PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 4, 2018

In the opinion of Bond Counsel, under present federal and State of Minnesota laws, regulations and rulings, the interest to be paid on the Bonds of this offering is not includible in gross income of the recipient for United States or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. See " Tax Exemption" herein for a discussion of federal tax legislation.

The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue **Rating Application Made: Moody's Investors Service**

INDEPENDENT SCHOOL DISTRICT NO. 278
(ORONO PUBLIC SCHOOLS), MINNESOTA
(Hennepin County)

(Minnesota School District Credit Enhancement Program)

$1,930,000* GENERAL OBLIGATION TAX ABATEMENT BONDS, SERIES 2018B

PROPOSAL OPENING: October 17, 2018, 10:00 A.M., C.T.
CONSIDERATION: Not later than 11:59 P.M., C.T. on October 17, 2018 (PARAMETERS RESOLUTION)

PURPOSE/AUTHORITY/SECURITY: The $1,930,000* General Obligation Tax Abatement Bonds, Series 2018B (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 469.1814 by Independent School District No. 278 (Orono Public Schools), Minnesota (the "District") to finance the construction of and improvements to District parking lots and related work, and to fund related financing costs. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota.

DATE OF BONDS: November 7, 2018

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2020	$155,000	2024	$190,000	2028	$215,000
2021	170,000	2025	195,000	2029	225,000
2022	180,000	2026	205,000		
2023	185,000	2027	210,000		

MATURITY ADJUSTMENTS: * The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BONDS: See “Term Bond Option” herein.

INTEREST: August 1, 2019 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 2027 and thereafter are subject to call for prior redemption on February 1, 2026 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: $1,906,840.

GOOD FAITH DEPOSIT: A good faith deposit in the amount of $38,600 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Knutson, Flynn & Deans, P.A.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See “Book-Entry-Only System” herein (unless otherwise specified by the purchaser).

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers & Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the District and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers & Associates, Inc., payable entirely by the District, is contingent upon the sale of the issue.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over $1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the “Rule”).

Preliminary Official Statement: This Preliminary Official Statement was prepared for the District for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers & Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over $1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the Bonds are exempt or required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the District nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the District which indicates that the District does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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ORONO PUBLIC SCHOOLS
SCHOOL BOARD

		Term Expires
Robert Tunheim	Chairperson	January 2022
Martha Van de Ven	Vice Chairperson	January 2022
Michael Bash	Clerk	January 2020
Dick Lewis	Treasurer	January 2020
Sarah Borchers	Member	January 2022
Laura Wallander	Member	January 2020

ADMINISTRATION

Karen Orcutt, Superintendent of Schools
John Morstad, Business Services Director
Lauren Syrup, Controller

PROFESSIONAL SERVICES

Knutson, Flynn & Deans, P.A., Bond Counsel, Mendota Heights, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(*Other offices located in Waukesha, Wisconsin; Chicago, Illinois; and Denver, Colorado*)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 278 (Orono Public Schools), Minnesota (the "District") and the issuance of its $1,930,000* General Obligation Tax Abatement Bonds, Series 2018B (the "Bonds"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution authorizing the sale of the Bonds ("Award Resolution") to be adopted by the Board of Education on October 17, 2018.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the District's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the link to the Bond Sales and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of November 7, 2018. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2027 shall be subject to optional redemption prior to maturity on February 1, 2026 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the District. If only part of the Bonds having a common maturity date are called for redemption, then the District or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued by the District pursuant to Minnesota Statutes, Chapter 475 and Section 469.1814. Proceeds of the Bonds will be used to finance the construction of and improvements to District parking lots and related work, and to fund related financing costs.

ESTIMATED SOURCES AND USES*

Sources			
	Par Amount	$1,930,000	
	Original Issue Premium	68,099	
	Total Sources		**$1,998,099**
Uses			
	Total Underwriter's Discount (1.200%)	$23,160	
	Costs of Issuance	30,269	
	Deposit to Project Construction Fund	1,944,670	
	Total Uses		**$1,998,099**

*Preliminary, subject to change

SECURITY

The Bonds are general obligations of the District to which its full faith, credit and taxing powers are pledged. In accordance with Minnesota Statutes, the District will levy each year an amount not less than 105% of the debt service requirements on the Bonds, less estimated collections of other revenues pledged for payments on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the District is required to levy additional taxes upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

CONCURRENT FINANCING

By means of a separate Preliminary Official Statement, the District will be issuing General Obligation Taxable OPEB Refunding Bonds, Series 2018A (the "Concurrent Obligations" or the "Series 2018A Bonds") on November 7, 2018.

RATING

The District will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a rating from Moody's Investors Service. The "Aa2" rating is based on the State of Minnesota's current "Aa2" rating from Moody's Investors Service. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM" for further details.

The District currently has an "Aa2" underlying rating from Moody's Investors Service and will be requesting an underlying rating on this issue. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the District nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on September 10, 2018 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issue remain outstanding.

Under the State Payment Law, if the District believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Commissioner of Education as soon as possible, but not less than 15 working days prior to the due date (which notice is to specify certain information) that it intends to exercise the provisions of the Law to guarantee payment of the principal and interest when due. The District also covenants in the Resolution to deposit with the Paying Agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of the payment.

The Law also requires the Paying Agent for this issue to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal and interest on these obligations, or if, on the day two business days prior to the payment date, there are insufficient funds to make the payment or deposit with the Paying Agent.

The Law also requires, after receipt of a notice which requests a payment pursuant to the Law, after consultation with the Paying Agent and District, and after verifying the accuracy of the information provided, the Commissioner of Education shall notify the Commissioner of Management and Budget of the potential default. The State Payment Law provides that "upon receipt of this notice . . . the Commissioner of Management and Budget shall issue a warrant and authorize the Commissioner of Education to pay to the Paying Agent for the debt obligation the specified amount on or before the date due. The amounts needed for purposes of subdivision are annually appropriated to the Department of Education from the state general fund."

The Law requires that all amounts paid by the State on behalf of any School District are required to be repaid by the District to the State with interest, either via a reduction in State aid payable to the District, or through the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

In its Official Statement dated August 7, 2018, for General Obligation State Bonds, Series 2018A, 2018B, and 2018C, the State of Minnesota disclosed the following information about the State Credit Enhancement Program for School Districts.

> "As the date of this Official Statement, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2046, is approximately $13.1 billion. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of the date of this Official Statement is $901.2 million, with the maximum amount of principal and interest payable in any one month being $833.5 million. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.
>
> The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the District shall covenant to take certain actions pursuant to a Resolution adopted by the Board of Education by entering into a Continuing Disclosure Undertaking (the “Disclosure Undertaking”) for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the District to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the District at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

The District did not timely file notice of certain bond insurer rating changes during the previous five years. Except to the extent the preceding is deemed to be material, in the previous five years the District believes it has not failed to comply in all material respects with its prior undertakings under the Rule. In the interest of full disclosure, the District notes the following: Prior continuing disclosure undertakings entered into by the District included language stating that an Annual Report including the District's audited financial statements and operating data would be filed "as soon as available." Although the District did not always comply with this requirement, the Annual Reports were timely filed within the required twelve (12) month timeframe as provided for in each undertaking The District has reviewed its continuing disclosure responsibilities to help ensure compliance in the future.

A failure by the District to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The District will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. Ehlers is currently engaged as disclosure dissemination agent for the District.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B..

TAX EXEMPTION AND RELATED CONSIDERATIONS

In the opinion of Knutson, Flynn & Deans, P.A., as Bond Counsel, on the basis of laws in effect on the date of issuance of the Bonds, interest on the Bonds is not includible in gross income for federal income tax purposes or in taxable net income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. Certain provisions of the Internal Revenue Code of 1986, as amended (the Code), however, impose continuing requirements that must be met after the issuance of the Bonds in order for interest thereon to be and remain not includible in federal gross income and in Minnesota taxable net income. Noncompliance with such requirements by the Issuer may cause the interest on the Bonds to be includible in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includible in federal gross income or Minnesota taxable net income.

Interest on the Bonds is not an item of tax preference includible in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includible in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax for tax years beginning prior to January 1, 2018, and the environmental tax imposed by Section 59A of the Code. Interest on the Bonds may be includible in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includible in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or Bondholders should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income. Except as stated in its opinion, no opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, Colorado, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the District, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the District under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2017 have been audited by Malloy, Montague, Karnowski, Radosevich, & Co., P.A. ("MMKR"), Minneapolis, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the District, the ultimate payment of which rests in the District's ability to levy and collect sufficient taxes to pay debt service should other revenue be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the District in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the District, the taxable value of property within the District, and the ability of the District to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the District and to the Bonds. The District can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the District or the taxing authority of the District.

Ratings; Interest Rates: In the future, the District's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the District to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the District to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the District, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the District may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

Cybersecurity: The District is dependent on electronic information technology systems to deliver services. These systems may contain sensitive information or support critical operational functions which may have value for unauthorized purposes. As a result, the electronic systems and networks may be targets of cyberattack. There can be no assurance that the District will not experience an information technology breach or attack with financial consequences that could have a material adverse impact.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2015/16	2016/17	2017/18
Residential homestead[1]	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%
Agricultural homestead[1]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,140,000 - 0.50% [2] Over $2,140,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,050,000 - 0.50% [2] Over $2,050,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $1,940,000 - 0.50% [2] Over $1,940,000 - 1.00% [2]
Agricultural non-homestead	Land - 1.00% [2]	Land - 1.00% [2]	Land - 1.00% [2]
Seasonal recreational residential	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]
Residential non-homestead:	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $106,000 - .75% Over $106,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $115,000 - .75% Over $115,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $121,000 - .75% Over $121,000 - .25%
Industrial/Commercial/Utility[5]	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%

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1 A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

2 Applies to land and buildings. Exempt from referendum market value tax.

3 Exempt from referendum market value tax.

4 Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

5 The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2017/18 Economic Market Value $3,877,599,361[1]

	2017/18 Assessor's Estimated Market Value	2017/18 Net Tax Capacity
Real Estate	$ 3,575,360,500	$ 40,886,558
Personal Property	19,143,900	379,128
Total Valuation	$ 3,594,504,400	$ 41,265,686
Less: Captured Tax Increment Tax Capacity[2]		(165,888)
Fiscal Disparities Contribution[3]		(1,313,356)
Taxable Net Tax Capacity		$ 39,786,442
Plus: Fiscal Disparities Distribution[3]		893,029
Adjusted Taxable Net Tax Capacity		$ 40,679,471

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1 According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 278 (Orono Public Schools) is about 96.84% of the actual selling prices of property most recently sold in the District. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the District of $3,877,599,361.

2 The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts located in the District.

3 Each community in the seven-county metropolitan area contributes 40% of the growth in its commercial-industrial property tax base since 1972 to an area pool which is then distributed among the municipalities on the basis of population, and fiscal capacity indicated market value as determined by the Minnesota Department of Revenue. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes contributing net tax capacity for tax purposes.

2017/18 NET TAX CAPACITY BY CLASSIFICATION

	2017/18 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$34,738,319	84.18%
Agricultural	679,662	1.65%
Public utility	68,320	0.17%
Railroad operating property	146,190	0.35%
Commercial/industrial	3,188,651	7.73%
Non-homestead residential	428,952	1.04%
Commercial & residential seasonal/rec.	1,636,464	3.97%
Personal property	379,128	0.92%
Total	$41,265,686	100.00%

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Adjusted Taxable Net Tax Capacity[2]	Percent +/- in Estimated Market Value
2013/14	$2,945,824,100	$2,910,272,603	$33,316,091	$32,720,596	- 1.11%
2014/15	3,100,033,300	3,066,930,372	35,159,450	34,581,726	+ 5.23%
2015/16	3,213,352,100	3,181,179,267	36,510,052	35,932,887	+ 3.66%
2016/17	3,422,899,200	3,392,960,460	39,117,423	38,557,909	+ 6.52%
2017/18	3,594,504,400	3,566,836,716	41,265,686	40,679,471	+ 5.01%

1 Net Tax Capacity is before fiscal disparities adjustments and includes tax increment values.

2 Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments and does not include tax increment values.

LARGER TAXPAYING PARCELS[1]

Taxpayer	Type of Property	2017/18 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Individuals	Residential	$ 223,500	0.54%
Individual	Residential	140,925	0.34%
Individual	Residential	116,013	0.28%
Individual	Residential	115,903	0.28%
Individual	Residential	106,625	0.26%
Individual	Residential	104,438	0.25%
Individual	Residential	101,938	0.25%
WJM Properties LLC	Commercial	99,990	0.24%
Individuals	Residential	98,438	0.24%
Proto Labs, Inc.	Commercial	95,150	0.23%
Total		$ 1,202,920	2.92%

District's Total 2017/18 Net Tax Capacity $41,265,686

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpaying Parcels have been furnished by Hennepin County.

[1] Hennepin County has provided only the ten largest taxpaying ***parcels*** which appear on the tax rolls of the County, and therefore the information stated above may not be reflective of the entire valuation of all parcels and may not include all classifications of property.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedule following)

Total g.o. debt being paid from taxes and state aids (includes the Bonds and the Concurrent Obligations, as defined herein)*	$ 70,245,000

Lease Purchase Obligations (see schedule following)[2]

Total lease purchase obligations paid by annual appropriations[3]	$ 2,331,263

*Preliminary, subject to change.

STATE AID FOR DEBT SERVICE

The Minnesota Debt Service Equalization program provides state aid to finance a portion of the principal and interest payments on most school district bonds. Bonds not eligible for the program include all alternative facilities bonds, facilities maintenance bonds, capital facilities bonds and OPEB bonds, as well as building bonds with relatively short maturities.

Under the Debt Service Equalization Formula (the Formula) adopted by the 2001 Minnesota State Legislature, each school district is responsible for the amount of its qualifying annual debt service which is equal to 15.74% of its Adjusted Net Tax Capacity (ANTC). The District does not currently qualify for debt service equalization aid.

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1 Outstanding debt is as of the dated date of the Bonds.

2 Computers and copiers have not been included, however, information related to these leases can be reviewed in the audit.

3 Non-general obligation debt has not been included in the debt ratios.

INDEPENDENT SCHOOL DISTRICT NO. 278 (ORONO PUBLIC SCHOOLS), MINNESOTA

Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 11/7/2018)
FISCAL YEAR BASIS

	OPEB Series 2008B		Refunding 1) Series 2016A		Building Bonds Series 2017A		Fac. Maintenance Bonds Series 2017B		OPEB Refunding Bonds 2) Series 2018A		Abatement Bonds Series 2018B							
Dated Amount	11/19/08 $4,630,000		8/4/16 $36,450,000		2/22/17 $27,375,000		5/18/17 $2,865,000		11/7/18 $3,030,000*		11/7/18 $1,930,000*							
Maturity	2/01		2/01		2/01		2/01		2/01		2/01							
Fiscal Year Ending	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Estimated Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2019	215,000	105,389	3,320,000	620,469	0	489,675	240,000	60,700	0	0	0	0	3,775,000	1,276,233	5,051,233	66,470,000	5.37%	2019
2020			2,665,000	1,108,138	555,000	979,350	250,000	109,400	250,000	126,284	155,000	76,343	3,875,000	2,399,515	6,274,515	62,595,000	10.89%	2020
2021			2,770,000	1,001,538	660,000	962,700	260,000	96,900	280,000	95,143	170,000	57,250	4,140,000	2,213,530	6,353,530	58,455,000	16.78%	2021
2022			2,850,000	890,738	710,000	942,900	275,000	83,900	290,000	86,463	180,000	52,150	4,305,000	2,056,150	6,361,150	54,150,000	22.91%	2022
2023			2,970,000	776,738	740,000	914,500	290,000	70,150	290,000	77,183	185,000	46,750	4,475,000	1,885,320	6,360,320	49,675,000	29.28%	2023
2024			3,100,000	657,938	765,000	877,500	305,000	55,650	300,000	67,613	190,000	41,200	4,660,000	1,699,900	6,359,900	45,015,000	35.92%	2024
2025			3,220,000	533,938	810,000	839,250	325,000	40,400	310,000	57,563	195,000	35,500	4,860,000	1,506,650	6,366,650	40,155,000	42.84%	2025
2026			3,360,000	405,138	845,000	798,750	335,000	27,400	315,000	47,023	205,000	27,700	5,060,000	1,306,010	6,366,010	35,095,000	50.04%	2026
2027			3,510,000	270,738	875,000	756,500	350,000	14,000	325,000	35,998	210,000	19,500	5,270,000	1,096,735	6,366,735	29,825,000	57.54%	2027
2028			3,595,000	191,763	915,000	712,750			330,000	24,460	215,000	13,200	5,055,000	942,173	5,997,173	24,770,000	64.74%	2028
2029			3,705,000	101,888	935,000	676,150			340,000	12,580	225,000	6,750	5,205,000	797,368	6,002,368	19,565,000	72.15%	2029
2030					4,535,000	638,750							4,535,000	638,750	5,173,750	15,030,000	78.60%	2030
2031					4,860,000	457,350							4,860,000	457,350	5,317,350	10,170,000	85.52%	2031
2032					5,010,000	311,550							5,010,000	311,550	5,321,550	5,160,000	92.65%	2032
2033					5,160,000	161,250							5,160,000	161,250	5,321,250	0	100.00%	2033
	215,000	105,389	35,065,000	6,559,019	27,375,000	10,518,925	2,630,000	558,500	3,030,000	630,307	1,930,000	376,343	70,245,000	18,748,482	88,993,482			

*Preliminary, subject to change

1) This issue is refunding the 2018 through 2021 maturities of the $7,810,000 General Obligation School Building Refunding Bonds, Series 2007A, dated November 14, 2007, the 2018 through 2021 maturities of the $7,790,000 General Obligation School Building Refunding Bonds, Series 2007B, dated December 4, 2007, and the 2019 through 2029 maturities of the $39,350,000 General Obligation School Building Bonds, Series 2008A, dated May 7, 2008.

2) This issue is refunding the 2020 through 2029 maturities of the $4,630,000 General Obligation Taxable OPEB Bonds, Series 2008B, dated November 19, 2008. The District is respondible for paying the principal and interest of the non-refunded maturities through February 1, 2019 (the "Call Date"), and the principal being refunded on the Call Date. Therefore, the refunded issue has not been included above and has not been included in the calculation of debt ratios.

INDEPENDENT SCHOOL DISTRICT NO. 278 (ORONO PUBLIC SCHOOLS), MINNESOTA
Schedule of Bonded Indebtedness
Non-General Obligation Debt Being Paid From Annual Appropriations
(As of 11/7/2018)
FISCAL YEAR BASIS

	Athletic Field Lease		Transportation Facility Lease							
Dated	5/07/08		9/12/2017							
Amount	$1,600,000		$1,767,500							
Maturity	11/01 and 5/01 Final Maturity 5/01		2/01 and 8/01 Final Maturity 8/01							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2019	120,240	30,096	46,877	28,795	167,117	58,891	226,008	2,164,146	7.17%	**2019**
2020	126,032	24,304	96,195	55,151	222,227	79,455	301,682	1,941,919	16.70%	**2020**
2021	132,102	18,234	99,542	51,803	231,644	70,037	301,681	1,710,275	26.64%	**2021**
2022	138,465	11,871	1,426,675	28,565	1,565,140	40,436	1,605,576	145,135	93.77%	**2022**
2023	145,135	5,201			145,135	5,201	150,336	0	100.00%	**2023**
	661,974	89,706	1,669,289	164,314	2,331,263	254,020	2,585,283			

BONDED DEBT LIMIT

Minnesota Statutes, Section 475.53, subdivision 4, presently limits the "net debt" of a school district to 15% of its actual market value. The actual market value of property within a district, on which its debt limit is based, is (a) the value certified by the county auditors, or (b) this value divided by the ratio certified by the commissioner of revenue, whichever results in a higher value. The current debt limit of the District is computed as follows:

2017/18 Economic Market Value	$3,877,599,361
Multiply by 15%	0.15
Statutory Debt Limit	$ 581,639,904
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes [1] (includes the Bonds and the Concurrent Obligations)*	(67,000,000)
Less: Long-Term Debt Outstanding Being Paid Solely from Annual Appropriations	(2,331,263)
Unused Debt Limit*	$ 512,308,641

*Preliminary, subject to change.

[1] Does not include the $4,630,000 General Obligation Taxable OPEB Bonds, Series 2008B or $3,030,000 General Obligation Taxable OPEB Bonds, Series 2018A, as they are not subject to the debt limit calculation.

OVERLAPPING DEBT[1]

Taxing District	2017/18 Adjusted Taxable Net Tax Capacity	% In District	Total G.O. Debt[2]	District's Proportionate Share
Hennepin County	$1,838,226,039	2.2130%	$1,025,550,000	$22,695,422
City of Independence	7,292,272	48.7935%	2,050,000	1,000,267
City of Long Lake	2,855,195	100.0000%	2,785,000	2,785,000
City of Maple Plain	2,185,014	100.0000%	6,115,000	6,115,000
City of Medina	18,134,147	40.1695%	10,540,000	4,233,865
City of Minnetonka Beach	4,007,934	100.0000%	1,290,000	1,290,000
City of Orono	32,859,025	62.9210%	7,000,000	4,404,470
City of Wayzata	20,541,094	0.5529%	5,065,000	28,004
Metropolitan Council	3,971,779,581	1.0242%	147,660,000	1,512,334
Three Rivers Park District	1,304,690,419	3.1179%	53,355,000	1,663,556
District's Share of Total Overlapping Debt				$45,727,917

DEBT PAYMENT HISTORY

The District has no record of default in the payment of principal and interest on its debt.

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1 Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does ***not*** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

2 Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value ($3,877,599,361)	Debt/ Current Population Estimate (12,454)
Direct G.O. Debt Being Paid From Taxes (includes the Obligations and the Concurrent Obligations)*	$ 70,245,000	1.81%	$5,640.36
District's Share of Total Overlapping Debt	$ 45,727,917	1.18%	$3,671.75
Total*	$115,972,917	1.18%	$3,671.75

*Preliminary, subject to change.

FUTURE FINANCING

In addition to the Concurrent Obligations, the District may enter into a lease purchase agreement of approximately $15 million to finance the construction of a performing arts center in 2019; payments on the lease purchase would be financed by private donations.

LEVY LIMITS

Minnesota school district tax levies for most purposes are subject to statutory limitations. No limit, however, is placed on the debt service levy, and districts are required to levy 105% of actual principal and interest requirements to allow for delinquencies.

School districts receive a basic revenue amount per pupil unit from aid and levy proceeds in a variety of categorical state aids. They are also allowed to certify additional levies within limits for certain specified purposes. The State Department of Education and the applicable County Auditors review the levies of each school district to determine compliance with state levy limits.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date[2]	% Collected
2013/14	$12,915,533	$12,802,871	$12,900,155	99.88%
2014/15	13,652,542	13,577,519	13,639,448	99.90%
2015/16	14,729,462	14,702,430	14,709,157	99.86%
2016/17	16,539,933	16,560,894	16,560,894	100.00%
2017/18[3]	17,409,201	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.[4] Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

[1] This reflects the Final Levy Certification of the District after all adjustments have been made.

[2] Collections are through January 1, 2018.

[3] Values represent Original Gross Tax Levy for 2017/18

[4] Second half tax payments on agricultural property are due on November 15th of each year.

TAX CAPACITY RATES[1]

	2013/14	2014/15	2015/16	2016/17	2017/18
I.S.D. No. 278 (Orono Public Schools)	22.613%	22.601%	23.166%	23.352%	24.024%
Hennepin County	49.959%	46.398%	45.356%	44.087%	42.808%
City of Independence	37.451%	38.856%	39.788%	39.967%	40.448%
City of Long Lake	44.229%	44.491%	43.796%	39.180%	37.157%
City of Maple Plain	71.322%	80.776%	76.817%	75.349%	66.514%
City of Medina	25.501%	23.577%	23.301%	22.270%	21.521%
City of Minnetonka Beach	32.772%	26.798%	27.030%	25.948%	24.613%
City of Orono	17.815%	17.387%	17.325%	16.759%	16.555%
City of Wayzata	26.311%	25.705%	24.673%	23.352%	21.749%
Metro Mosquito	0.563%	0.507%	0.483%	0.475%	0.456%
Metro Council	1.069%	0.976%	0.925%	0.883%	0.844%
Metro Transit	1.703%	1.523%	1.491%	1.463%	1.383%
Three Rivers Park District	4.169%	3.789%	3.601%	3.365%	3.161%
Park Museum	0.766%	0.702%	0.712%	0.711%	0.710%
HCRRA	1.777%	1.817%	1.879%	1.925%	1.962%
Hennepin County HRA	0.514%	0.471%	0.439%	0.497%	0.457%
Referendum Market Value Rates:					
I.S.D. No. 278 (Orono Public Schools)	0.18875%	0.19876%	0.20934%	0.23024%	0.22236%
City of Wayzata	0.01541%	0.01615%	0.01455%	0.01338%	0.01213%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Hennepin County.

[1] After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 356, including 158 non-licensed employees and 198 licensed employees (190 of whom are teachers). The District provides education for 2,867 students in grades kindergarten through twelve.

PENSIONS; UNIONS

Teachers' Retirement Association (TRA)

All teachers employed by the District are covered by defined benefit pension plans administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

Public Employees' Retirement Association (PERA)

All full-time and certain part-time employees of the District (other than those covered by TRA) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
Orono Education Association	June 30, 2019
School Service Employees Local #284 Secretaries	June 30, 2019
School Service Employees Local #284 Custodians	June 30, 2018
School Service Employees Local #284 Paraprofessionals	June 30, 2019
School Service Employees Local #284 Food Service	June 30, 2018
Orono Principals' Association	June 30, 2019

Status of Contracts

Contracts which expired on June 30, 2018 are currently in negotiations.

POST EMPLOYMENT BENEFITS

The District has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 74 and 75 (GASB 74/75). The District's most recent actuarial study of its OPEB obligations shows a total OPEB liability of $5,625,146 as of July 1, 2016. The District has been funding these obligations on a pay-as-you-go basis, but in November of 2008 they issued $4,630,000 in OPEB Bonds to fund an irrevocable trust. The net value of the trust was $4,575,359 as of July 1, 2017. Future OPEB costs will be paid partially from the trust and partially from operating funds.

STUDENT BODY

The number of students enrolled for the past four years and for the current year have been as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2013/14	168	1,199	1,382	2,749
2014/15	159	1,218	1,405	2,782
2015/16	184	1,217	1,395	2,796
2016/17	183	1,226	1,388	2,797
2017/18	180	1,227	1,403	2,810
2018/19	190	1,224	1,433	2,847

Enrollments for the next three years are projected to be as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2019/20	190	1,273	1,437	2,900
2020/21	190	1,294	1,455	2,939
2021/22	190	1,318	1,455	2,963

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Schumann Elementary	1956	1962,1971,1989, 2010
Orono Intermediate School	1950	1958, 1962, 1965, 1989, 2003, 2010
Orono Middle School	2000	--
Orono High School	1968	1980 ,1989, 2010, 2018
Discovery Center	1965	--

FUNDS ON HAND (as of June 30, 2018)

Fund	Total Cash and Investments
General	$13,800,060
Food Service	555,032
Community Service	1,191,506
Debt Service	4,461,585
OPEB Debt Service	351,894
Building/Construction	16,655,076
Trust & Agency	723,680
Internal Service	891,001
OPEB Trust	4,546,297
Total Funds on Hand	$43,176,130

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds and the Concurrent Obligations or otherwise questioning the validity of the Bonds and the Concurrent Obligations.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

Currently there is no statutory authority for Minnesota school districts to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code.

Nevertheless, there can be no assurance (a) that State law will not change in the future while the Bonds are outstanding; or (b) even absent such a change in State law, that an executive order or other executive action could not effectively authorize the District to file for relief under Chapter 9; or (c) whether it would still be eligible for voluntary or involuntary relief under Chapters of the Bankruptcy Code other than Chapter 9 or under similar federal or state law or equitable proceeding regarding insolvency or providing for protection from creditors. Such action could impact the rights of holders of the Bonds. Such modifications could be adverse to holders of the Bonds and there could ultimately be no assurance that holders of the Bonds would be paid in full or in part on the Bonds.

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the District's General Fund. These summaries are not purported to be the complete audited financial statements of the District, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the District. Copies of the complete statements are available upon request. Appendix A includes the District's 2017 audited financial statements.

COMBINED STATEMENT	2015 Audited	2016 Audited	2017 Audited	2017-18 Adopted Budget[1]	2018-19 Adopted Budget[2]
	FISCAL YEAR ENDING JUNE 30				
Revenues					
Local property taxes	$ 8,264,484	$ 8,820,421	$ 9,735,050	$ 8,453,830	$ 11,520,228
Other local and county revenues	1,466,668	1,348,610	1,397,927	1,159,996	1,682,869
Revenues from state sources	21,486,527	22,673,265	23,278,054	23,643,172	24,584,879
Revenues from federal sources	758,192	641,749	650,712	657,271	564,400
Total Revenues	$31,975,871	$33,484,045	$35,061,743	$33,914,269	$ 38,352,376
Expenditures					
Current					
Administration	$ 1,292,593	$ 1,292,336	$ 1,311,624	$ 1,422,307	$ 1,459,462
District support services	1,389,978	1,464,316	1,645,753	1,416,030	1,726,502
Elementary & secondary regular instruction	16,190,951	17,504,473	17,599,749	18,003,852	17,980,608
Vocational education instruction	256,702	268,482	271,638	281,979	286,749
Special education instruction	3,892,207	4,169,778	4,342,829	4,426,563	4,961,618
Instructional support services	1,956,114	2,166,451	2,207,738	1,543,598	2,283,091
Pupil support services	2,528,801	2,634,668	2,622,242	2,695,683	2,768,827
Sites and buildings	4,091,578	4,726,177	4,461,292	2,760,517	5,205,015
Fiscal and other fixed cost programs	163,768	130,476	153,893	414,975	422,959
Capital Outlay	0	0	0	0	0
Debt Service	150,336	150,336	150,336	0	0
Total Expenditures	$31,913,028	$34,507,493	$34,767,094	$32,965,504	$ 37,094,831
Excess of revenues over (under) expenditures	$ 62,843	$ (1,023,448)	$ 294,649	$ 948,765	$ 1,257,545
Other Financing Sources (Uses)					
Operating transfers in	$ 0	$ 0	$ 0		
Operating transfers out	0	0	0		
Sale of assets	0	3,410	275		
Total Other Financing Sources (Uses)	$ 0	$ 3,410	$ 275		
Net Change in Fund Balances	$ 62,843	$ (1,020,038)	$ 294,924		
General Fund Balance July 1	8,875,720	8,938,563	7,918,525		
Prior Period Adjustment	0	0	0		
Residual Equity Transfer in (out)	0	0	0		
General Fund Balance June 30	$ 8,938,563	$ 7,918,525	$ 8,213,449		
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	$ 297,934	$ 233,587	$ 568,630		
Restricted	2,453,121	1,669,709	1,805,594		
Assigned	1,420,294	1,289,948	903,865		
Unassigned	4,767,214	4,725,281	4,935,360		
Total	$ 8,938,563	$ 7,918,525	$ 8,213,449		

1 The 2017-18 budget was adopted on May 8, 2017.

2 The 2018-19 budget was adopted on June 6, 2018.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 11,947, and a current population estimate of 12,454, and comprising an area of 25,000 acres, is located approximately 15 miles west of the City of Minneapolis. The District includes all or a portion of the Cities of Independence, Long Lake, Maple Plain, Medina, Minnetonka Beach, Orono, and Wayzata.

LARGER EMPLOYERS[1]

Larger employers in the District include the following:

Firm	**Type of Business/Product**	**Estimated No. of Employees**
Proto Labs, Inc	Injection molding manufacturing	500
I.S.D. No. 278 (Orono Public Schools)	Elementary and secondary education	356
Service Master Co.	Industrial cleaning services	200
Woodhill Country Club	Private golf and country club	150
Herc-U-Lift, Inc.	Material handling equipment - sales, service & rentals	120
American Custom Rotomolding	Plastic products manufacturing	110
Lafayette Club	Private gold country club	100
Wenck Associate	Environmental Engineers	70
Haven Homes of Maple Plain	Nursing home	60
Otten Brothers Nursery	Nursery and landscaping	50

Source: *ReferenceUSA, written and telephone survey (August 2018), and the Minnesota Department of Employment and Economic Development.*

[1] This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

U.S. CENSUS DATA

Population Trend: Independent School District No. 278 (Orono Public Schools), Minnesota

2000 U.S. Census population		12,257
2010 U.S. Census population		11,947
2016 Population Estimate		12,454
Percent of Change 2000 - 2010	+	-2.53%

Income and Age Statistics

	Orono Public Schools School District	Hennepin County	State of Minnesota	United States
2016 per capita income	$72,832	$41,968	$33,225	$29,829
2016 median household income	$96,349	$71,200	$63,217	$55,322
2016 median family income	$126,150	$97,454	$79,595	$67,871
2016 median gross rent	$943	$1,031	$873	$928
2016 median value owner occupied units	$452,700	$257,700	$191,500	$184,700
2016 median age	46.2 yrs.	36.3 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
District % of 2016 per capita income	219.21%	244.17%
District % of 2016 median family income	158.49%	185.87%

Source: *2000 and 2010 Census of Population and Housing, and 2016 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).*

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

	Average Employment	Average Unemployment	
Year	Hennepin County	Hennepin County	State of Minnesota
2014	649,194	3.8%	4.2%
2015	657,229	3.3%	3.7%
2016	651,545	2.9%	3.8%
2017	672,278	3.1%	3.5%
2018, August	694,000	2.4%	2.5%

Source: *Minnesota Department of Employment and Economic Development*.

APPENDIX A

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the District's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The District has not requested the Auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, nor has the District requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Official Statement is not intended to demonstrate the fiscal condition of the District since the date of the financial statements, in connection with the issuance of the Bonds, the District represents that there have been no material adverse change in the financial position or results of operations of the District, nor has the District incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

INDEPENDENT SCHOOL DISTRICT NO. 278
ORONO, MINNESOTA

Comprehensive Annual
Financial Report

Year Ended
June 30, 2017

Prepared by
Finance Department

John Morstad – Director of Business Services

Lauren Syrup, CPA – Controller

MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 278
Orono, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 278 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

Opinions

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

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements.

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

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

(continued)

Prior Year Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated November 3, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
November 1, 2017

INDEPENDENT SCHOOL DISTRICT NO. 278

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

This section of Independent School District No. 278's (the District) Comprehensive Annual Financial Report (CAFR) presents management's narrative overview and analysis of its financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the other components of the District's CAFR.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2017 by $19,072,237 (net position deficit). The District's total net position decreased by $10,391,201 during the fiscal year ended June 30, 2017, excluding the change in accounting principle reported in the current year as discussed below. Government-wide revenues totaled $45,460,112 and were $10,391,201 less than expenses of $55,851,313.

- The District recorded a change in accounting principle during the year with the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The change reflects standards established for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures as they relate to other post-employment benefit (OPEB) obligations. The implementation of these standards reduced beginning net position in the government-wide financial statements by $5,203,984.

- The General Fund's total fund balance (under the governmental fund presentation) increased $294,924 from the prior year, to a year-end balance of $8,213,449, compared to an increase of $39,398 projected in the District's final budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Financial Statements

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

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

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District requires consideration of additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

Fund Financial Statements

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

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

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

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

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Table 1
Summary Statement of Net Position
as of June 30, 2017 and 2016

	2017	2016
Assets		
Current and other assets	$ 93,214,776	$ 30,267,178
Capital assets, net of depreciation	51,882,787	52,904,760
Total assets	$ 145,097,563	$ 83,171,938
Deferred outflows of resources		
Pension plan deferments	$ 47,958,571	$ 4,172,426
OPEB plan deferments	53,680	-
Total deferred outflows of resources	$ 48,012,251	$ 4,172,426
Liabilities		
Current and other liabilities	$ 4,400,090	$ 3,383,360
Long-term liabilities, including due within one year	191,422,883	71,061,936
Total liabilities	$ 195,822,973	$ 74,445,296
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 15,448,459	$ 13,724,541
Pension plan deferments	910,619	2,651,579
Total deferred inflows of resources	$ 16,359,078	$ 16,376,120
Net position		
Net investment in capital assets	$ 6,534,251	$ 8,753,841
Restricted	4,065,675	2,979,828
Unrestricted	(29,672,163)	(15,210,721)
Total net position	$ (19,072,237)	$ (3,477,052)

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

Total net position decreased by $10,391,201 in the current year, excluding the $5,203,984 decrease resulting from the change in accounting principle discussed earlier. The increases to current assets and long-term liabilities were due in part to the District issuing bonds for capital improvements and debt refunding. Increases in the District's share of two state-wide pension plans also contributed to the changes in deferred outflows of resources, long-term liabilities, and unrestricted net position.

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

Table 2
Change in Net Position
for the Years Ended June 30, 2017 and 2016

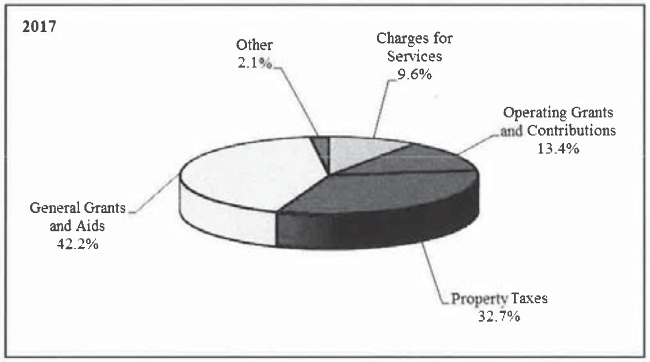
	2017	2016
Revenues		
Program revenues		
Charges for services	$ 4,376,223	$ 4,580,407
Operating grants and contributions	6,092,995	5,026,723
General revenues		
Property taxes	14,859,066	13,757,445
General grants and aids	19,186,103	18,724,777
Other	945,725	758,695
Total revenues	45,460,112	42,848,047
Expenses		
Administration	2,051,816	1,210,448
District support services	1,727,629	1,452,785
Elementary and secondary regular instruction	26,536,175	19,243,525
Vocational education instruction	398,942	266,949
Special education instruction	5,783,842	4,172,151
Instructional support services	2,694,470	2,170,518
Pupil support services	2,934,532	2,632,360
Sites and buildings	5,148,314	4,543,936
Fiscal and other fixed cost programs	153,893	130,476
Food service	1,599,610	1,584,898
Community service	3,155,738	3,137,082
Interest and fiscal charges	3,666,352	2,205,783
Total expenses	55,851,313	42,750,911
Change in net position	(10,391,201)	97,136
Net position – beginning, as previously reported	(3,477,052)	(3,574,188)
Change in accounting principle	(5,203,984)	–
Net position – beginning, as restated	(8,681,036)	(3,574,188)
Net position – ending	$ (19,072,237)	$ (3,477,052)

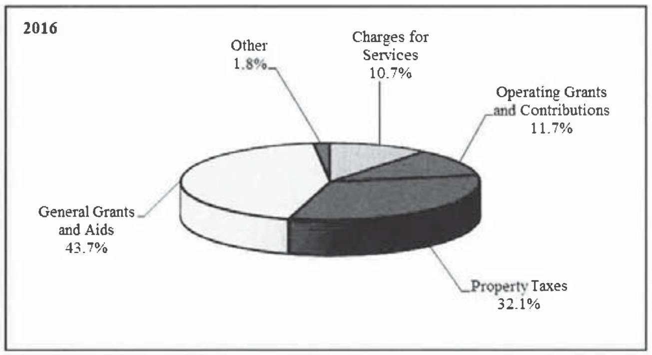
The table summarizes all of the governmental activities of the District and is presented on the accrual basis of accounting. Revenues are allocated between those directly related to specific programs and those that are general revenues. Depreciation expense is included in the program expenses, but capital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

Governmental activities revenues increased $2,612,065 (6.1 percent) from the previous year, mainly due to increases in property tax revenue, operating grants, and general grants and aids.

Governmental activities expenses were $13,100,402 (30.6 percent) higher than last year, mainly due to the change in expenses related to the two state-wide pension plans mentioned earlier. Interest and fiscal charges increased due to interest and issue costs on three bond issues sold during the year.

Figure A – Types of Revenue for Fiscal Years 2017 and 2016

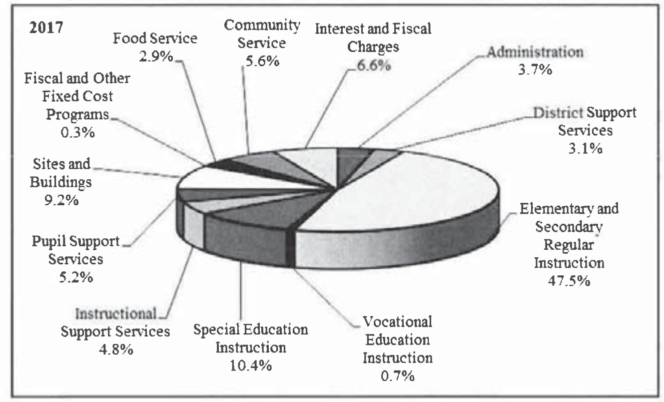


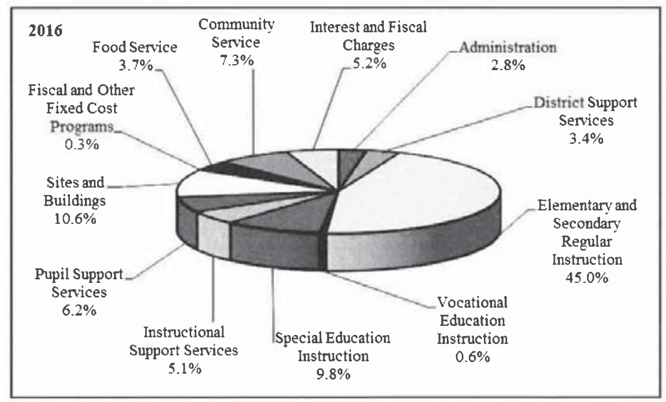


The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding increases in recent years.

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

Figure B – Expenses for Fiscal Years 2017 and 2016





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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Table 3
Governmental Fund Balances
as of June 30, 2017 and 2016

	2017	2016	Increase (Decrease)
Major funds			
General	$ 8,213,449	$ 7,918,525	$ 294,924
Capital Projects – Building Construction	29,251,549	–	29,251,549
Debt Service	35,966,895	570,580	35,396,315
Nonmajor funds			
Food Service Special Revenue	484,583	487,385	(2,802)
Community Service Special Revenue	897,578	798,486	99,092
Total governmental funds	$ 74,814,054	$ 9,774,976	$ 65,039,078

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

At June 30, 2017, the District's governmental funds reported combined fund balances of $78,814,054, an increase of $65,039,078 in comparison with the prior year. Unassigned fund balance at year-end was $4,935,360, which is available for spending at the District's discretion. The remainder of the fund balance is either: 1) nonspendable (not in spendable form) – $593,874, 2) restricted for particular purposes – $68,380,955, or 3) assigned for particular purposes – $903,865.

The majority of the increase in fund balances relates to unspent proceeds from three bond issues sold during the year, which are available for future capital or bond refunding purposes.

Analysis of the General Fund

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	$ 33,569,425	$ 34,640,835	$ 1,071,410	3.2%
Expenditures	$ 33,911,563	$ 34,601,712	$ 690,149	2.0%
Other financing sources	$ –	$ 275	$ 275	100.0%

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District may change the budget for known significant changes in circumstances such as: updated enrollment estimates, legislation changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, health insurance premium increases, or special education tuition changes.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2017 Actual	Amount	Percent	Amount	Percent
Revenue	$ 35,061,743	$ 420,908	1.2 %	$ 1,577,698	4.7 %
Expenditures	34,767,094	$ 165,382	0.5 %	$ 259,601	0.8 %
Other financing sources	275	$ –	– %	$ (3,135)	(91.9) %
Net change in fund balances	$ 294,924				

The fund balance of the General Fund increased $294,924, compared to a planned increase of $39,398 approved in the final budget.

Total General Fund revenue for the year ended June 30, 2017 was $35,061,743, which was $420,908, or 1.2 percent, higher than budget. Revenue from state sources exceeded budget by $236,045, mainly due to the District earning more special education revenue than anticipated. Revenues from other local sources, such as tuition, fees, and donations, also exceeded budget by $135,900. The District budgets conservatively for these unpredictable revenue sources.

Total General Fund expenditures for the year ended June 30, 2017 were $34,767,094, which was $165,382 or 0.5 percent, more than budget. Expenditures in the sites and buildings program area exceeded budget by $655,684, mainly due to purchased services for various maintenance projects. Expenditures were under budget in all other program areas.

Total General Fund revenue was $1,577,698, or 4.7 percent, higher than the 2016 fiscal year. The increase was mainly in property taxes, due to a new levy for long-term facilities maintenance.

Total General Fund expenditures increased $259,601, or 0.8 percent, from the 2016 fiscal year, mainly due to increased special education and maintenance expenditures.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Analysis of the Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund was established in the 2017 fiscal year to account for the proceeds from two bond issues totaling $30,838,821 (including bond issuance premiums), placed in the fund to finance various construction and long-term facilities maintenance projects. The related projects generally did not start until school ended for the summer, so only $1,661,580 of expenditures were incurred during the year. At year-end, $29,251,549 of fund balance remains, of which $26,548,251 is restricted for building construction, and $2,703,298 is restricted for long-term facilities maintenance.

Analysis of the Debt Service Fund

The Debt Service Fund revenues and other financing sources exceeded expenditures and other financing uses by $35,396,315, increasing fund balance to $35,966,895 at year-end. The District issued $36,450,000 of crossover refunding bonds to call three outstanding bond issues. Two of the issues, with outstanding principal of $5,850,000, were retired in February 2017. At year-end, restricted fund balance for bond refunding of $34,358,689, represents cash, investments, and accrued interest held in an escrow account to refund a third issue in February 2018. The remaining resources of this fund may only be used to finance certain scheduled debt service expenditures. Of the remaining fund balance, $89,066 is restricted for OPEB bond debt service, and $1,519,140 is restricted for general debt service.

Analysis of Other Governmental Funds

The District's final budget for the Food Service Special Revenue Fund projected that fund balance would decrease by $20,925, while actual fund balance decreased by $2,802. Revenues were under budget by $48,182, primarily in revenue from meal sales. Expenditures were under appropriations by $66,305, mainly due to a delay in the timing of planned capital projects.

The District's final budget for the Community Service Special Revenue Fund projected that fund balance would decrease by $65,456, while actual fund balance increased by $99,092. Revenues were over budget by $22,608, mainly in program fees. Expenditures were under budget by $141,940, with the savings spread across almost all expenditure categories.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

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

Table 6
Capital Assets

	2017	2016	Change
Land	$ 602,074	$ 602,074	$ –
Construction in progress	1,089,117	–	1,089,117
Land improvements	5,230,224	5,076,133	154,091
Buildings	75,543,523	75,270,386	273,137
Furniture and equipment	5,021,138	4,904,263	116,875
Less accumulated depreciation	(35,603,289)	(32,948,096)	(2,655,193)
Total	$ 51,882,787	$ 52,904,760	$ (1,021,973)
Depreciation expense	$ 2,655,193	$ 2,620,050	$ 35,143

Most of the activity in capital assets relates to the District's comprehensive facilities improvement plan.

Long-Term Liabilities

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

Table 7
Outstanding Long-Term Liabilities

	2017	2016	Change
General obligation bonds payable	$ 104,935,000	$ 46,840,000	$ 58,095,000
Premium (discount) on bonds	5,676,483	(34,337)	5,710,820
Capital leases payable	776,690	886,133	(109,443)
Net pension liabilities	77,126,567	22,043,923	55,082,644
Net OPEB liability	1,224,488	–	1,224,488
Severance payable	1,683,655	1,326,217	357,438
Total	$ 191,422,883	$ 71,061,936	$ 120,360,947

The increase in long-term liabilities were primarily the result of the bond issues and increases in the District's share of two state-wide pension plan liabilities as discussed earlier.

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

Table 8
Limitations on Debt

District's market value	$ 3,182,404,550
Limit rate	15.0%
Legal debt limit	$ 477,360,683

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Governmental Activities 2017	Governmental Activities 2016
Assets		
Cash and temporary investments	$ 47,356,827	$ 15,600,467
Receivables		
Current taxes	8,113,901	7,350,869
Delinquent taxes	88,323	134,826
Accounts and interest	138,018	184,327
Due from other governmental units	2,565,144	2,284,925
Due from post-employment benefits trust fund	–	327,865
Inventory	132,927	144,073
Prepaid items	460,947	127,336
Net OPEB asset	–	4,112,490
Restricted assets – temporarily restricts		
Cash and investments for bond refunding	34,251,833	–
Interest receivable for bond refunding	106,856	–
Capital assets		
Not depreciated	1,691,191	602,074
Depreciated, net of accumulated depreciation	50,191,596	52,302,686
Total capital assets, net of accumulated depreciation	51,882,787	52,904,760
Total assets	145,097,563	83,171,938
Deferred outflows of resources		
Pension plan deferments	47,958,571	4,172,426
OPEB plan deferments	53,680	–
Total deferred outflows of resources	48,012,251	4,172,426
Total assets and deferred outflows of resources	$ 193,109,814	$ 87,344,364
Liabilities		
Salaries payable	$ 772,314	$ 844,495
Accounts and contracts payable	1,632,534	1,208,095
Accrued interest payable	1,639,406	878,644
Due to other governmental units	54,311	81,325
Unearned revenue	301,525	370,801
Long-term liabilities		
Due within one year	37,091,995	3,131,723
Due in more than one year	154,330,888	67,930,213
Total long-term liabilities	191,422,883	71,061,936
Total liabilities	195,822,973	74,445,296
Deferred inflows of resources		
Property taxes levied for subsequent year	15,448,459	13,724,541
Pension plan deferments	910,619	2,651,579
Total deferred inflows of resources	16,359,078	16,376,120
Net position		
Net investment in capital assets	6,534,251	8,753,841
Restricted for		
Capital asset acquisition	1,813,452	1,681,772
Debt service	847,660	–
Food service	484,583	487,385
Community service	899,344	800,252
Other purposes (state funding restrictions)	20,636	10,419
Unrestricted	(29,672,163)	(15,210,721)
Total net position	(19,072,237)	(3,477,052)
Total liabilities, deferred inflows of resources, and net position	$ 193,109,814	$ 87,344,364

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017				2016
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 2,051,816	$ –	$ –	$ (2,051,816)	$ (1,210,448)
District support services	1,727,629	–	–	(1,727,629)	(1,452,785)
Elementary and secondary regular instruction	26,536,175	443,288	1,755,089	(24,337,798)	(17,455,395)
Vocational education instruction	398,942	–	38,620	(360,322)	(234,326)
Special education instruction	5,783,842	–	3,595,022	(2,188,820)	(1,125,409)
Instructional support services	2,694,470	98,355	–	(2,596,115)	(2,076,332)
Pupil support services	2,934,532	–	–	(2,934,532)	(2,632,360)
Sites and buildings	5,148,314	91,946	250,826	(4,805,542)	(4,308,547)
Fiscal and other fixed cost programs	153,893	–	–	(153,893)	(130,476)
Food service	1,599,610	1,217,362	300,615	(81,633)	(103,140)
Community service	3,155,738	2,525,272	152,823	(477,643)	(208,780)
Interest and fiscal charges	3,666,352	–	–	(3,666,352)	(2,205,783)
Total governmental activities	$ 55,851,313	$ 4,376,223	$ 6,092,995	(45,382,095)	(33,143,781)
General revenue					
Taxes					
Property taxes, levied for general purposes				9,730,224	8,811,854
Property taxes, levied for community service				270,784	277,619
Property taxes, levied for debt service				4,858,058	4,667,972
General grants and aids				19,186,103	18,724,777
Other general revenues				706,341	721,368
Investment earnings				239,384	37,327
Total general revenue				34,990,894	33,240,917
Change in net position				(10,391,201)	97,136
Net position – beginning, as previously reported				(3,477,052)	(3,574,188)
Change in accounting principle				(5,203,984)	–
Net position – beginning, as restated				(8,681,036)	(3,574,188)
Net position – ending				$(19,072,237)	$ (3,477,052)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 11,286,643	$ 29,846,442	$ 4,450,201
Cash and investments held by trustee	–	–	34,251,833
Receivables			
Current taxes	5,224,417	–	2,757,428
Delinquent taxes	55,962	–	30,539
Accounts and interest	88,575	38,309	106,856
Due from other governmental units	2,535,308	–	438
Due from post-employment benefits trust fund	–	–	–
Inventory	109,211	–	–
Prepaid items	459,419	–	–
Total assets	$ 19,759,535	$ 29,884,751	$ 41,597,295
Liabilities			
Salaries and compensated absences payable	$ 687,084	$ –	$ –
Accounts and contracts payable	917,938	633,202	450
Due to other governmental units	54,311	–	–
Unearned revenue	260,196	–	–
Total liabilities	1,919,529	633,202	450
Deferred inflows of resources			
Unavailable revenue – delinquent taxes	46,065	–	30,171
Property taxes levied for subsequent year	9,580,492	–	5,599,779
Total deferred inflows of resources	9,626,557	–	5,629,950
Fund balances			
Nonspendable	568,630	–	–
Restricted	1,805,594	29,251,549	35,966,895
Assigned	903,865	–	–
Unassigned	4,935,360	–	–
Total fund balances	8,213,449	29,251,549	35,966,895
Total liabilities, deferred inflows of resources, and fund balances	$ 19,759,535	$ 29,884,751	$ 41,597,295

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2017	Total Governmental Funds 2016
$ 1,654,792	$ 47,238,078	$ 15,523,285
–	34,251,833	–
132,056	8,113,901	7,350,869
1,822	88,323	134,826
11,134	244,874	184,327
29,398	2,565,144	2,284,925
–	–	327,865
23,716	132,927	144,073
1,528	460,947	127,336
$ 1,854,446	$ 93,096,027	$ 26,077,506
$ 85,230	$ 772,314	$ 844,495
75,772	1,627,362	1,199,938
–	54,311	81,325
41,329	301,525	370,801
202,331	2,755,512	2,496,559
1,766	78,002	81,430
268,188	15,448,459	13,724,541
269,954	15,526,461	13,805,971
25,244	593,874	271,409
1,356,917	68,380,955	3,488,338
–	903,865	1,289,948
–	4,935,360	4,725,281
1,382,161	74,814,054	9,774,976
$ 1,854,446	$ 93,096,027	$ 26,077,506

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017	2016
Total fund balances – governmental funds	$ 74,814,054	$ 9,774,976
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	87,486,076	85,852,856
Accumulated depreciation	(35,603,289)	(32,948,096)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(104,935,000)	(46,840,000)
(Premium) discount on bonds	(5,676,483)	34,337
Capital leases payable	(776,690)	(886,133)
Net pension liabilities	(77,126,567)	(22,043,923)
Net OPEB asset (liability)	(1,224,488)	4,112,490
Severance payable	(1,683,655)	(1,326,217)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(1,639,406)	(878,644)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	113,577	69,025
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plan deferments	47,958,571	4,172,426
Deferred outflows – OPEB plan deferments	53,680	–
Deferred inflows – pension plan deferments	(910,619)	(2,651,579)
Deferred inflows – delinquent property taxes	78,002	81,430
Total net position – governmental activities	$ (19,072,237)	$ (3,477,052)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 9,735,050	$ –	$ 4,856,660
Investment earnings	57,997	74,308	96,963
Other	1,339,930	–	–
State sources	23,278,054	–	4,385
Federal sources	650,712	–	–
Total revenue	35,061,743	74,308	4,958,008
Expenditures			
Current			
Administration	1,311,624	–	–
District support services	1,645,753	–	–
Elementary and secondary regular instruction	17,599,749	–	–
Vocational education instruction	271,638	–	–
Special education instruction	4,342,829	–	–
Instructional support services	2,207,738	–	–
Pupil support services	2,622,242	–	–
Sites and buildings	4,461,292	–	–
Fiscal and other fixed cost programs	153,893	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	1,325,575	–
Debt service			
Principal	109,443	–	2,745,000
Interest and fiscal charges	40,893	336,005	2,979,390
Total expenditures	34,767,094	1,661,580	5,724,390
Excess (deficiency) of revenue over expenditures	294,649	(1,587,272)	(766,382)
Other financing sources (uses)			
Sale of assets	275	–	–
Bonds issued	–	30,240,000	–
Refunding bonds issued	–	–	36,450,000
Premiums on bonds issued	–	598,821	5,562,697
Bond refunding payments	–	–	(5,850,000)
Total other financing sources (uses)	275	30,838,821	36,162,697
Net change in fund balances	294,924	29,251,549	35,396,315
Fund balances			
Beginning of year	7,918,525	–	570,580
End of year	$ 8,213,449	$ 29,251,549	$ 35,966,895

Nonmajor Funds	Total Governmental Funds 2017	Total Governmental Funds 2016
$ 270,784	$ 14,862,494	$ 13,771,864
9,616	238,884	37,152
3,742,634	5,082,564	5,301,775
190,226	23,472,665	22,849,359
263,212	913,924	902,141
4,476,472	44,570,531	42,862,291
–	1,311,624	1,292,336
–	1,645,753	1,464,316
–	17,599,749	17,504,473
–	271,638	268,482
–	4,342,829	4,169,778
–	2,207,738	2,166,451
–	2,622,242	2,634,668
–	4,461,292	4,726,177
–	153,893	130,476
1,510,636	1,510,636	1,520,656
2,810,283	2,810,283	2,941,196
59,263	1,384,838	253,428
–	2,854,443	2,579,414
–	3,356,288	2,239,597
4,380,182	46,533,246	43,891,448
96,290	(1,962,715)	(1,029,157)
–	275	3,410
–	30,240,000	–
–	36,450,000	–
–	6,161,518	–
–	(5,850,000)	–
–	67,001,793	3,410
96,290	65,039,078	(1,025,747)
1,285,871	9,774,976	10,800,723
$ 1,382,161	$ 74,814,054	$ 9,774,976

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017	2016
Total net change in fund balances – governmental funds	$ 65,039,078	$ (1,025,747)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	1,633,220	1,115,679
Depreciation expense	(2,655,193)	(2,620,050)
The amount of debt issued is reported in the governmental funds as a source of financing, but constitutes a long-term liability in the governmental activities.	(66,690,000)	–
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	8,595,000	2,475,000
Capital leases payable	109,443	104,414
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liabilities	(55,082,644)	(3,971,371)
Net OPEB liability	(132,994)	(19,150)
Severance payable	(357,438)	(72,657)
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	(5,710,820)	(6,629)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	(760,762)	40,443
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.	44,552	33,431
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plan deferments	43,786,145	1,061,780
Deferred outflows – OPEB plan deferments	53,680	–
Deferred inflows – pension plan deferments	1,740,960	2,996,412
Deferred inflows – delinquent property taxes	(3,428)	(14,419)
Change in net position – governmental activities	$ (10,391,201)	$ 97,136

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 9,483,624	$ 9,689,598	$ 9,735,050	$ 45,452
Investment earnings	17,000	55,000	57,997	2,997
Other	1,247,402	1,204,030	1,339,930	135,900
State sources	22,201,716	23,042,009	23,278,054	236,045
Federal sources	619,683	650,198	650,712	514
Total revenue	33,569,425	34,640,835	35,061,743	420,908
Expenditures				
Current				
Administration	1,368,031	1,330,054	1,311,624	(18,430)
District support services	1,639,732	1,675,037	1,645,753	(29,284)
Elementary and secondary regular instruction	17,517,279	17,836,172	17,599,749	(236,423)
Vocational education instruction	270,280	280,298	271,638	(8,660)
Special education instruction	4,177,529	4,380,240	4,342,829	(37,411)
Instructional support services	2,258,096	2,282,779	2,207,738	(75,041)
Pupil support services	2,653,971	2,690,247	2,622,242	(68,005)
Sites and buildings	3,705,368	3,805,608	4,461,292	655,684
Fiscal and other fixed cost programs	170,941	170,941	153,893	(17,048)
Debt service				
Principal	109,443	109,443	109,443	–
Interest and fiscal charges	40,893	40,893	40,893	–
Total expenditures	33,911,563	34,601,712	34,767,094	165,382
Excess (deficiency) of revenue over expenditures	(342,138)	39,123	294,649	255,526
Other financing sources				
Sale of assets	–	275	275	–
Net change in fund balances	$ (342,138)	$ 39,398	294,924	$ 255,526
Fund balances				
Beginning of year			7,918,525	
End of year			$ 8,213,449	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017	2016
Assets		
Cash and cash equivalents	$ 118,749	$ 77,182
Liabilities		
Accounts and contracts payable	5,172	8,157
Net position		
Unrestricted	$ 113,577	$ 69,025

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

	2017	2016
Operating revenue		
Charges for services – assessments to governmental funds	$ 257,315	$ 237,424
Operating expenses		
Dental benefit claims	213,263	204,168
Operating income	44,052	33,256
Nonoperating revenue		
Investment earnings	500	175
Change in net position	44,552	33,431
Net position		
Beginning of year	69,025	35,594
End of year	$ 113,577	$ 69,025

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017	2016
Cash flows from operating activities		
Received from assessments made to governmental funds	$ 257,315	$ 237,424
Payments for dental claims	(216,248)	(207,921)
Net cash flows from operating activities	41,067	29,503
Cash flows from investing activities		
Interest on investments	500	175
Net change in cash and cash equivalents	41,567	29,678
Cash and cash equivalents		
Beginning of year	77,182	47,504
End of year	$ 118,749	$ 77,182
Reconciliation of operating income to net cash flows from operating activities		
Operating income	$ 44,052	$ 33,256
Adjustments to reconcile operating income to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts and contracts payable	(2,985)	(3,753)
Net cash flows from operating activities	$ 41,067	$ 29,503

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Private-Purpose	Post-Employment Benefits Trust Fund
Assets		
Cash and temporary investments	$ 716,065	$ –
Cash and investments held by trustee		
Cash and temporary investments	–	2,187,400
Investments at fair value		
MNTrust Investment Shares Portfolio	–	334,261
Negotiable certificates of deposit	–	1,333,707
State and local general obligations	–	663,668
Accounts and interest receivable	–	56,323
Total assets	716,065	4,575,359
Liabilities		
Accounts and contracts payable	4,900	–
Net position		
Held in trust for employee benefits and other purposes	$ 711,165	$ 4,575,359

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

	Private-Purpose Trust Funds	Post-Employment Benefits Trust Fund
Additions		
Private donations	$ 59,779	$ –
Investment earnings	8,847	41,707
Total additions	68,626	41,707
Deductions		
Scholarships	56,051	–
Change in net position	12,575	41,707
Net position		
Beginning of year	698,590	4,533,652
End of year	$ 711,165	$ 4,575,359

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 278 (the District) was formed and operates pursuant to applicable Minnesota laws. The District is governed by a School Board elected by voters of the District to serve four-year terms. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2017, the District paid TIES $222,713 for services provided.

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

C. Government-Wide Financial Statement Presentation

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

D. Fund Financial Statement Presentation

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

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

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Debt proceeds or acquisitions under capital leases are reported as other financing sources.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust and private-purpose trust. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

Description of Funds

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

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The District maintains two internal accounts within the General Fund. The Operating Account is used to account for the general operations of the District. The Capital Expenditure Account is used to account for the maintenance of facilities, equipment purchases, and pay-as-you-go long-term facilities maintenance projects.

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

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general obligation debt principal, interest, and related costs. The District maintains a separate Other Post-Employment Benefits (OPEB) Debt Service Account within the Debt Service Fund to account for OPEB-related debt activity. All other debt service is reported in the Regular Debt Service Account.

Nonmajor Governmental Funds

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

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

Proprietary Fund

Internal Service Fund – The Internal Service Fund accounts for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund is used to account for and finance the self-insured risk of loss of the District's employee dental plan.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds

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

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

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. During the fiscal year ended June 30, 2017, expenditures exceeded budgeted amounts in the General Fund by $165,382, and the Capital Projects – Building Construction Fund by $236,364. Revenues and other financing sources in excess of budget funded these variances.

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Earnings from the investments of the Capital Projects – Building Construction Fund and all trust funds are allocated specifically to those funds.

Cash and investments held by trustee includes balances held in segregated accounts established for specific purposes. In the Post-Employment Benefits Trust Fund, this represents assets contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. In the Debt Service Fund, this represents assets held in an escrow account for future debt refunding. Resources held in this refunding escrow are reported as restricted assets on the government-wide financial statements. Interest earned on these investments is allocated directly to the respective escrow accounts.

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

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

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

Due from the Minnesoa Department of Education	$	2,500,436
Due from other Minnesota school districts		23,754
Due from other governmental units		40,954
Net position – beginning, restated	$	2,565,144

H. Inventories

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

I. Prepaid Items

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

J. Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $1,020,507 of the property tax levy collectible in 2017 as revenue to the District in fiscal year 2016–2017. The remaining portion of the taxes collectible in 2017 is recorded as deferred inflow of resources (property taxes levied for subsequent year).

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets are capitalized at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of $5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

L. Long-Term Liabilities

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

M. Employee Benefits

1. **Compensated Absences** – Under the terms of certain collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates. Vacation and sick pay are accrued in the governmental funds to the extent they have been used or otherwise matured prior to year-end. Because teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no liability for unused vacation is recorded in the financial statements. Some employee bargaining groups are eligible to be compensated for unused sick leave upon termination subject to certain conditions. Convertible sick leave is recorded as a liability (severance payable) in the government-wide financial statements as it is earned and it becomes probable that it will vest at some point in the future.

2. **Post-Employment Healthcare Benefits** – The District provides post-employment health insurance benefits to eligible employee groups in accordance with provisions in certain collectively bargained contracts based on years of service and/or minimum age requirements. See the Other Post-Employment Benefits (OPEB) Plan note for further information.

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

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

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

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

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

N. 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; natural disasters; employee medical; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in the current fiscal year.

The District maintains an Internal Service Fund to account for and finance its uninsured risk of loss for an employee dental plan. The Internal Service Fund is funded by the District, employee contributions, and interest income. The claims liability of $5,172 reported in the Internal Service Fund at June 30, 2017 is based on the requirement that a liability for claims be 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 loss can be reasonably estimated. Changes in the Internal Service Fund's claim liability were:

Fiscal Year Ended	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
June 30, 2016	$ 11,910	$ 204,167	$ 207,920	$ 8,157
June 30, 2017	$ 8,157	$ 213,263	$ 216,248	$ 5,172

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Deferred Outflows/Inflows of Resources

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

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

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

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

P. Net Position

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Balance Classifications

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

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

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

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

R. Use of Estimates

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

S. Prior Period Comparative Financial Information/Reclassification

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Change in Accounting Principle

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

	Governmental Activities
Net position – beginning, as previously reported	$ (3,477,052)
Change in accounting principle	
Eliminate net OPEB asset, previous reporting standards	(4,112,490)
Add beginning net OPEB liability, current reporting standards	(1,091,494)
Total change in accounting principle	(5,203,984)
Net position – beginning, restated	$ (8,681,036)

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$ 15,959,689
Investments	70,884,072
Total cash and investments	$ 86,843,761

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

Statement of Net Position	
Cash and temporary investments	$ 47,356,827
Restricted assets- cash and investments for bond refunding	34,251,833
Statement of Fiduciary Net Position	
Cash and temporary investments	716,065
Cash and investments held by trustee	4,519,036
Total cash and investments	$ 86,843,761

B. Deposits

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

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

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

At year-end, the carrying amount of the District's deposits was $15,959,689 while the balance on the bank records was $16,340,608. At June 30, 2017, all deposits were fully covered by federal depository insurance, surety bonds, or collateral held by the District's agent in the District's name.

C. Investments

The District has the following investments at year-end:

Investment Type	Credit Rating	Rating Agency	Fair Value Measurements Using	Interest Risk – Maturity Duration in Years: Less Than 1	Interest Risk – Maturity Duration in Years: 1 to 5	Carrying Value
U.S. treasury securities	N/A	N/A	Level 1	$ 33,055,152	$ –	$ 33,055,152
U.S. treasury securities	N/A	N/A	Level 2	$ 2,191,371	$ –	2,191,371
U.S. agency securities	AA	S&P	Level 2	$ 2,029,500	$ –	2,029,500
State and local obligations	AA	S&P	Level 2	$ 204,828	$ 441,751	646,579
State and local obligations	Aa	Moody's	Level 2	$ –	$ 458,840	458,840
Negotiable certificates of deposit	N/A	N/A	Level 2	$ 1,579,390	$ 746,089	2,325,479
Investment pools/mutual funds						
Eaton Vance Balanced Fund A	Not Rated		NAV	N/A	N/A	61,730
Dreyfus Municipal Bond Fund – Class A	AAA	S&P	NAV	N/A	N/A	87,128
Minnesota School District Liquid Asset Fund	AAA	S&P	N/A	N/A	N/A	3,059,407
MNTrust Investment Shares Portfolio	AAA	S&P	N/A	N/A	N/A	13,518,886
MNTrust Term Series	AAA	S&P	N/A	$ 13,450,000	$ –	13,450,000
Total investments						$ 70,884,072

NAV – Net Asset Value
N/A – Not Applicable

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

For the Eaton Vance Balanced Fund A and Dreyfus Municipal Bond Fund – Class A, there are no unfunded commitments, the redemption frequency is daily, and no redemption notice is required.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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

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

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statutes § 356A.06, Subd.7.

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

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

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

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year is as follows:

	Beginning of Year	Additions	Deletions	End of Year
Capital assets, not depreciated				
Land	$ 602,074	$ –	$ –	$ 602,074
Construction in progress	–	1,089,117	–	1,089,117
Total capital assets, not depreciated	602,074	1,089,117	–	1,691,191
Capital assets, depreciated				
Land improvements	5,076,133	154,091	–	5,230,224
Buildings	75,270,386	273,137	–	75,543,523
Furniture and equipment	4,904,263	116,875	–	5,021,138
Total capital assets, depreciated	85,250,782	544,103	–	85,794,885
Less accumulated depreciation for				
Land improvements	(1,839,092)	(172,201)	–	(2,011,293)
Buildings	(27,497,315)	(2,265,377)	–	(29,762,692)
Furniture and equipment	(3,611,689)	(217,615)	–	(3,829,304)
Total accumulated depreciation	(32,948,096)	(2,655,193)	–	(35,603,289)
Net capital assets, depreciated	52,302,686	(2,111,090)	–	50,191,596
Total capital assets, net	$ 52,904,760	$ (1,021,973)	$ –	$ 51,882,787

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

Administration	$ 320
District support services	14,658
Elementary and secondary regular instruction	1,720,262
Special education instruction	13,848
Instructional support services	6,432
Sites and buildings	861,564
Food service	35,221
Community service	2,888
Total depreciation expense	$ 2,655,193

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Original Principal	Final Maturity	Principal Outstanding
2008A G. O. Building Bonds	05/07/2008	3.00–5.00%	$ 39,350,000	02/01/2029	$ 34,875,000
2008B G. O. Taxable OPEB Bonds	11/19/2008	5.00–6.80%	$ 4,630,000	02/01/2029	3,370,000
2016A G. O. Refunding	08/04/2016	2.50–4.00%	$ 36,450,000	02/01/2029	36,450,000
2017A G. O. Building Bonds	02/22/2017	3.00–5.00%	$ 27,375,000	02/01/2033	27,375,000
2017B G. O. Facilities Maintenance Bonds	05/18/2017	4.00–5.00%	$ 2,865,000	02/01/2027	2,865,000
Total general obligation bonds payable					$ 104,935,000

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

In August 2016, the District issued $36,450,000 of General Obligation Refunding Bonds, Series 2016A. The proceeds of the bonds were placed in an escrow account and were used to redeem, in advance of their stated maturities, the 2018–2021 maturities of the General Obligation Refunding Bonds, Series 2007A (refunded principal $2,985,000) and 2018–2021 maturities of the General Obligation Refunding Bonds, Series 2007B (refunded principal $2,865,000) on their February 1, 2017 call date; and will be used to redeem, in advance of their stated maturities, the 2020–2029 maturities of the General Obligation Bonds, Series 2008A (refunded principal $33,510,000) on their February 1, 2018 call date. Until the respective call dates, the District continues to make all debt service payments on the three refunded issues, and all debt service on the 2016A issue is paid from the escrow account. These advance "crossover" refundings reduce the District's total future debt service payments by $6,183,516, and result in a present value savings of approximately $5,545,188.

B. Capital Leases Payable

The District is obligated under a capital lease for improvements to the high school athletic field and track. Repayments will be made from the General Fund over a 15-year period ending May 1, 2023, at an interest rate of 4.76 percent. Assets under this capital lease totaling $1,600,000 are included in capital assets.

C. Other Long-Term Liabilities

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

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

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

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	$ 6,690,471	$ 2,734,706	$ 629,907	$ 872,543
TRA	70,436,096	45,223,865	280,712	11,315,208
Total	$ 77,126,567	$ 47,958,571	$ 910,619	$ 12,187,751

D. Minimum Debt Payments

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

Year Ending June 30,	General Obligation Bonds		Capital Leases Payable	
	Principal	Interest	Principal	Interest
2018	$ 36,700,000	$ 4,052,606	$ 114,715	$ 35,621
2019	3,775,000	2,552,465	120,240	30,096
2020	3,695,000	2,394,765	126,032	24,304
2021	3,930,000	2,244,953	132,102	18,234
2022	4,090,000	2,085,752	138,465	11,871
2023–2027	23,300,000	7,604,348	145,135	5,202
2028–2032	24,285,000	3,165,340	–	–
2033	5,160,000	161,250	–	–
	$ 104,935,000	$ 24,261,479	$ 776,689	$ 125,328

E. Changes in Long-Term Liabilities

	Beginning of Year	Additions	Retirements	End of Year	Due Within One Year
General obligation bonds payable	$ 46,840,000	$ 66,690,000	$ 8,595,000	$ 104,935,000	$ 36,700,000
Premium (discount) on bonds	(34,337)	6,161,518	450,698	5,676,483	–
Capital leases payable	886,133	–	109,443	776,690	114,715
Net pension liabilities	22,043,923	57,103,944	2,021,300	77,126,567	–
Net OPEB liability*	1,091,494	406,471	273,477	1,224,488	–
Severance payable	1,326,217	508,558	151,120	1,683,655	277,280
	$ 72,153,430	$ 130,870,491	$ 11,601,038	$ 191,422,883	$ 37,091,995

*The Net OPEB liability beginning balance was restated for the change in accounting principle described in Note 1.

NOTE 5 – FUND BALANCES

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

A. Classifications

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	$ 109,211	$ –	$ –	$ 23,716	$ 132,927
Prepaid items	459,419	–	–	1,528	460,947
Total nonspendable	568,630	–	–	25,244	593,874
Restricted					
Staff development	20,636	–	–	–	20,636
Capital projects levy	31,122	–	–	–	31,122
Operating capital	1,712,249	–	–	–	1,712,249
Long-term facilities maintenance	41,587	2,703,298	–	–	2,744,885
Food service	–	–	–	460,417	460,417
Community education programs	–	–	–	765,196	765,196
Early childhood family education programs	–	–	–	56,282	56,282
School readiness	–	–	–	75,022	75,022
Building construction	–	26,548,251	–	–	26,548,251
Bond refunding	–	–	34,358,689	–	34,358,689
Debt service	–	–	1,608,206	–	1,608,206
Total restricted	1,805,594	29,251,549	35,966,895	1,356,917	68,380,955
Assigned					
Resale activity	125,731	–	–	–	125,731
Operating capital	97,840	–	–	–	97,840
Separation/retirement benefits	680,294	–	–	–	680,294
Total assigned	903,865	–	–	–	903,865
Unassigned					
Health and safety restriction deficit	(130,324)	–	–	–	(130,324)
Unassigned	5,065,684	–	–	–	5,065,684
Total unassigned	4,935,360	–	–	–	4,935,360
Total	$ 8,213,449	$ 29,251,549	$ 35,966,895	$ 1,382,161	$ 74,814,054

B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance (excluding any restricted account deficits) of 5 percent of the annual projected expenditures. At June 30, 2017, the unassigned fund balance of the General Fund was 15 percent of the 2018 budgeted expenditures.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

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

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

2. Teachers Retirement Association (TRA)

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

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

B. Benefits Provided

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

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

- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually.

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

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

1. GERF Benefits

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

2. TRA Benefits

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

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

Tier I Benefits

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

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) Three percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

Tier II Benefits

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

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

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

C. Contributions

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2017; the District was required to contribute 7.5 percent for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2017 were $398,006. The District's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

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

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

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2017, were $1,209,519. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

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

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

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2017, the District reported a liability of $6,690,471 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the PERA's participating employers. The District's proportionate share was 0.0824 percent at the end of the measurement period and 0.0792 percent for the beginning of the period.

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

District's proportionate share of net pension liability	$ 6,690,471
State's proportionate share of the net pension liability associated with the District	$ 87,405

For the year ended June 30, 2017, the District recognized pension expense of $846,481 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional $26,062 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $6 million to the GERF.

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

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

	Outflows of Resources	Inflows of Resources
Differences between expected and actual economic experience	$ 19,032	$ 537,928
Changes in actuarial assumptions	1,437,809	–
Difference between projected and actual investment earnings	755,479	–
Changes in proportion	124,380	91,979
District's contributions to the GERF subsequent to the measurement date	398,006	–
Total	$ 2,734,706	$ 629,907

A total of $398,006 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	$ 464,174
2019	$ 317,333
2020	$ 683,616
2021	$ 241,670

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of $70,436,096 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.2953 percent at the end of the measurement period and 0.2900 percent for the beginning of the period.

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

District's proportionate share of net pension liability	$ 70,436,096
State's proportionate share of the net pension liability associated with the District	$ 7,069,067

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

For the year ended June 30, 2017, the District recognized pension expense of $10,328,130. It also recognized $987,078 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 718,133	$ 1,964
Changes in actuarial assumptions	40,092,259	–
Difference between projected and actual investment earnings	2,930,740	–
Changes in proportion	273,214	278,748
District's contributions to the TRA subsequent to the measurement date	1,209,519	–
Total	$ 45,223,865	$ 280,712

A total of $1,209,519 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	$ 8,658,875
2019	$ 8,658,875
2020	$ 9,727,305
2021	$ 8,822,738
2022	$ 7,865,841

E. Actuarial Assumptions

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

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

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

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

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

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

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.5 percent per year thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

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

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

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

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability in 2016 was 7.5 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2017 contribution rates. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

2. TRA

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

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	$ 9,502,452	$ 6,690,471	$ 4,374,164
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	$ 90,739,297	$ 70,436,096	$ 53,899,801

H. Pension Plan Fiduciary Net Position

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

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

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

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. Management of the plan is vested with the School Board of the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

The District administers a defined benefit Post-Employment Benefits Trust Fund. The assets of the plan are reported in the District's financial report in the Post-Employment Benefits Trust Fund, established by the District to finance these obligations. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan. The plan does not issue a publicly available financial report.

B. Benefits Provided

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

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

C. Contributions

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

D. Membership

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

Retirees and beneficiaries receiving benefits	33
Active plan members	346
Total members	379

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

E. Net OPEB Liability of the District

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

Total OPEB liability	$ 5,799,847
Plan fiduciary net position	(4,575,359)
District's net OPEB liability	$ 1,224,488
Plan fiduciary net position as a percentage of the total OPEB liability	78.9%

F. Actuarial Methods and Assumptions

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

Discount rate	2.70%
Expected long-term investment return	2.40% (net of investment expenses)
20-year municipal bond yield	2.90%
Inflation rate	2.50%
Salary increases	3.00%
Medical trend rate	6.75% grading to 5.00% over 7 years

Mortality rates were based on the RP-2014 white collar mortality tables with MP-2015 generational improvement scale.

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

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

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

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

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

G. Rate of Return

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 0.92 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

H. Discount Rate

The discount rate used to measure the total OPEB liability was 2.70 percent. The projection of cash flows used to determine the discount rate was determined by projecting forward the fiduciary net position (assets) as of the valuation date, increasing by the investment return assumption, and reducing by benefit payments in each period until assets are exhausted. Expected benefit payments by year were discounted using the expected asset return assumptions for the years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate. The contribution and benefit payment history, as well as the funding policy have also been taken into account. The District discount rate used in the prior measurement date was 3.50 percent.

I. Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a-b)
Beginning balance – July 1, 2016	$ 5,625,146	$ 4,533,652	$ 1,091,494
Changes for the year			
Service cost	345,050	–	345,050
Interest cost	156,808	–	156,808
Contributions – employer			
Paid through governmental funds	–	327,157	(327,157)
Net investment income	–	41,707	(41,707)
Benefit payments – employer			
Paid through governmental funds	(327,157)	(327,157)	–
Total net changes	174,701	41,707	132,994
Ending balance – June 30, 2017	$ 5,799,847	$ 4,575,359	$ 1,224,488

Assumption changes since the prior measurement date include the following:

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

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

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

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
OPEB discount rate	1.70%	2.70%	3.70%
Net OPEB liability (asset)	$ 1,641,127	$ 1,224,488	$ 827,039

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

	1% Decrease in Medical Trend Rate	Medical Trend Rate	1% Increase in Medical Trend Rate
OPEB medical trend rate	5.75% decreasing to 4.00% over 7 years	6.75% decreasing to 5.00% over 7 years	7.75% decreasing to 6.00% over 7 years
Net OPEB liability (asset)	$ 640,171	$ 1,224,488	$ 1,910,232

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

For the current year ended, the District recognized OPEB expense of $762,503. As of year-end, 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
Differences between projected and actual investment earnings	$ 53,680	$ –

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

Year Ending June 30,	OPEB Expense Amount
2018	$ 13,421
2019	$ 13,421
2020	$ 13,421
2021	$ 13,417

NOTE 8 – FLEXIBLE BENEFIT PLAN

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

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

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

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

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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

B. Legal Claims

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

C. Construction Commitments

At June 30, 2017, the District had commitments totaling $1,412,666 under various construction contracts for which the work was not yet completed.

NOTE 10 – SUBSEQUENT EVENTS

In September 2017, the District entered into a lease agreement to finance the purchase of a transportation facility for the District. The lease agreement has a principal balance of $1,767,500, an interest rate of 3.45 percent, and a final maturity date of September 1, 2022.

INDEPENDENT SCHOOL DISTRICT NO. 278

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

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0826%	$ 3,880,134	$ –	$ 3,880,134	$ 4,348,782	89.22%	78.70%
06/30/2016	06/30/2015	0.0792%	$ 4,104,555	$ –	$ 4,104,555	$ 4,653,351	88.21%	78.20%
06/30/2017	06/30/2016	0.0824%	$ 6,690,471	$ 87,405	$ 6,777,876	$ 4,848,272	138.00%	68.90%

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

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 343,252	$ 343,252	$ –	$ 4,653,351	7.38%
06/30/2016	$ 363,557	$ 363,557	$ –	$ 4,848,272	7.50%
06/30/2017	$ 398,006	$ 398,006	$ –	$ 5,318,213	7.48%

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 278

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

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.3080%	$ 14,192,418	$ 998,516	$ 15,190,934	$ 14,057,289	100.96%	81.50%
06/30/2016	06/30/2015	0.2900%	$ 17,939,368	$ 2,200,629	$ 20,139,997	$ 14,720,573	121.87%	76.80%
06/30/2017	06/30/2016	0.2953%	$ 70,436,096	$ 7,069,067	$ 77,505,163	$ 15,468,330	455.36%	44.88%

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

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 1,104,043	$ 1,104,043	$ –	$ 14,720,573	7.50%
06/30/2016	$ 1,160,919	$ 1,160,919	$ –	$ 15,468,330	7.51%
06/30/2017	$ 1,209,519	$ 1,209,519	$ –	$ 16,096,552	7.51%

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017
Total OPEB liability	
Service cost	$ 345,050
Interest cost	156,808
Benefit payments	(327,157)
Net change in total OPEB liability	174,701
Total OPEB liability – beginning of year	5,625,146
Total OPEB liability – end of year	5,799,847
Plan fiduciary net position	
Contributions	327,157
Investment earnings	41,707
Benefit payments – member financed	(327,157)
Net change in plan fiduciary net position	41,707
Plan fiduciary net position – beginning of year	4,533,652
Plan fiduciary net position – end of year	4,575,359
Net OPEB liability (asset)	$ 1,224,488
Plan fiduciary net position as a percentage of the total OPEB liability	78.89%
Covered-employee payroll	$ 20,126,807
Net OPEB liability as a percentage of covered-employee payroll	6.08%

Note 1: **Change of Assumptions** – The health care trend rates were changed to better anticipate short-term and long-term medical increases. The mortality table was updated from RP 2000 projected to 2014 with Scale BB to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale. The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated. The discount rate was changed from 3.50 percent to 2.70 percent. The percentage of food service employees who are assumed to continue on one of the District's medical plans post-employment was reduced from 50 percent to 10 percent.

Note 2: The District implemented GASB Statement Nos. 74 and 75 in fiscal 2017. This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 278

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

Year	Annual Money-Weighted Rate of Return, Net of Investment Expense
2017	0.92 %

Note: The District implemented GASB Statement Nos. 74 and No. 75 in fiscal 2017. This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 537,849	$ 1,116,943	$ 1,654,792
Receivables			
Current taxes	–	132,056	132,056
Delinquent taxes	–	1,822	1,822
Accounts and interest	78	11,056	11,134
Due from other governmental units	–	29,398	29,398
Inventory	23,716	–	23,716
Prepaid items	450	1,078	1,528
Total assets	$ 562,093	$ 1,292,353	$ 1,854,446
Liabilities			
Salaries and compensated absences payable	$ 33,875	$ 51,355	$ 85,230
Accounts and contracts payable	2,306	73,466	75,772
Unearned revenue	41,329	–	41,329
Total liabilities	77,510	124,821	202,331
Deferred inflows of resources			
Unavailable revenue – delinquent taxes	–	1,766	1,766
Property taxes levied for subsequent year	–	268,188	268,188
Total deferred inflows of resources	–	269,954	269,954
Fund balances			
Nonspendable	24,166	1,078	25,244
Restricted	460,417	896,500	1,356,917
Total fund balances	484,583	897,578	1,382,161
Total liabilities, deferred inflows of resources, and fund balances	$ 562,093	$ 1,292,353	$ 1,854,446

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 270,784	$ 270,784
Investment earnings	3,836	5,780	9,616
Other	1,217,362	2,525,272	3,742,634
State sources	37,403	152,823	190,226
Federal sources	263,212	–	263,212
Total revenue	1,521,813	2,954,659	4,476,472
Expenditures			
Current			
Food service	1,510,636	–	1,510,636
Community service	–	2,810,283	2,810,283
Capital outlay	13,979	45,284	59,263
Total expenditures	1,524,615	2,855,567	4,380,182
Net change in fund balances	(2,802)	99,092	96,290
Fund balances			
Beginning of year	487,385	798,486	1,285,871
End of year	$ 484,583	$ 897,578	$ 1,382,161

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017			2016
	Operating	Capital Expenditure	Total	Total
Assets				
Cash and temporary investments	$ 9,487,461	$ 1,799,182	$ 11,286,643	$ 10,969,453
Receivables				
Current taxes	5,224,417	–	5,224,417	4,785,414
Delinquent taxes	55,962	–	55,962	84,709
Accounts and interest	88,575	–	88,575	116,162
Due from other governmental units	2,535,308	–	2,535,308	2,244,409
Due from post-employment benefits trust fund	–	–	–	327,865
Inventory	109,211	–	109,211	107,848
Prepaid items	374,909	84,510	459,419	125,739
Total assets	$ 17,875,843	$ 1,883,692	$ 19,759,535	$ 18,761,599
Liabilities				
Salaries and compensated absences payable	$ 683,831	$ 3,253	$ 687,084	$ 734,214
Accounts and contracts payable	776,643	141,295	917,938	1,050,927
Due to other governmental units	54,311	–	54,311	80,512
Unearned revenue	260,196	–	260,196	328,750
Total liabilities	1,774,981	144,548	1,919,529	2,194,403
Deferred inflows of resources				
Unavailable revenue – delinquent taxes	46,065	–	46,065	50,891
Property taxes levied for subsequent year	9,580,492	–	9,580,492	8,597,780
Total deferred inflows of resources	9,626,557	–	9,626,557	8,648,671
Fund balances				
Nonspendable for inventory	109,211	–	109,211	107,848
Nonspendable for prepaid items	374,909	84,510	459,419	125,739
Restricted for staff development	20,636	–	20,636	10,419
Restricted for capital projects levy	–	31,122	31,122	42,503
Restricted for operating capital	–	1,712,249	1,712,249	1,616,787
Restricted for long-term facilities maintenance	–	41,587	41,587	–
Assigned for subsequent year budget	–	–	–	165,499
Assigned for resale activity	125,731	–	125,731	138,703
Assigned for operating capital	97,840	–	97,840	97,840
Assigned for separation/retirement benefits	680,294	–	680,294	887,906
Unassigned – health and safety restriction deficit	–	(130,324)	(130,324)	(349,457)
Unassigned	5,065,684	–	5,065,684	5,074,738
Total fund balances	6,474,305	1,739,144	8,213,449	7,918,525
Total liabilities, deferred inflows of resources, and fund balances	$ 17,875,843	$ 1,883,692	$ 19,759,535	$ 18,761,599

INDEPENDENT SCHOOL DISTRICT NO. 278

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017			2016
	Operating	Capital Expenditure	Total	Total
Revenue				
Local sources				
Property taxes	$ 7,769,958	$ 1,965,092	$ 9,735,050	8,820,421
Investment earnings	57,997	–	57,997	24,683
Other	1,233,304	106,626	1,339,930	1,323,927
State sources	22,503,153	774,901	23,278,054	22,673,265
Federal sources	650,712	–	650,712	641,749
Total revenue	32,215,124	2,846,619	35,061,743	33,484,045
Expenditures				
Current				
Administration	1,311,624	–	1,311,624	1,292,336
District support services	1,395,560	250,193	1,645,753	1,464,316
Elementary and secondary regular instruction	17,444,159	155,590	17,599,749	17,504,473
Vocational education instruction	271,638	–	271,638	268,482
Special education instruction	4,342,829	–	4,342,829	4,169,778
Instructional support services	1,397,076	810,662	2,207,738	2,166,451
Pupil support services	2,622,242	–	2,622,242	2,634,668
Sites and buildings	3,388,008	1,073,284	4,461,292	4,726,177
Fiscal and other fixed cost programs	153,893	–	153,893	130,476
Debt service				
Principal	–	109,443	109,443	104,414
Interest and fiscal charges	–	40,893	40,893	45,922
Total expenditures	32,327,029	2,440,065	34,767,094	34,507,493
Excess (deficiency) of revenue over expenditures	(111,905)	406,554	294,649	(1,023,448)
Other financing sources				
Sale of assets	–	275	275	3,410
Net change in fund balances	(111,905)	406,829	294,924	(1,020,038)
Fund balances				
Beginning of year	6,586,210	1,332,315	7,918,525	8,938,563
End of year	$ 6,474,305	$ 1,739,144	$ 8,213,449	$ 7,918,525

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 7,937,526	$ 7,769,958	$ (167,568)	$ 6,616,233
Investment earnings	55,000	57,997	2,997	24,683
Other	1,077,687	1,233,304	155,617	1,193,162
State sources	22,299,578	22,503,153	203,575	22,492,037
Federal sources	650,198	650,712	514	641,749
Total revenue	32,019,989	32,215,124	195,135	30,967,864
Expenditures				
Current				
Administration	1,330,054	1,311,624	(18,430)	1,290,587
District support services	1,424,100	1,395,560	(28,540)	1,221,763
Elementary and secondary regular instruction	17,454,268	17,444,159	(10,109)	16,812,760
Vocational education instruction	280,298	271,638	(8,660)	268,482
Special education instruction	4,380,240	4,342,829	(37,411)	4,169,778
Instructional support services	1,479,721	1,397,076	(82,645)	1,391,648
Pupil support services	2,690,247	2,622,242	(68,005)	2,634,668
Sites and buildings	2,547,204	3,388,008	840,804	3,065,710
Fiscal and other fixed cost programs	170,941	153,893	(17,048)	130,476
Total expenditures	31,757,073	32,327,029	569,956	30,985,872
Net change in fund balances	$ 262,916	(111,905)	$ (374,821)	(18,008)
Fund balances				
Beginning of year		6,586,210		6,604,218
End of year		$ 6,474,305		$ 6,586,210

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,752,072	$ 1,965,092	$ 213,020	$ 2,204,188
Other	126,343	106,626	(19,717)	130,765
State sources	742,431	774,901	32,470	181,228
Total revenue	2,620,846	2,846,619	225,773	2,516,181
Expenditures				
Current				
Administration	–	–	–	1,749
District support services	250,937	250,193	(744)	242,553
Elementary and secondary regular instruction	381,904	155,590	(226,314)	691,713
Instructional support services	803,058	810,662	7,604	774,803
Sites and buildings	1,258,404	1,073,284	(185,120)	1,660,467
Debt service				
Principal	109,443	109,443	–	104,414
Interest and fiscal charges	40,893	40,893	–	45,922
Total expenditures	2,844,639	2,440,065	(404,574)	3,521,621
Excess (deficiency) of revenue over expenditures	(223,793)	406,554	630,347	(1,005,440)
Other financing sources				
Sale of assets	275	275	–	3,410
Net change in fund balances	$ (223,518)	406,829	$ 630,347	(1,002,030)
Fund balances				
Beginning of year		1,332,315		2,334,345
End of year		$ 1,739,144		$ 1,332,315

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017	2016
Assets		
Cash and temporary investments	$ 537,849	$ 527,650
Receivables		
Accounts and interest	78	–
Inventory	23,716	36,225
Prepaid items	450	1,597
Total assets	$ 562,093	$ 565,472
Liabilities		
Salaries and compensated absences payable	$ 33,875	$ 35,036
Accounts and contracts payable	2,306	1,000
Unearned revenue	41,329	42,051
Total liabilities	77,510	78,087
Fund balances		
Nonspendable for inventory	23,716	36,225
Nonspendable for prepaid items	450	1,597
Restricted for food service	460,417	449,563
Total fund balances	484,583	487,385
Total liabilities and fund balances	$ 562,093	$ 565,472

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ 435	$ 3,836	$ 3,401	$ 2,329
Other – primarily meal sales	1,273,763	1,217,362	(56,401)	1,185,196
State sources	37,429	37,403	(26)	36,170
Federal sources	258,368	263,212	4,844	260,392
Total revenue	1,569,995	1,521,813	(48,182)	1,484,087
Expenditures				
Current				
Salaries	494,886	509,618	14,732	486,064
Employee benefits	126,880	134,656	7,776	149,616
Purchased services	126,771	121,974	(4,797)	136,148
Supplies and materials	762,858	743,950	(18,908)	748,828
Other expenditures	–	438	438	–
Capital outlay	79,525	13,979	(65,546)	79,770
Total expenditures	1,590,920	1,524,615	(66,305)	1,600,426
Net change in fund balances	$ (20,925)	(2,802)	$ 18,123	(116,339)
Fund balances				
Beginning of year		487,385		603,724
End of year		$ 484,583		$ 487,385

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017	2016
Assets		
Cash and temporary investments	$ 1,116,943	$ 1,047,066
Receivables		
Current taxes	132,056	135,484
Delinquent taxes	1,822	2,878
Accounts and interest	11,056	68,165
Due from other governmental units	29,398	40,091
Prepaid items	1,078	–
Total assets	$ 1,292,353	$ 1,293,684
Liabilities		
Salaries and compensated absences payable	$ 51,355	$ 75,245
Accounts and contracts payable	73,466	146,659
Due to other governmental units	–	813
Total liabilities	124,821	222,717
Deferred inflows of resources		
Unavailable revenue – delinquent taxes	1,766	1,766
Property taxes levied for subsequent year	268,188	270,715
Total deferred inflows of resources	269,954	272,481
Fund balances		
Nonspendable for prepaid items	1,078	–
Restricted for community education programs	765,196	679,024
Restricted for early childhood family education programs	56,282	46,127
Restricted for school readiness	75,022	73,335
Total fund balances	897,578	798,486
Total liabilities, deferred inflows of resources, and fund balances	$ 1,292,353	$ 1,293,684

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 270,598	$ 270,784	$ 186	$ 278,040
Investment earnings	2,800	5,780	2,980	2,775
Other – primarily tuition and fees	2,504,217	2,525,272	21,055	2,792,652
State sources	154,436	152,823	(1,613)	135,650
Total revenue	2,932,051	2,954,659	22,608	3,209,117
Expenditures				
Current				
Salaries	1,666,274	1,651,862	(14,412)	1,629,823
Employee benefits	341,368	292,887	(48,481)	300,783
Purchased services	578,964	550,422	(28,542)	611,871
Supplies and materials	212,245	192,704	(19,541)	296,347
Other expenditures	111,417	122,408	10,991	102,372
Capital outlay	87,239	45,284	(41,955)	173,658
Total expenditures	2,997,507	2,855,567	(141,940)	3,114,854
Net change in fund balances	$ (65,456)	99,092	$ 164,548	94,263
Fund balances				
Beginning of year		798,486		704,223
End of year		$ 897,578		$ 798,486

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017		
	Budget	Actual	Over (Under) Budget
Revenue			
Local sources			
Investment earnings	$ 73,500	$ 74,308	$ 808
Expenditures			
Capital outlay			
Purchased services	834,200	820,719	(13,481)
Capital expenditures	495,679	504,856	9,177
Debt service			
Fiscal charges and other	95,337	336,005	240,668
Total expenditures	1,425,216	1,661,580	236,364
Excess (deficiency) of revenue over expenditures	(1,351,716)	(1,587,272)	(235,556)
Other financing sources			
Bonds issued	30,240,000	30,240,000	–
Premiums on bonds issued	264,578	598,821	334,243
Total other financing sources	30,504,578	30,838,821	334,243
Net change in fund balances	$ 29,152,862	29,251,549	$ 98,687
Fund balances			
Beginning of year		–	
End of year		$ 29,251,549	

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Regular Debt Service Account	OPEB Debt Service Account	Totals 2017	Totals 2016
Assets				
Cash and temporary investments	$ 4,143,830	$ 306,371	$ 4,450,201	$ 2,979,116
Cash and investments held by trustee	34,251,833	–	34,251,833	–
Receivables				
Current taxes	2,546,928	210,500	2,757,428	2,429,971
Delinquent taxes	27,652	2,887	30,539	47,239
Accounts and interest	106,856	–	106,856	–
Due from other governmental units	401	37	438	425
Total assets	$ 41,077,500	$ 519,795	$ 41,597,295	$ 5,456,751
Liabilities				
Accounts and contracts payable	$ –	$ 450	$ 450	$ 1,352
Deferred inflows of resources				
Unavailable revenue – delinquent taxes	27,382	2,789	30,171	28,773
Property taxes levied for subsequent year	5,172,289	427,490	5,599,779	4,856,046
Total deferred inflows of resources	5,199,671	430,279	5,629,950	4,884,819
Fund balances				
Restricted for bond refunding	34,358,689	–	34,358,689	–
Restricted for debt service	1,519,140	89,066	1,608,206	570,580
Total fund balances	35,877,829	89,066	35,966,895	570,580
Total deferred inflows of resources and fund balances	$ 41,077,500	$ 519,795	$ 41,597,295	$ 5,456,751

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2017					2016
		Actual				
	Budget	Regular Debt Service Account	OPEB Debt Service Account	Total	Over (Under) Budget	Actual
Revenue						
Local sources						
Property taxes	$ 4,860,725	$ 4,440,053	$ 416,607	$ 4,856,660	$ (4,065)	$ 4,673,403
Investment earnings	95,000	95,773	1,190	96,963	1,963	7,365
State sources	3,500	4,009	376	4,385	885	4,274
Total revenue	4,959,225	4,539,835	418,173	4,958,008	(1,217)	4,685,042
Expenditures						
Debt service						
Principal	2,745,000	2,555,000	190,000	2,745,000	–	2,475,000
Interest	2,729,241	2,495,443	233,798	2,729,241	–	2,186,951
Fiscal charges and other	292,367	248,799	1,350	250,149	(42,218)	6,724
Total expenditures	5,766,608	5,299,242	425,148	5,724,390	(42,218)	4,668,675
Excess (deficiency) of revenue over expenditures	(807,383)	(759,407)	(6,975)	(766,382)	41,001	16,367
Other financing sources (uses)						
Refunding bonds issued	36,450,000	36,450,000	–	36,450,000	–	–
Premiums on bonds issued	5,698,040	5,562,697	–	5,562,697	(135,343)	–
Bond refunding payments	(5,850,000)	(5,850,000)	–	(5,850,000)	–	–
Total other financing sources (uses)	36,298,040	36,162,697	–	36,162,697	(135,343)	–
Net change in fund balances	$ 35,490,657	35,403,290	(6,975)	35,396,315	$ (94,342)	16,367
Fund balances						
Beginning of year		474,539	96,041	570,580		554,213
End of year		$ 35,877,829	$ 89,066	$ 35,966,895		$ 570,580

INDEPENDENT SCHOOL DISTRICT NO. 278

Combining Statement of Fiduciary Net Position
Private-Purpose Trust Funds
as of June 30, 2017
(With Comparative Totals as of June 30, 2016)

	Memorial and Scholarship	Orono Education	Totals 2017	Totals 2016
Assets				
Cash and temporary investments	$ 628,510	$ 87,555	$ 716,065	$ 698,590
Liabilities				
Accounts and contracts payable	4,900	–	4,900	–
Net position				
Held in trust for other purposes	$ 623,610	$ 87,555	$ 711,165	$ 698,590

Combining Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Funds
Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Memorial and Scholarship	Orono Education	Totals 2017	Totals 2016
Additions				
Private donations	$ 49,244	$ 10,535	$ 59,779	$ 48,100
Investment earnings	8,603	244	8,847	11,361
Total additions	57,847	10,779	68,626	59,461
Deductions				
Scholarships	37,401	18,650	56,051	51,833
Change in net position	20,446	(7,871)	12,575	7,628
Net position				
Beginning of year	603,164	95,426	698,590	690,962
End of year	$ 623,610	$ 87,555	$ 711,165	$ 698,590

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	2008	2009	2010	Fiscal Year 2011
Governmental activities				
Net investment in capital assets	$ 8,794,419	$ 9,962,100	$ 10,805,870	$ 9,711,891
Restricted	1,723,968	1,048,860	1,655,052	2,192,508
Unrestricted	2,273,503	2,652,366	3,703,275	3,836,539
Total governmental activities net position	$ 12,791,890	$ 13,663,326	$ 16,164,197	$ 15,740,938

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

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

2012	2013	2014	2015	2016	2017
$ 8,165,213	$ 7,653,770	$ 7,393,374	$ 7,868,907	$ 8,753,841	$ 6,534,251
3,314,005	3,620,076	3,756,494	3,844,782	2,979,828	4,065,675
4,320,806	4,678,806	5,257,977	(15,287,877)	(15,210,721)	(29,672,163)
$ 15,800,024	$ 15,952,652	$ 16,407,845	$ (3,574,188)	$ (3,477,052)	$ (19,072,237)

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Fiscal Year			
	2008	2009	2010	2011
Governmental activities				
Expenses				
Administration	$ 1,181,422	$ 1,193,867	$ 1,226,861	$ 1,240,176
District support services	1,263,212	1,279,799	1,142,833	1,210,939
Elementary and secondary regular instruction	12,791,412	13,350,759	14,363,446	15,906,341
Vocational education instruction	242,773	237,851	215,347	227,041
Special education instruction	3,214,522	3,288,859	3,540,643	3,577,519
Instructional support services	1,025,194	1,261,845	1,446,529	1,371,005
Pupil support services	1,929,415	2,134,050	2,225,580	2,282,735
Sites and buildings	4,240,795	4,881,758	4,086,843	4,505,990
Fiscal and other fixed cost programs	94,661	86,255	87,095	106,788
Food service	1,141,624	1,263,095	1,290,998	1,375,569
Community service	2,759,491	3,044,582	2,927,640	3,130,688
Interest and fiscal charges	1,034,661	2,671,698	2,634,402	2,582,123
Total governmental activities expenses	30,919,182	34,694,418	35,188,217	37,516,914
Program revenues				
Charges for services				
Elementary and secondary regular instruction	392,814	410,484	437,853	439,665
Special education instruction	276,634	–	–	–
Instructional support services	66,524	78,847	73,273	73,997
Sites and buildings	43,579	47,707	44,460	48,084
Food service	1,082,427	1,108,457	1,102,509	1,113,764
Community service	2,326,673	2,402,320	2,315,824	2,614,388
Operating grants and contributions	3,878,143	3,791,285	4,927,988	4,302,312
Total governmental activities program revenues	8,066,794	7,839,100	8,901,907	8,592,210
Net (expense) revenue	(22,852,388)	(26,855,318)	(26,286,310)	(28,924,704)
General revenues and other changes in net position				
Property taxes	8,384,010	9,017,263	11,839,077	13,878,356
General grants and aids	15,228,973	15,761,109	15,763,704	13,755,226
Investment earnings and other	1,463,016	2,096,867	1,184,400	867,863
Total general revenues and other changes in net position	25,075,999	26,875,239	28,787,181	28,501,445
Change in net position	$ 2,223,611	$ 19,921	$ 2,500,871	$ (423,259)

2012	2013	2014	2015	2016	2017
$ 1,103,447	$ 1,211,999	$ 1,114,374	$ 1,419,501	$ 1,210,448	$ 2,051,816
1,306,845	1,186,616	1,418,314	1,352,392	1,452,785	1,727,629
15,821,717	16,588,104	16,715,403	17,853,192	19,243,525	26,536,175
228,139	232,415	241,330	252,752	266,949	398,942
3,433,434	3,603,350	3,611,233	3,847,621	4,172,151	5,783,842
1,178,776	1,132,586	2,296,955	1,947,093	2,170,518	2,694,470
2,139,593	2,189,262	2,432,063	2,517,343	2,632,360	2,934,532
4,643,492	4,452,099	3,879,490	3,954,424	4,543,936	5,148,314
121,810	152,429	149,070	163,768	130,476	153,893
1,324,369	1,487,498	1,420,436	1,484,656	1,584,898	1,599,610
3,103,963	3,089,958	3,307,702	3,056,864	3,137,082	3,155,738
2,523,805	2,457,007	2,381,304	2,298,810	2,205,783	3,666,352
36,929,390	37,783,323	38,967,674	40,148,416	42,750,911	55,851,313
466,099	462,156	483,615	505,005	454,212	443,288
–	–	–	–	–	–
72,613	84,612	86,742	95,393	94,186	98,355
44,780	45,320	32,450	41,627	54,161	91,946
1,147,584	1,178,931	1,115,473	1,154,225	1,185,196	1,217,362
2,575,570	2,751,209	2,982,439	2,732,277	2,792,652	2,525,272
4,189,597	4,327,106	4,633,326	4,910,953	5,026,723	6,092,995
8,496,243	8,849,334	9,334,045	9,439,480	9,607,130	10,469,218
(28,433,147)	(28,933,989)	(29,633,629)	(30,708,936)	(33,143,781)	(45,382,095)
11,328,567	11,437,738	9,176,495	13,006,374	13,757,445	14,859,066
16,233,024	16,715,745	19,720,708	17,755,988	18,724,777	19,186,103
930,642	933,134	1,191,619	998,139	758,695	945,725
28,492,233	29,086,617	30,088,822	31,760,501	33,240,917	34,990,894
$ 59,086	$ 152,628	$ 455,193	$ 1,051,565	$ 97,136	$ (10,391,201)

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Property Tax				
Fiscal Year	General Purposes	Community Service	Capital Projects – Building Construction	Debt Service	Total
2008	$ 5,741,442	$ 261,800	$ 768,485	$ 1,612,283	$ 8,384,010
2009	6,276,779	258,161	877,079	1,605,244	9,017,263
2010	6,735,926	283,868	979,226	3,840,057	11,839,077
2011	8,521,682	410,087	1,024,716	3,921,871	13,878,356
2012	6,911,002	279,714	–	4,137,851	11,328,567
2013	6,994,866	280,086	–	4,162,786	11,437,738
2014	4,678,374	147,551	–	4,350,570	9,176,495
2015	8,271,967	266,886	–	4,467,521	13,006,374
2016	8,811,854	277,619	–	4,667,972	13,757,445
2017	9,730,224	270,784	–	4,858,058	14,859,066

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

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
General Fund										
Reserved	$ 1,554,584	$ 1,856,191	$ 1,024,098	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Unreserved	2,676,160	3,104,350	5,510,560	–	–	–	–	–	–	–
Nonspendable	–	–	–	516,868	163,719	216,880	241,431	297,934	233,587	568,630
Restricted	–	–	–	1,518,496	2,630,437	2,798,031	2,682,295	2,453,121	1,669,709	1,805,594
Assigned	–	–	–	2,209,746	2,364,311	1,932,960	1,383,557	1,420,294	1,289,948	903,865
Unassigned	–	–	–	2,999,391	2,997,703	3,642,622	4,568,437	4,767,214	4,725,281	4,935,360
Total General Fund	$ 4,230,744	$ 4,960,541	$ 6,534,658	$ 7,244,501	$ 8,156,170	$ 8,590,493	$ 8,875,720	$ 8,938,563	$ 7,918,525	$ 8,213,449
All other governmental funds										
Reserved										
Community Service Fund	$ 238,016	$ 164,900	$ 51,592	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Capital project funds	38,868,240	25,490,577	10,301,303	–	–	–	–	–	–	–
Unreserved, reported in										
Special revenue funds	458,979	465,425	569,589	–	–	–	–	–	–	–
Debt service funds	1,246,598	88,885	153,948	–	–	–	–	–	–	–
Nonspendable	–	–	–	35,251	35,298	27,005	38,918	35,421	37,822	25,244
Restricted	–	–	–	2,286,911	1,185,684	1,301,385	1,627,111	1,826,739	1,818,629	66,575,361
Total all other governmental funds	$ 40,811,833	$ 26,209,787	$ 11,076,432	$ 2,322,162	$ 1,220,982	$ 1,328,390	$ 1,666,029	$ 1,862,160	$ 1,856,451	$ 66,600,605
Total all governmental funds	$ 45,042,577	$ 31,170,328	$ 17,611,090	$ 9,566,663	$ 9,377,152	$ 9,918,883	$ 10,541,749	$ 10,800,723	$ 9,774,976	$ 74,814,054

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

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenues										
Local sources										
Property taxes	$ 8,313,458	$ 8,954,277	$ 11,753,007	$ 13,977,592	$ 11,302,357	$ 11,417,290	$ 9,325,440	$ 12,994,742	$ 13,771,864	$ 14,862,494
Investment earnings	573,265	1,267,315	383,324	16,247	5,730	8,946	20,976	18,875	37,152	238,884
Other	5,078,402	4,868,606	4,772,117	5,141,102	5,231,350	5,446,123	5,871,288	5,507,722	5,301,775	5,082,564
State sources	18,481,984	18,996,174	18,083,298	16,806,502	19,309,387	20,111,316	23,389,076	21,632,879	22,849,359	23,472,665
Federal sources	625,132	556,220	2,608,394	1,251,036	1,113,234	931,535	964,958	990,504	902,141	913,924
Total revenues	33,072,241	34,642,592	37,600,140	37,192,479	36,962,058	37,915,210	39,571,738	41,144,722	42,862,291	44,570,531
Expenditures										
Current										
Administration	1,181,102	1,193,547	1,226,541	1,239,856	1,204,821	1,232,397	1,279,471	1,292,593	1,292,336	1,311,624
District support services	1,240,088	1,562,408	1,108,017	1,184,927	1,291,926	1,156,567	1,390,862	1,389,978	1,464,316	1,645,753
Elementary and secondary regular instruction	12,633,641	16,498,894	13,507,202	13,881,798	14,265,971	14,900,909	14,926,668	16,190,951	17,504,473	17,599,749
Vocational education instruction	242,773	237,851	215,347	227,041	228,139	232,415	241,330	256,702	268,482	271,638
Special education instruction	3,212,939	3,288,211	3,539,995	3,576,871	3,469,533	3,613,323	3,670,933	3,892,207	4,169,778	4,342,829
Instructional support services	1,025,194	1,493,292	1,429,910	1,354,842	1,181,729	1,126,459	2,291,844	1,956,114	2,166,451	2,207,738
Pupil support services	1,929,415	2,134,050	2,225,580	2,282,735	2,139,593	2,189,262	2,432,063	2,528,801	2,634,668	2,622,242
Sites and buildings	3,166,454	5,358,938	3,269,172	2,960,689	3,925,813	3,892,468	3,460,180	4,091,578	4,726,177	4,461,292
Fiscal and other fixed cost programs	94,661	86,255	87,095	106,788	121,810	152,429	149,070	163,768	130,476	153,893
Food service	1,160,171	1,339,424	1,201,407	1,301,862	1,267,152	1,398,291	1,331,466	1,418,152	1,520,656	1,510,636
Community service	2,925,508	3,019,871	2,893,990	3,101,348	3,059,733	3,049,239	3,179,435	3,017,133	2,941,196	2,810,283
Capital outlay	993,002	15,566,568	16,556,784	10,079,802	861,963	71,252	108,731	39,522	253,428	1,384,838
Debt service										
Principal	935,000	959,406	1,197,418	1,341,874	1,596,544	1,881,440	2,080,038	2,319,616	2,579,414	2,854,443
Interest and fiscal charges	807,651	2,047,615	2,700,920	2,596,483	2,542,149	2,479,741	2,406,781	2,328,633	2,239,597	3,356,288
Total expenditures	31,547,599	54,786,330	51,159,378	45,236,916	37,156,876	37,376,192	38,948,872	40,885,748	43,891,448	46,533,246
Excess of revenues over (under) expenditures	1,524,642	(20,143,738)	(13,559,238)	(8,044,437)	(194,818)	539,018	622,866	258,974	(1,029,157)	(1,962,715)
Other financing sources (uses)										
Sale of capital assets	–	–	–	–	5,307	2,713	–	–	3,410	275
Bonds issued	39,350,000	4,630,000	–	–	–	–	–	–	–	30,240,000
Refunding bonds issued	15,600,000	–	–	–	–	–	–	–	–	36,450,000
Premium on debt issued	118,559	–	–	–	–	–	–	–	–	6,161,518
Discount on debt issued	–	(30,394)	–	–	–	–	–	–	–	–
Capital leases	–	1,671,883	–	–	–	–	–	–	–	–
Payment to refunded bond escrow agent	(15,750,000)	–	–	–	–	–	–	–	–	(5,850,000)
Transfer in	4,212	42,122	3,489	–	558,308	–	–	–	–	–
Transfer (out)	(4,212)	(42,122)	(3,489)	–	(558,308)	–	–	–	–	–
Total other financing sources (uses)	39,318,559	6,271,489	–	–	5,307	2,713	–	–	3,410	67,001,793
Net change in fund balances	$ 40,843,201	$ (13,872,249)	$ (13,559,238)	$ (8,044,437)	$ (189,511)	$ 541,731	$ 622,866	$ 258,974	$ (1,025,747)	$ 65,039,078
Debt service as a percentage of noncapital expenditures	6.9%	7.8%	11.1%	10.9%	11.4%	11.8%	11.4%	11.6%	11.3%	13.8%

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Property Tax				
Fiscal Year	General Fund	Community Service Fund	Capital Projects – Building Construction	Debt Service Fund	Total
2008	$ 6,451,679	$ 259,862	$ 768,485	$ 1,601,917	$ 9,081,943
2009	6,210,453	256,054	877,079	1,610,691	8,954,277
2010	6,723,485	281,175	979,226	3,769,121	11,753,007
2011	8,578,774	415,192	1,024,716	3,958,910	13,977,592
2012	6,897,326	279,373	–	4,125,658	11,302,357
2013	6,985,415	279,437	–	4,152,438	11,417,290
2014	4,771,862	151,188	–	4,402,390	9,325,440
2015	8,264,484	266,720	–	4,463,538	12,994,742
2016	8,820,421	278,040	–	4,673,403	13,771,864
2017	9,735,050	270,784	–	4,856,660	14,862,494

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Assessed and Actual Value of Taxable Property
Last Ten Fiscal Years

Payable Year	(1) Real Estate Property	(2) Personal Property	Total Net Tax Capacity Value	Total Direct Tax Rate
2008	$ 41,276,220	$ 264,640	$ 41,540,860	12.041 %
2009	43,134,286	252,403	43,386,689	17.492
2010	42,116,140	253,254	42,369,394	17.013
2011	38,656,546	277,550	38,934,096	19.380
2012	35,589,316	282,588	35,871,904	19.939
2013	33,441,747	309,093	33,750,840	22.325
2014	33,005,685	310,406	33,316,091	22.613
2015	34,834,094	325,356	35,159,450	22.601
2016	36,175,699	334,353	36,510,052	23.166
2017	38,769,896	347,527	39,117,423	23.352

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

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

Source: Hennepin County

INDEPENDENT SCHOOL DISTRICT NO. 278

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

Tax Collection Calendar Year	ISD No. 278 Certified Levies: General Fund	Community Service	General Obligation Debt Service	Total Direct School Tax Rate (1)	Overlapping Rates (1): City of Independence	City of Maple Plain	City of Long Lake	City of Medina	City of Minnetonka Beach	City of Orono	City of Wayzata	Hennepin County	Three Rivers Park District	Other (2)	Sample Direct and Overlapping Tax Rate (3)
2008	$ 7,034,555	$ 266,202	$ 1,615,455	12.041	35.408	48.188	34.620	15.434	21.765	13.580	20.308	38.571	3.137	4.260	71.5890
2009	7,727,877	273,227	3,874,148	17.492	36.370	49.516	35.840	16.636	20.492	13.183	19.415	40.413	3.334	3.370	77.7920
2010	7,035,236	274,316	3,961,782	17.013	32.622	50.069	37.502	17.241	21.588	13.677	20.358	42.056	3.499	4.639	80.8840
2011	6,830,653	260,447	4,173,469	19.380	34.152	57.639	37.105	18.977	23.240	14.991	23.032	45.187	3.765	5.407	88.7300
2012	6,784,053	276,487	4,203,065	19.939	34.178	69.255	44.388	21.342	24.563	16.283	24.274	48.231	3.943	5.580	93.9760
2013	7,094,049	289,074	4,365,435	22.325	36.266	79.650	43.989	24.639	27.467	17.667	26.020	49.461	4.054	6.035	99.5420
2014	8,167,479	267,687	4,480,196	22.613	37.451	71.322	44.229	25.501	32.772	17.815	26.311	49.959	4.169	6.392	100.9480
2015	8,695,765	278,445	4,681,099	22.601	38.856	80.776	44.491	23.577	26.798	17.387	25.705	46.398	3.789	5.996	96.1710
2016	9,575,016	270,461	4,851,771	23.166	39.788	76.817	43.796	23.301	27.030	17.325	24.673	45.356	3.601	3.929	93.3770
2017	10,604,537	268,492	5,606,134	23.352	39.967	75.349	39.180	22.270	25.948	16.759	23.352	44.087	3.365	5.929	93.4920

(1) Tax rates shown above are tax capacity rates only, and do not include tax rates for taxes that are spread on referendum market value.

(2) Special districts include Metro Mosquito, Metro Council, Metro Transit, Park Museum, HCRRA, and Hennepin HRA.

(3) The total rate shown above is for property in the City of Orono.

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Principal Property Taxpayers
Current Year and Nine Years Ago

Taxpayer	2017 Net Tax Capacity	2017 Rank	2017 Percentage of Tax Capacity Value	2008 Net Tax Capacity	2008 Rank	2008 Percentage of Tax Capacity Value
Private Residence	$ 328,239	1	0.84 %	$ 110,263	1	0.27 %
Private Residence	285,075	2	0.73	102,376	2	0.25
Private Residence	260,139	3	0.67	90,269	4	0.22
Private Residence	211,113	4	0.54	82,376	7	0.20
Wayzata Country Club	142,028	5	0.36	82,026	8	0.20
Engelsma Limited – Trails of Orono	133,750	6	0.34	–	–	–
Private Residence	122,400	7	0.31	75,474	9	0.18
Woodhill Country Club	121,520	8	0.31	70,550	10	0.17
Private Residence	117,032	9	0.30	–	–	–
Xcel Energy	114,340	10	0.29	–	–	–
Private Residence	104,176	11	0.27	82,510	6	0.20
Private Residence	101,413	12	0.26	92,670	3	0.22
Private Residence	101,400	13	0.26	86,760	5	0.21
Total	$ 2,142,625		5.48 %	$ 875,274		2.11 %

Source: City of Orono

INDEPENDENT SCHOOL DISTRICT NO. 278

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

For Taxes Collectible	Taxes Levied for the Fiscal Year: General Fund Basic Levy	Community Service Levy	Debt Service Levy	OPEB Debt Levy (1)	Total Tax Levy	Collected Within the First Year of Levy: Current Tax Collection	Percentage of Levy
2008	$ 7,034,555	$ 266,202	$ 1,615,455	$ –	$ 8,916,212	$ 8,916,212	100.0 %
2009	7,727,877	273,227	3,455,681	418,467	11,875,252	11,875,252	100.0
2010	7,035,236	274,316	3,510,116	451,666	11,271,334	11,271,334	100.0
2011	6,830,653	260,447	3,724,165	449,304	11,264,569	11,044,847	98.0
2012	6,784,053	276,487	3,784,598	418,467	11,263,605	11,116,730	98.7
2013	7,094,049	289,074	3,913,769	451,666	11,748,558	11,687,284	99.5
2014	8,167,479	267,687	4,030,351	449,845	12,915,362	12,802,871	99.1
2015	8,695,765	278,445	4,230,677	450,422	13,655,309	13,577,519	99.4
2016	9,575,016	270,461	4,406,783	444,988	14,697,248	14,702,430	100.0
2017	10,604,537	268,492	5,156,867	449,267	16,479,163	8,365,262	50.8

(1) Fiscal Year 2009 was the first year that OPEB/Pension Fund Levy was applicable.

Source: State of Minnesota School Tax Report

Collections in Subsequent Years	Total Collections to Date: Total Tax Collection	Total Collections to Date: Percentage of Levy	Outstanding Delinquent Taxes	Percent
$ –	$ 8,916,212	100.0 %	$ –	– %
–	11,875,252	100.0	–	–
–	11,271,334	100.0	–	–
214,661	11,259,508	100.0	5,061	–
142,381	11,259,111	100.0	4,494	–
53,082	11,740,366	99.9	8,192	0.1
86,636	12,889,507	99.8	25,855	0.2
60,102	13,637,621	99.9	17,688	0.1
(32,215)	14,670,215	99.8	27,033	0.2
–	8,365,262	50.8	–	–
			$ 88,323	

INDEPENDENT SCHOOL DISTRICT NO. 278

Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	Governmental Activities: General Obligation Bonds (1)	Governmental Activities: Capital Leases	Governmental Activities: Total Primary Government	Percentage of Personal Income (2)	Per Capita (3)
2008	$ 55,318,614	$ –	$ 55,318,614	– %	$ –
2009	59,056,499	1,582,477	60,638,976	–	–
2010	57,960,141	1,490,059	59,450,200	–	–
2011	56,722,518	1,393,185	58,115,703	–	–
2012	55,234,147	1,291,641	56,525,788	–	–
2013	53,465,776	1,185,201	54,650,977	–	4,406
2014	51,487,405	1,090,163	52,577,568	–	4,239
2015	49,274,034	990,547	50,264,581	–	4,053
2016	46,805,663	886,133	47,691,796	–	3,845
2017	110,611,483	776,690	111,388,173	–	8,902

(1) Presented net of issuance premiums and discounts.

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 278

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

Fiscal Year	Gross Bonded Debt (1)	Less Debt Service Funds on Hand (2)	Net Bonded Debt	Market Value	Percent of Net Debt to Market Value	Estimated Population (3)	Net Bonded Debt per Capita
2008	$ 55,318,614	$ 49,528	$ 55,269,086	$3,484,091,700	1.59 %	-	$ -
2009	59,056,499	88,885	58,967,614	3,628,555,900	1.63	-	-
2010	57,960,141	153,948	57,806,193	3,553,385,600	1.63	-	-
2011	56,722,518	366,883	56,355,635	3,285,366,900	1.72	-	-
2012	55,234,147	551,769	54,682,378	3,073,469,250	1.78	-	-
2013	53,465,776	513,373	52,952,403	2,906,596,650	1.82	12,403	4,269
2014	51,487,405	583,420	50,903,985	2,871,721,850	1.77	12,403	4,104
2015	49,274,034	554,213	48,719,821	2,871,088,500	1.70	12,403	3,928
2016	46,805,663	570,580	46,235,083	2,985,790,100	1.55	12,403	3,728
2017	110,611,483	35,966,895	74,644,588	3,182,404,550	2.35	12,513	5,965

(1) Presented net of issuance premiums and discounts.

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 278

Direct and Overlapping Debt
as of June 30, 2017

Governmental Unit	Debt Outstanding	Percent Allocable to ISD No. 278	Portion Allocable to ISD No. 278
Independent School District No. 278	$ 111,388,173	100.00 %	$ 111,388,173
Overlapping debt			
Hennepin County	743,205,000	2.24	16,670,831
City of Independence	1,780,000	48.58	864,808
City of Long Lake	415,000	100.00	415,000
City of Medina	7,855,000	41.17	3,234,029
City of Minnetonka Beach	1,485,000	100.00	1,485,000
City of Orono	4,725,000	63.40	2,995,858
City of Wayzata	13,215,000	0.57	75,735
Metropolitan Council	146,405,000	2.24	3,286,353
Three Rivers Park District	62,125,000	3.15	1,954,701
Total overlapping debt			30,982,315
Total direct and overlapping debt			$ 142,370,488

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

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

INDEPENDENT SCHOOL DISTRICT NO. 278

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

	Fiscal Year									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Debt limit	$ 522,613,755	$ 544,283,385	$ 533,007,840	$ 492,805,035	$ 461,020,388	$ 435,989,498	$ 430,758,278	$ 430,663,275	$ 447,868,515	$ 477,360,683
Total debt applicable to limit	55,269,086	58,967,614	57,806,193	56,355,635	54,682,378	52,952,403	50,903,985	48,719,821	46,235,083	74,644,588
Legal debt margin	$ 467,344,669	$ 485,315,771	$ 475,201,647	$ 436,449,400	$ 406,338,010	$ 383,037,095	$ 379,854,293	$ 381,943,454	$ 401,633,432	$ 402,716,095
Total debt applicable to the limit as a percentage of debt limit	10.58%	10.83%	10.85%	11.44%	11.86%	12.15%	11.82%	11.31%	10.32%	15.64%

Legal Debt Margin Calculation for Fiscal Year 2017	
Market value	$3,182,404,550
Debt limit (15% of market value)	477,360,683
Debt applicable to limit	
General obligation bonds	74,644,588
Legal debt margin	$ 402,716,095

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

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 278

Demographic and Economic Statistics
Last Five Fiscal Years

		Orono School District			
Fiscal Year	Population (1)	Personal Income (2)	Per Capita Personal Income (2)	School Enrollment	Unemployment Rate (3)
2013	12,403	$ -	$ -	2,762	4.6 %
2014	12,403	-	-	2,776	3.8
2015	12,403	-	-	2,779	3.3
2016	12,403	-	-	2,815	2.9
2017	12,513	-	-	2,824	3.7

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

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

(3) Official Metropolitan Council estimate.

INDEPENDENT SCHOOL DISTRICT NO. 278

Principal Employers
Current Year and Nine Years Ago

	Fiscal Year					
	2017			2008		
Employer	Employees	Rank	Percentage of Total (1) Employment	Employees	Rank	Percentage of Total (1) Employment
Proto Labs, Inc.	500	1	28.72 %	350	1	22.08 %
ISD No. 278 Orono	352	2	20.22	335	2	21.14
Service Master Co.	200	3	11.49	180	3	11.36
Woodhill Country Club	150	4	8.62	160	4	10.09
Herc-U-Lift, Inc.	120	5	6.89	120	5	7.57
American Custom Rotomolding	110	6	6.32	110	7	6.94
Lafayette Club	100	7	5.74	120	6	7.57
Haven Homes of Maple Plain	95	8	5.46	85	8	5.36
Otten Brothers Nursery	64	9	3.68	70	9	4.42
Maple Plain Food Center	50	10	2.87	55	10	3.47
Total	1,741		100.00 %	1,585		100.00 %
Total ISD No. 278 population (see the Schedule of Demographic and Economic Statistics)	12,513			(2)		
Percent of principal employers to total ISD No. 278 population	13.9%			(2)		

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

(2) Total ISD No. 278 population is not available for years prior to 2013.

Source: City of Orono

INDEPENDENT SCHOOL DISTRICT NO. 278

Employees by Classification
Last Ten Fiscal Years

	Fiscal Year									
Employees	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Administrative staff	21.0	22.0	22.0	22.0	23.0	23.0	23.0	23.0	23.0	23.5
Support service staff	130.0	131.0	131.0	133.0	135.0	136.0	136.0	136.0	139.0	140.0
Classroom teachers	146.2	146.0	148.8	148.8	149.1	150.2	151.8	150.3	149.5	150.9
Special education teachers	34.3	34.5	34.9	35.0	35.0	35.0	35.6	35.5	35.1	35.3
Total	331.5	333.5	336.7	338.8	342.1	344.2	346.4	344.8	346.5	349.7

Source: This information is derived from the Minnesota Department of Education STARS report (October 1)

INDEPENDENT SCHOOL DISTRICT NO. 278

Operating Statistics
Last Ten Fiscal Years

Fiscal Year	Enrollment	Total Governmental Activities Expenses	Cost per Pupil	Percentage Change	Teaching Staff	Pupil/ Teacher Ratio
2008	2,647	$ 30,919,182	$ 11,681	10.7 %	176.8	15.0
2009	2,702	34,694,418	12,840	9.9	180.9	14.9
2010	2,709	35,188,217	12,989	1.2	181.4	14.9
2011	2,766	37,516,914	13,564	4.4	183.6	15.1
2012	2,707	36,929,390	13,642	0.6	183.1	14.8
2013	2,762	37,783,323	13,680	0.3	184.8	14.9
2014	2,776	38,967,674	14,037	2.6	187.1	14.8
2015	2,779	40,148,416	14,447	2.9	186.4	14.9
2016	2,815	42,750,911	15,187	5.1	188.5	14.9
2017	2,811	55,851,313	19,869	30.8	189.2	14.9

Source: District records

INDEPENDENT SCHOOL DISTRICT NO. 278

School Building Information
Last Ten Fiscal Years

	Fiscal Year			
	2008	2009	2010	2011
Elementary Schools				
Orono Schuman Elementary **(1987)**				
Enrollment (1)	528	535	546	567
Square feet	89,764	89,764	89,764	89,764
Orono Intermediate **(1972)**				
Enrollment (1)	596	629	615	622
Square feet	127,324	127,324	127,324	127,324
Middle School				
Orono Middle School **(2000)**				
Enrollment (1)	648	658	681	684
Square feet	122,000	122,000	122,000	122,000
High School				
Orono High School **(1960)**				
Enrollment (1)	861	865	849	891
Square feet	186,444	186,444	186,444	186,444
Total enrollment	2,633	2,687	2,691	2,764
Total square feet	525,532	525,532	525,532	525,532
Athletics				
Football fields	3	3	3	3
Soccer fields	13	13	13	13
Running tracks	1	1	1	1
Baseball/softball	6	6	6	6
Swimming pools	1	1	1	1
Playgrounds	3	3	3	3

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

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

2012	2013	2014	2015	2016	2017
541	553	525	537	563	573
89,764	89,764	89,764	89,764	89,764	89,764
592	600	649	635	625	608
127,324	127,324	127,324	127,324	127,324	127,324
699	691	671	684	676	698
122,000	122,000	122,000	122,000	122,000	122,000
862	903	912	909	927	922
186,444	186,444	186,444	186,444	186,444	186,444
2,694	2,747	2,757	2,765	2,791	2,801
525,532	525,532	525,532	525,532	525,532	525,532
3	3	3	3	3	4
13	13	13	13	13	13
1	1	1	1	1	1
6	6	6	6	6	6
1	1	1	1	1	1
3	3	3	3	3	3

INDEPENDENT SCHOOL DISTRICT NO. 278

Food Service
School Lunch Program Data
Last Ten Fiscal Years

Year Ended June 30,	Program Adult Meals	Meals Served Students	Full Price Meals Served	Free Meals Served	Reduced Price Meals Served
2008	9,148	261,357	232,701	21,079	7,578
2009	9,190	262,578	234,114	20,781	7,682
2010	8,973	256,368	227,255	19,136	9,977
2011	9,051	258,598	228,998	18,752	10,848
2012	9,063	258,950	230,108	22,858	5,984
2013	8,911	254,590	223,974	23,454	7,162
2014	8,705	248,711	220,360	22,336	6,015
2015	9,920	276,849	249,649	20,087	7,113
2016	10,226	274,214	178,992	21,229	5,839
2017	11,363	272,340	245,425	18,396	8,519

Year Ended June 30,	Student Regular Lunch Prices Elementary	Middle	High School
2008	$ 2.05	$ 2.15	$ 2.30
2009	2.10	2.20	2.35
2010	2.15	2.25	2.40
2011	2.15	2.25	2.40
2012	2.25	2.35	2.50
2013	2.30	2.40	2.55
2014	2.40	2.55	2.70
2015	2.45	2.60	2.75
2016	2.50	2.65	2.80
2017	2.55	2.70	2.85

INDEPENDENT SCHOOL DISTRICT NO. 278

Student Enrollment
Last Ten Fiscal Years

	Average Daily Membership (ADM)					
Year Ended June 30,	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	Total Pupil Units
2008	16	152	1,174	1,304	2,647	3,083
2009	20	158	1,185	1,338	2,702	3,146
2010	21	145	1,218	1,325	2,709	3,156
2011	19	177	1,212	1,357	2,766	3,209
2012	15	138	1,212	1,342	2,707	3,162
2013	18	156	1,197	1,391	2,762	3,224
2014	13	162	1,205	1,395	2,776	3,237
2015	18	151	1,224	1,387	2,779	3,057
2016	23	171	1,219	1,402	2,815	3,095
2017	25	151	1,235	1,400	2,811	3,091

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

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

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

Source: Minnesota Department of Education student reporting system

APPENDIX B

FORM OF LEGAL OPINION

(See following page)

KF&D

KNUTSON, FLYNN & DEANS, P.A.
1155 Centre Pointe Drive, Suite 10
Mendota Heights, MN 55120
651.222.2811 fax 651.225.0600
www.kfdmn.com

$1,930,000*
GENERAL OBLIGATION TAX ABATEMENT BONDS, SERIES 2018B
INDEPENDENT SCHOOL DISTRICT NO. 278
(ORONO PUBLIC SCHOOLS)
HENNEPIN COUNTY, MINNESOTA

We have acted as Bond Counsel in connection with the issuance by Independent School District No. 278 (Orono Public Schools), Hennepin County, Minnesota (the "District"), of its General Obligation Tax Abatement Bonds, Series 2018B (the "Bonds"), in the aggregate principal amount of $1,930,000*, bearing a date of original issue of November 7, 2018. The Bonds are fully registered as to principal and interest and are originally issued using a global book-entry system.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

We have examined the law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other affidavits and certificates of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based upon our examination of these materials, assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and based upon present Minnesota and federal laws, regulations, rulings and decisions, it is our opinion that:

(1) The Bonds are in due form and the proceedings show lawful authority for their issuance according to their terms under the Constitution and laws of the State of Minnesota now in force, including Minnesota Statutes, Sections 469.1812 to 469.1815 and Chapter 475.

(2) The Bonds are valid and binding general obligations of the District enforceable in accordance with their terms except to the extent to which enforceability thereof may be limited by the exercise of judicial discretion in accordance with general principles of equity, by the constitutional powers of the United States of America and by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted. All of the taxable property in the District is subject to the levy of ad valorem taxes to pay the principal and interest on the Bonds, which taxes are without limitation as to rate or amount.

(3) Interest on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes. Interest on the Bonds is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax measured by income. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals and other taxpayers under Section 55 of the Internal Revenue Code of 1986, as amended, (the "Code") or for purposes of the Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in adjusted current earnings of corporations for purposes of the Minnesota alternative minimum tax and the federal minimum tax applicable to corporations for tax years beginning before January 1, 2018.

(4) The opinion set forth in Paragraph (3) above is subject to the condition that the District comply with all the requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and state income tax purposes. The District has covenanted in the resolution authorizing the issuance of the Bonds to comply with these continuing requirements. Noncompliance with these covenants by the District following the issuance of the Bonds may result in inclusion of interest on the Bonds in federal gross income and Minnesota taxable net income for federal and Minnesota income tax purposes retroactive to the date of issuance of the Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

(5) The Bonds have been designated as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code relating to the deduction of interest expenses allocable to the Bonds by financial institutions.

DATED at Mendota Heights, Minnesota, this 7th day of November, 2018.

KNUTSON, FLYNN & DEANS
Professional Association

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

CONTINUING DISCLOSURE CERTIFICATE
(Full Disclosure)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 278 (Orono Public Schools), State of Minnesota (the "District"), in connection with the issuance of its General Obligation Tax Abatement Bonds, Series 2018B (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the School Board on October 22, 2018 (the "Resolution"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (the "State Payment Law" described in the Official Statement for the Bonds) which provides for payment by the State of Minnesota in the event of a potential default of a District obligation. The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Bondholders or beneficial owners, if different, and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12(b)(5). This Disclosure Certificate constitutes the written Undertaking required by the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the District pursuant to, and as described in Sections 3 and 4 of this Disclosure Certificate.

"Audited Financial Statements" shall mean the financial statements of the District audited annually by an independent certified public accounting firm and prepared in accordance with generally accepted accounting principles or as otherwise required by Minnesota law for the preceding Fiscal Year, including a balance sheet and statement of revenues, expenditures and changes in fund balances.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent which has been designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system: www.emma.msrb.org, established by the MSRB and which contains a component that includes a continuing disclosure service for the receipt and public availability of continuing disclosure documents and related information to be submitted by issuers, obligated persons, and their agents pursuant to continuing disclosure undertakings entered into consistent with the Rule.

"Fiscal Year" shall mean the fiscal year of the District.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The District shall provide, or shall cause the Dissemination Agent to provide not later than June 30, 2019, and twelve (12) months after the end of each Fiscal Year during which the Bonds are outstanding, to the MSRB, in an electronic format through the use of EMMA, an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate. If audited financial statements are not available by the date specified above, the District shall submit unaudited financial statements by that date to the MSRB and will submit the audited financial statements as soon as they are available.

(b) If the District is unable to provide to the MSRB an Annual Report by the date required in subsection (a) above, the District shall send a timely notice to the MSRB.

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the required method of submission to the MSRB and (if the Dissemination Agent is other than the District)

(ii) file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate and stating the date it was provided.

SECTION 4. Content of Annual Reports. The District's Annual Report shall contain or incorporate by reference the following:

1. An annual Audited Financial Statement.

2. Updates of the operating and financial data included in the Official Statement under headings substantially similar to the following or containing financial information directly relating to the following: “Current Property Valuations”, “Tax Levies & Collections”, “Student Body”, “Direct Debt”, and “Employment/Unemployment”.

All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must also be available from the Municipal Securities Rulemaking Board (MSRB). The District shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) This Section 5 shall govern the giving of notices of the occurrence of any of the following events, with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;
9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the obligated person;

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever a Listed Event occurs, the District shall in a timely manner not in excess of ten business days after the occurrence of the Listed Event file a notice of such occurrence with the MSRB.

SECTION 6. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, including but not limited to its duties under Sections 3 and 5 hereof, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

If this Disclosure Certificate is amended, the District will disclose such amendment, together with a narrative explanation of that amendment, to the MSRB with its annual financial information disclosure.

SECTION 9. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution or with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders from time to time of the Bonds or the beneficial owners, if different, and shall create no rights in any other person or entity.

SECTION 13. Reserved Rights. The District reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or to modify the Undertaking under this Disclosure Certificate if the District determines that such modification is required by the Rule, or by a court of competent jurisdiction.

SECTION 14. District Contact Information.

Title:	Superintendent
Name of District:	Independent School District No. 278 (Orono Public Schools)
Address:	685 N. Old Crystal Bay Road Long Lake, MN 55356
Telephone No.	(952) 449-8300

Dated as of this 7th day of November, 2018.

INDEPENDENT SCHOOL DISTRICT NO. 278
LONG LAKE, MINNESOTA

By: ______________________________________
Chair

And: _____________________________________
Clerk

[Signature Page for Continuing Disclosure Certificate]

APPENDIX E

TERMS OF PROPOSAL

$1,930,000* GENERAL OBLIGATION TAX ABATEMENT BONDS, SERIES 2018B
INDEPENDENT SCHOOL DISTRICT NO. 278 (ORONO PUBLIC SCHOOLS), MINNESOTA

Proposals for the purchase of $1,930,000* General Obligation Tax Abatement Bonds, Series 2018B (the "Bonds") of Independent School District No. 278 (Orono Public Schools), Minnesota (the "District") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the District, until 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on October 17, 2018, at which time they will be opened, read and tabulated. On October 17, 2018, the School Board will adopt a resolution which will authorize designated officials of the District to accept proposals on the Bonds on October 17, 2018. The Board will meet on October 22, 2018 at 7:00 P.M. to ratify and approve the sale of the Bonds. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 469.1814 by the District to finance the construction of and improvements to District parking lots and related work, and to fund related financing costs. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated November 7, 2018, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2020	$155,000	2024	$190,000	2028	$215,000
2021	170,000	2025	195,000	2029	225,000
2022	180,000	2026	205,000		
2023	185,000	2027	210,000		

ADJUSTMENT OPTION

* The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing August 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2027 shall be subject to optional redemption prior to maturity on February 1, 2026 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the District. If only part of the Bonds having a common maturity date are called for redemption, then the District or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about November 7, 2018, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than $1,906,840 plus accrued interest on the principal sum of $1,930,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

1) Electronically to bondsale@ehlers-inc.com; or

2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or

3) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:00 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the District nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of $38,600 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The District and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to $250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the District scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The District's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The District reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the District requested and received a rating on the Bonds from a rating agency, the District will pay that rating fee. Any rating agency fees not requested by the District are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The District will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the District will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the District under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the District by the District's municipal advisor identified herein and any notice or report to be provided to the District may be provided to the District's municipal advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

(1) The District shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the District may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the District shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the Underwriter. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the District agrees to use the rule selected by the Underwriter on its proposal form to determine the issue price for the Bonds. On its proposal form, each Underwriter must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the hold-the-offering-price rule, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5^{th}) business day after the sale date; or

(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder will advise the District promptly after the close of the fifth (5^{th}) business day after the sale whether it has sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5^{th}) business day after the sale date.

The District acknowledges that in making the representation set forth above, the winning bidder will rely on:

(i) the agreement of each underwriter to comply with requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-price rule, if applicable to the Bonds, as set forth in an agreement among underwriters and the related pricing wires,

(ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in a selling group agreement and the related pricing wires, and

(iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, as set forth in the third-party distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price rule of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Bonds, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Bonds, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Bonds.

(e) <u>If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the 10% test</u>, the Underwriter agrees to promptly report to the District, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until either (i) all Bonds of that maturity have been sold or (ii) the 10% test has been satisfied as to each maturity of the Bonds, provided that, the winning bidder's reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the District or bond counsel.

(f) By submitting a proposal, each bidder confirms that:

(i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such third-party distribution agreement, as applicable, to:

(A) report the prices at which it sells to the public the unsold Bonds of each maturity allocated to it, whether or not the Closing Date has occurred until either all securities of that maturity allocated to it have been sold or it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity, provided that, the reporting obligation after the Closing Date may be at reasonable periodic intervals or otherwise upon request of the District or bond counsel.

(B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and

(ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group and each broker dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such third-party distribution agreement to:

(A) to promptly notify the winning bidder of any sales of Bonds that, to its knowledge, are made to a purchaser who is a related party to an underwriter participating in the initial sale of the Bonds to the public (each such term being used as defined below), and

(B) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder shall assume that each order submitted by the underwriter, dealer or broker-dealer is a sale to the public.

(g) Sales of any Bonds to any person that is a related party to an underwriter participating in the initial sale of the Bonds to the public (each term being used as defined below) shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

(i) "public" means any person other than an underwriter or a related party,

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (A) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (B) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (C) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "sale date" means the date that the Bonds are awarded by the District to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of $10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the Board of Education

Independent School District No. 278
(Orono Public Schools), Minnesota

PROPOSAL FORM

The Board of Education **October 17, 2018**
Independent School District No. 278 (Orono Public Schools), Minnesota

RE: $1,930,000* General Obligation Tax Abatement Bonds, Series 2018B
DATED: November 7, 2018

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you $__________________ (not less than $1,906,840) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2020	________	% due	2024	________	% due	2028
________	% due	2021	________	% due	2025	________	% due	2029
________	% due	2022	________	% due	2026			
________	% due	2023	________	% due	2027			

* The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of $38,600, to be held by the District pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138.** Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about November 7, 2018.

This proposal is subject to the District's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.
We have received and reviewed the Official Statement and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the District with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are not met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: ______________________ By: ______________________
Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from November 7, 2018 of the above proposal is $_______________and the true interest cost (TIC) is __________%.

The foregoing offer is hereby accepted by and on behalf of the Board of Education of Independent School District No. 278 (Orono Public Schools), Minnesota, on October 17, 2018.

By: ______________________ By: ______________________

Title: ______________________ Title: ______________________