189,112)	224,314
Total liabilities	$ 313,781	$ 591,467	$ (533,116)	$ 372,132

Independent School District No. 271
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2019

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 161,268,958	$ 161,268,961	$ (3)
Total expenditures		163,599,935	163,599,935	-
Nonspendable:				
460	Nonspendable fund balance	426,006	426,006	-
Restricted/reserved:				
403	Staff Development	-	-	-
405	Deferred Maintenance	-	-	-
406	Health and Safety	-	-	-
407	Capital Projects Levy	3,297,635	3,297,636	(1)
408	Cooperative Programs	-	-	-
409	Alternative Facility Program	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
414	Operating Debt	-	-	-
416	Levy Reduction	-	-	-
417	Taconite Building Maintenance	-	-	-
424	Operating Capital	6,020,797	6,020,797	-
426	$25 Taconite	-	-	-
427	Disabled Accessibility	-	-	-
428	Learning and Development	-	-	-
434	Area Learning Center	-	-	-
435	Contracted Alternative Programs	-	-	-
436	State Approved Alternative Program	817,254	817,254	-
438	Gifted and Talented	-	-	-
440	Teacher Development and Evaluation	-	-	-
441	Basic Skills Programs	-	-	-
445	Career Technical Programs	-	-	-
448	Achievement and Integration Revenue	-	-	-
449	Safe School Crime	-	-	-
450	Transition to Pre-Kindergarten	-	-	-
451	QZAB Payments	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
453	Unfunded Severance and Retirement Levy	-	-	-
459	Basic Skills Extended Time	-	-	-
467	Long-term Facilities Maintenance	-	-	-
472	Medical Assistance	576,368	576,368	-
475	Title VII - Impact Aid	-	-	-
476	Payments in Lieu of Taxes	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Committed:				
418	Committed for separation	-	-	-
461	Committed fund balance	1,478,149	1,478,149	-
Assigned:				
462	Assigned fund balance	10	10	-
Unassigned:				
422	Unassigned fund balance	10,078,846	10,078,846	-
02 Food Services Fund				
Total revenue		$ 5,067,047	$ 5,067,044	$ 3
Total expenditures		5,270,904	5,270,904	-
Nonspendable:				
460	Nonspendable fund balance	136,781	136,781	-
Restricted/reserved:				
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	697,074	697,074	-
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 12,059,406	$ 12,059,406	$ -
Total expenditures		12,503,518	12,503,522	(4)
Nonspendable:				
460	Nonspendable fund balance	60,925	60,924	1
Restricted/reserved:				
426	$25 Taconite	-	-	-
431	Community Education	3,416,980	3,416,978	2
432	ECFE	720,870	720,870	-
440	Teacher Development and Evaluation	-	-	-
444	School Readiness	238,654	238,654	-
447	Adult Basic Education	953,147	953,147	-
452	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ 228,175	$ 228,175	$ -
Total expenditures		14,312,586	14,312,585	1
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
407	Capital Projects Levy	-	-	-
409	Alternative Facility Program	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
467	Long-term Facilities Maintenance	21,017,138	21,017,140	(2)
Restricted:				
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 12,001,911	$ 12,001,911	$ -
Total expenditures		11,215,153	11,215,153	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
425	Bond refunding	-	-	-
433	Maximum effort loan aid	-	-	-
451	QZAB payments	-	-	-
Restricted:				
464	Restricted fund balance	1,476,910	1,476,910	-
Unassigned:				
463	Unassigned fund balance	-	-	-
08 Trust Fund				
Total revenue		$ 1,511	$ 1,510	$ 1
Total expenditures		18,996	18,996	-
Unassigned:				
422	Net position	58,402	58,402	-
20 Internal Service Fund				
Total revenue		$ 23,767,693	$ 23,767,691	$ 2
Total expenditures		20,251,535	20,251,534	1
Unassigned:				
422	Net position	17,898,362	17,898,362	-
25 OPEB Revocable Trust				
Total revenue		$ 308,047	$ 308,047	$ -
Total expenditures		768,729	768,729	-
Unassigned:				
422	Net position	13,788,769	13,788,768	1
45 OPEB Irrevocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Net position	-	-	-
47 OPEB Debt Service				
Total revenue		$ 777,264	$ 777,263	$ 1
Total expenditures		731,603	731,603	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted:				
425	Bond refundings	-	-	-
464	Restricted fund balance	178,099	178,099	-
Unassigned:				
463	Unassigned fund balance	-	-	-

Independent School District No. 271
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child nutrition cluster		
Commodities programs (noncash assistance)	10.555	$ 347,470
School breakfast	10.553	596,475
Summer food service	10.559	127,377
Type a lunch	10.555	1,851,831
After school snack	10.555	41,021
Total child nutrition cluster and U.S. Department of Agriculture		2,964,174
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	1,760,392
Title II, Part A - improving teacher quality	84.367	348,781
Title III, Part A - language enhancement	84.365	172,521
Striving Readers Comprehensive Literacy (SRCL)	84.371C	598,112
Special education cluster		
Special education	84.027	1,357,740
Handicapped early education	84.173	41,430
Total special education cluster		1,399,170
Infants and toddlers	84.181	76,450
Adult basic education		
Adult basic education	84.002	152,443
Adult basic education literacy	84.002A	96,191
Total adult basic education		248,634
Education for homeless children and youth	84.196	12,435
Through Independent School District No. 273		
Carl Perkins	84.048A	60,833
Direct from federal government		
Indian elementary and secondary school assistance	84.060	31,105
Total U.S. Department of Education		4,708,433
Total federal expenditures		$ 7,672,607

See notes to Schedule of Expenditures of Federal Awards.

Independent School District No. 271
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2019

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

NOTE 4 – INDIRECT COST RATE

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

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

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of and for the year ending June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 21, 2019.

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be material weakness, audit finding 2019-001.

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 21, 2019

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program
We have audited the compliance of Independent School District No. 271, Bloomington, Minnesota, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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

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

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

Opinion on Each Major Federal Program
In our opinion, Independent School District No. 271, Bloomington, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

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

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 21, 2019

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

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2019-001
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

CFDA No.:	10.553, 10.555, 10.556, 10.559
Name of Federal Program or Cluster	Child Nutrition Cluster
CFDA No.:	84.371C
Name of Federal Program or Cluster	Striving Readers Comprehensive Literacy
Auditee qualified as low risk auditee?	No

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

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2019-001 – Material Audit Adjustments

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

Condition:
During the course of our audit, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements. In order to ensure financial statements were free from material misstatement, audit adjustments were required to properly adjust capital assets.

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

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

Cause:
A complete and accurate reconciliation of capital assets was not performed sufficiently resulting in material audit adjustments.

Recommendation:
We recommend management review all activity to detect and correct misstatements of balances.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the finding.

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

3. <u>Official Responsible for Ensuring CAP</u>
   Executive Director Finance and Support Services

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2019-001 – Material Audit Adjustments (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (CONTINUED)

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

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

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs noted.

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Minnesota Legal Compliance

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, and have issued our report thereon dated November 21, 2019.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 21, 2019