Independent School District No. 885
Albertville, Minnesota

Financial Statements

June 30, 2017

bergan KDV
CPAS | ADVISORS

Independent School District No. 885
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Independent School District No. 885
Board of Education and Administration
June 30, 2017

Board of Education	Position	Term Expires
Drew Scherber	Chairperson	December 31, 2020
Gayle Weber	Vice-Chairperson	December 31, 2018
Jennifer Peyerl	Clerk	December 31, 2018
Kari Dwinnell	Treasurer	December 31, 2020
Hollee Saville	Director	December 31, 2020
Jeffrey Linquist	Director	December 31, 2018

Administration	
Ann-Marie Foucault, Ph.D.	Superintendent
Robert Driver	High School Principal
Jennifer Kelly	Middle School East Principal
Andrew Merfeld	Middle School West Principal
Jason Bodey, Ph. D.	Albertville Primary Principal
Corey Lahr	St. Michael Elementary Principal
Lee Brown	Big Woods Elementary Principal
Jeanette Aanerud	Fieldstone Elementary Principal
Jolene Herfel	High School Assistant Principal
Steven Scherber	High School Assistant Principal
Charlie Bakker	Middle School East Assistant Principal
Lynn Jennissen	Middle School West Assistant Principal

Independent Auditor's Report

To the School Board
Independent School District No. 885
Albertville, 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. 885, Albertville, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

BerganKDV, Ltd.
bergankdv.com

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 885, Albertville, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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.

Bergan KDV Ltd.

Minneapolis, Minnesota
November 21, 2017

Independent School District No. 885
Management's Discussion and Analysis

This section of the District annual financial report presents a discussion and analysis of the District's financial performance during fiscal year ended June 30, 2017. Please read it in conjunction with the financial statements that immediately follow this section.

The MD&A is an element of required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments,* issued in June 1999. Certain comparative information between the current fiscal year (2016-2017) and the prior fiscal year (2015-2016) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The district's net position decreased by $12,619,926 compared to the prior year as a result of district operations.
- Overall revenues were $80,836,217 while overall expenses were $93,456,143.
- The general fund and community service fund increased fund balances approximately $1,204,000, and $141,000 respectively. The food service fund has a decrease of approximately $45,000 due to planned fund balance reductions. The debt service fund and capital projects fund increased by approximately $37,800,000 and $34,000,000 from bond issuances.

OVERVIEW OF THE FINANCIAL STATEMENTS

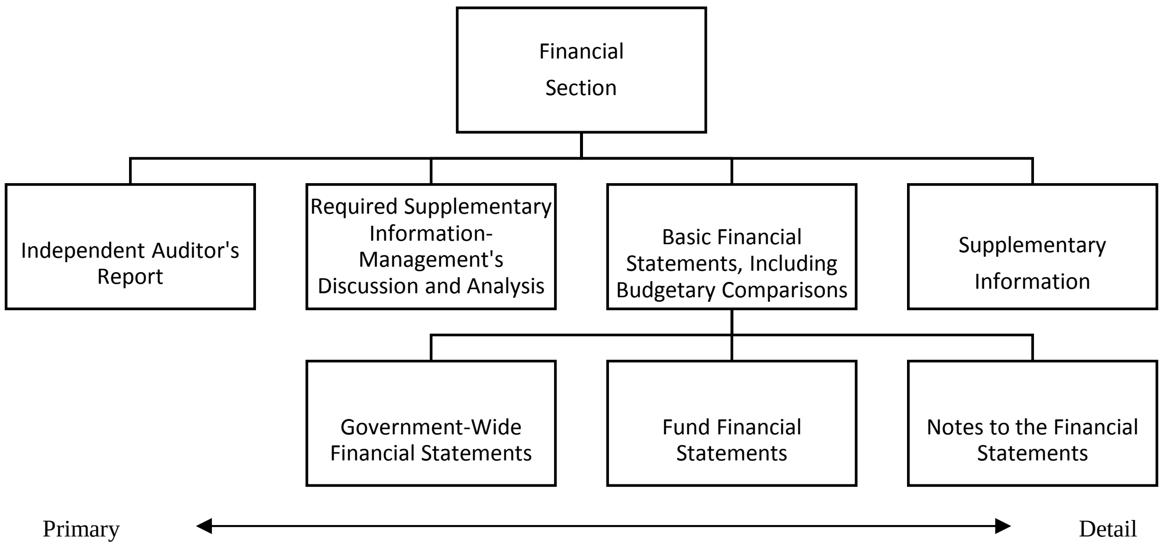
The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information, including the MD&A, the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

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



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Major Features of the Government-Wide and Fund Financial Statements

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

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

	District Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Deferred Outflows of Resources/Liability/Deferred Inflows of Resources Information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources and both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities are included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when good or services have been received and the related liability is due and payable	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, one needs to consider additional non-financial 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 divided into two categories:

- Governmental Activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.
- Business-Type Activities: The District charges fees to help it cover the costs of certain services it provides. For fiscal year 2016-2017, none of the District's financial activities were included in this category.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

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

FUND FINANCIAL STATEMENTS (CONTINUED)

The District has two kinds of funds:

- Governmental Funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations are provided between the governmental funds and the government-wide statements, which do present a long-term focus.
- Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others such as the Scholarship fund and the student activities funds. 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 below. The District excludes these activities from the district-wide financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's total net position as of June 30, 2017 was ($32,278,827) which is summarized in Figure A-3 below. Comparisons are made to the prior year in an effort to quantify and explain changes that took place in the current fiscal year.

Figure A-3
Net Position – Governmental Activities

	2016-2017	2015-2016	Percentage Change
Current and other assets	$ 115,627,495	$ 42,230,687	173.80%
Capital assets	156,327,679	158,558,575	-1.41%
Total assets	$ 271,955,174	$ 200,789,262	35.44%
Deferred outflows of resources	$ 85,454,340	$ 10,965,246	679.32%
Long-term liabilities	$ 365,715,152	$ 198,305,519	84.42%
Other liabilities	9,795,202	16,821,982	-41.77%
Total liabilities	$ 375,510,354	$ 215,127,501	74.55%
Deferred inflows of resources	$ 14,177,987	$ 16,285,908	-12.94%
Net Position			
Invested in capital assets, Net of related debt	$ (913,926)	$ (5,015,881)	81.78%
Restricted	6,886,912	6,681,961	3.07%
Unrestricted	(38,251,813)	(21,324,981)	-79.38%
Total net position	$ (32,278,827)	$ (19,658,901)	-64.19%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position (Continued)

The net change in assets for 2016-2017 was $12,619,926. The net change is based on total revenue of $80,836,217 and total expenses of $93,456,143. Figure A-4 on the next page shows the breakdown into the various revenue and expense categories. Comparisons are made to the prior year in an effort to quantify and explain changes that took place in the current fiscal year.

Figure A-4

Change in Net Position

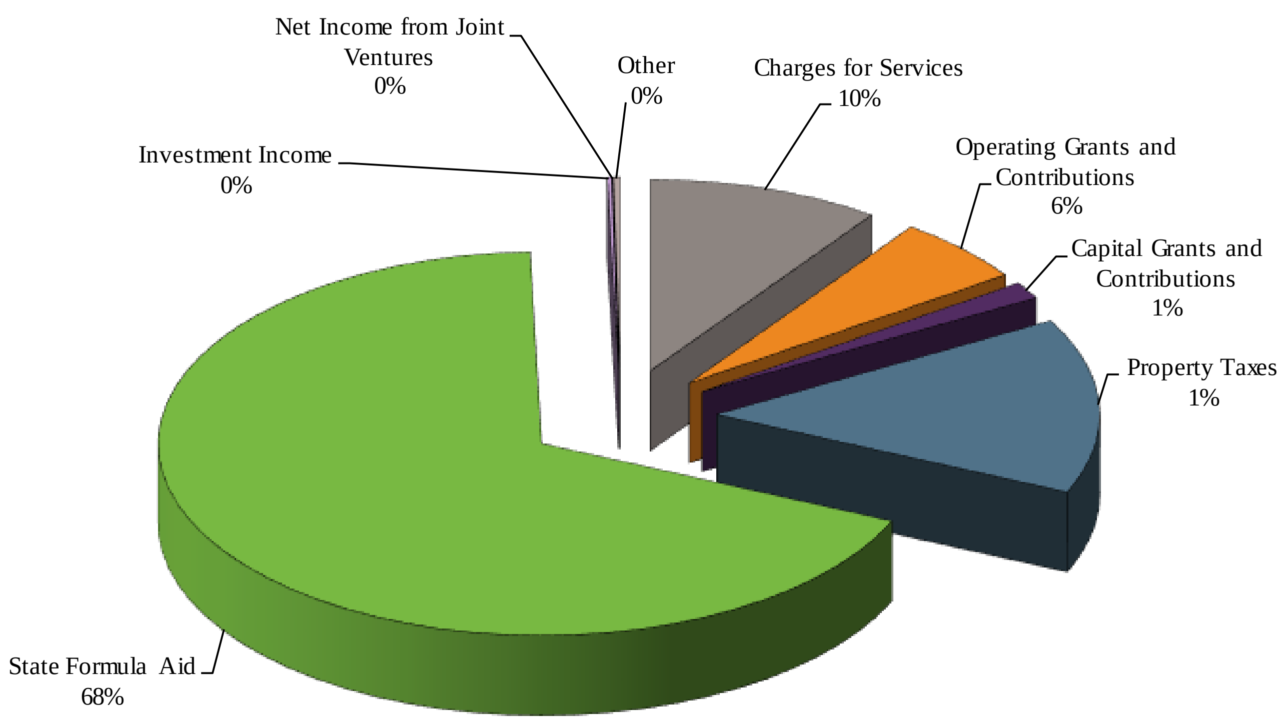
Revenues	2016-2017	2015-2016	Percentage Change
Program revenues			
Charges for services	$ 7,943,968	$ 7,826,663	1.50%
Operating grants and contributions	4,538,585	4,006,428	13.28%
Capital grants and contributions	1,146,300	1,116,042	2.71%
General revenues			
Property taxes	11,940,688	11,925,254	0.13%
State formula aid	54,877,299	52,020,997	5.49%
Investment income	161,755	190,162	-14.94%
Net income from joint ventures	-	117,156	-100.00%
Other	227,622	240,854	-5.49%
Total revenues	80,836,217	77,443,556	4.38%
Expenses			
District and school administration	2,444,507	1,730,587	41.25%
District support services	1,219,347	1,031,198	18.25%
Regular instruction	42,759,928	29,169,041	46.59%
Vocational instruction	1,362,647	933,070	46.04%
Exceptional instruction	8,386,222	5,812,450	44.28%
Instructional support services	6,861,365	5,441,402	26.10%
Pupil support services	4,777,519	3,831,249	24.70%
Sites, buildings, and equipment	6,771,151	5,801,615	16.71%
Fiscal and other fixed cost programs	243,159	236,540	2.80%
Food service	2,906,788	2,745,045	5.89%
Community education and services	5,299,842	4,475,469	18.42%
Unallocated depreciation	3,647,772	3,650,419	-0.07%
Interest and fiscal charges on long-term debt	6,775,896	6,386,541	6.10%
Total expenses	93,456,143	71,244,626	31.18%
Change in net position	(12,619,926)	6,198,930	-303.58%
Net position - beginning,	(19,658,901)	(25,857,831)	23.97%
Net position - ending	$ (32,278,827)	$ (19,658,901)	-64.19%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position (Continued)

As you can see in Figure A-5, state aid and operating grants and contributions and property taxes accounted for most of the District's revenue, with state aid representing 68%, operating grants and contributions 6% and property taxes 15%. The remainder comes from fees charged for services and other sources.

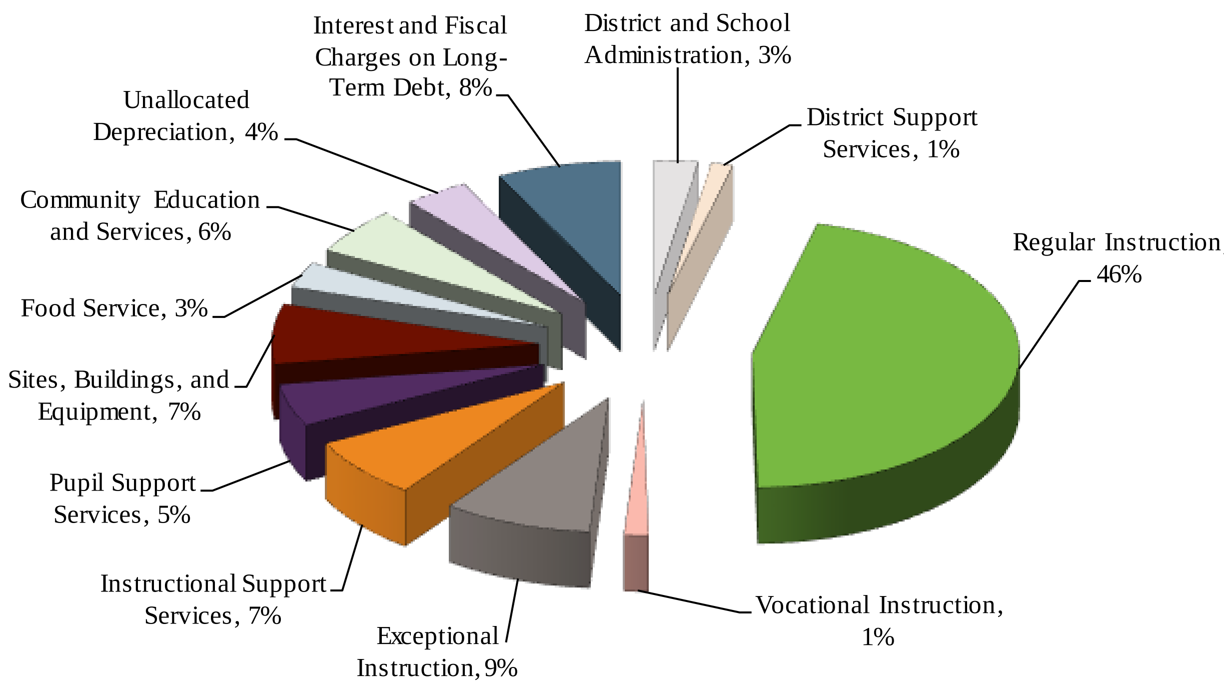
Figure A-5
Revenues



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position (Continued)

Figure A-6
Expenses



The major category of the District's expenses is related to instructing students. Figure A-6 indicates the breakdown of the total expenses on a percentage basis. The direct instruction categories of expense, which include regular instruction, vocational instruction and exceptional instruction represent approximately 56% of the total expenses. The expenses for sites, buildings, and equipment amount to 7% and interest and fiscal charges on long-term debt amount to 8% which reflect costs for a building program designed to meet increasing enrollment each year. The indirect categories of instructional support (which includes student transportation) amount to about 12% and administration and District support services combined represented 4% of the total expenses for the year. Other major categories of expense included food service, community service, and unallocated depreciation.

GOVERNMENTAL ACTIVITIES

The District continues to invest in instructional improvements, while making reductions in those areas that do not directly affect the instructional setting.

The negative net position balance of the District is the result of the net pension liability and the debt service scheduled payments that will become positive as years progress and larger principal payments are made. The payments for the principal will come from future tax levies.

Figure A-7 represents the total cost of the District's functions and programs. The table also shows each function and program's net cost which represents the total cost less fees and intergovernmental aid provided for specific programs. The net cost shows the financial burden placed on the state and local taxpayers by each of these functions and programs. Interest on long-term debt in the prior fiscal year was combined with fiscal and other fixed cost programs.

Figure A-7

Net Cost of Governmental Activities

	Total Cost of Services 2016-2017	Net Cost of Services 2016-2017	Total Cost of Services 2015-2016	Net Cost of Services 2015-2016
Administration	$ 2,444,507	$ 2,128,726	$ 1,730,587	$ 1,486,185
District support services	1,219,347	1,155,548	1,031,198	954,210
Elementary and secondary regular instruction	42,759,928	41,118,288	29,169,041	27,563,602
Vocational education instruction	1,362,647	1,362,647	933,070	933,070
Special education instruction	8,386,222	5,384,395	5,812,450	3,097,484
Instructional support services	6,861,365	6,854,400	5,441,402	5,437,135
Pupil support services	4,777,519	4,580,391	3,831,249	3,685,353
Sites and buildings	6,771,151	5,584,012	5,801,615	4,681,350
Fiscal and other fixed cost programs	243,159	243,159	236,540	236,540
Food service	2,906,788	73,237	2,745,045	66,537
Community education and services	5,299,842	918,819	4,475,469	117,067
Unallocated depreciation	3,647,772	3,647,772	3,650,419	3,650,419
Interest and fiscal charges on long-term debt	6,775,896	6,775,896	6,386,541	6,386,541
Total	$ 93,456,143	$ 79,827,290	$ 71,244,626	$ 58,295,493

The cost of all governmental activities this year was $93,456,143.

- The users of the District's programs through fees and other charges financed $7,943,968, or 9.8%, of the cost.
- The federal and state governments subsidized specific programs with grants and contributions totaling $5,684,885, or 7.0%, of the cost.
- State and local taxpayers, however, financed the majority of the costs. State aid and local property taxes as determined by the State Legislature through the state-wide funding formulas, amounted to $54,877,299 and $11,940,688, respectively, for a total of $66,817,987, or 82.7%, of the District's total costs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The general fund operations of the district show a fund balance increase of $1,204,439. The increase in the district's financial position is mainly attributable to a larger than expected increase in student enrollment.

The food service fund operations show a decrease of $44,774 and the community service fund operations show an increase of $140,815. The debt service fund operations show a fund balance increase of $3,788,114 with the issuance of a refunding bond. The capital project fund increased $34,000,962 as a bond was issued to finance projects and many of the projects had not started as of year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

The district did revise the budget once in January of 2017. This was to adjust the budget for staffing changes. The district was conservative with the increased revenue for the student enrollment changes.

Revenue – Actual General Fund revenue was $1,628,125 over the projected budget. Most of this amount is due to general education and special education aid and the pension recognition.

Expenditures – Actual General Fund expenditures were $671,190 more than projected spent on various salaries, benefits and technology needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the District had invested $156,327,679 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment and administrative offices (see Figure A-8 on the following page). Depreciation expense for the year was $4,209,121 with total accumulated depreciation amounting to $58,117,660. More detailed information for capital assets can be found in Note 4 to the financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

Figure A-8

Capital Assets (Net of Depreciation)

	Governmental Activities 2016-2017	Governmental Activities 2015-2016	Percentage Change
Land	$ 13,682,902	$ 13,682,902	0.00%
Buildings	136,321,697	138,854,760	-1.82%
Improvements other than buildings	1,604,530	1,614,250	-0.60%
Equipment and furnishing	4,718,550	4,406,663	7.08%
Total	$ 156,327,679	$ 158,558,575	-1.41%

LONG-TERM DEBT

At year-end, the District had $232,377,147 in net bonds and other long-term liabilities outstanding, a change of $64,445,787 from last year, as shown in Figure A-9. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

Figure A-9

Outstanding Long-Term Liabilities

	Total School District 2016-2017	Total School District 2015-2016	Percentage Change
Net bond principal payable, net premiums	$ 232,109,287	$ 167,687,149	38.42%
Compensated absences	267,860	244,211	9.68%
Amount due within one year	(43,992,860)	(7,624,211)	477.02%
Total	$ 188,384,287	$ 160,307,149	17.51%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District would like to note existing circumstances that could affect its financial health in the future:

- Budgeting for special education is still unpredictable. Our special education student population continues to grow and the state's formula change as well as participation in the Sherburne and Norther Wright Special Education Cooperative #6090-52 all play into the budgeting.
- The district is setting up a new transportation program for non-residents who live in Albertville but are a part of the Elk River School District #728. Elk River is opening a new Otsego K-8 school and in an attempt to maintain those non-residents who want to attend the St. Michael-Albertville District we are offering bus service for a fee to those in the Towne Lakes and Martin Farms development.
- The district is in contract negotiations with the teacher and principal unions which expires on 6/30/2017. All of the director and coordinator position contracts also expire on 6/30/2017.
- The district passed a bond referendum to finance classroom space at the Albertville Primary and High Schools as well as a sheet of ice and an all-purpose domed facility. The operations of these new facilities will come from the general fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers and 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 Finance Director (phone number 763-497-6506) at the District Office for St. Michael-Albertville Public Schools located at 11343 50th St NE, Albertville, Minnesota 55301.

BASIC FINANCIAL STATEMENTS

Independent School District No. 885
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	$ 65,387,782
Cash with fiscal agent	37,270,861
Current property taxes receivable	6,053,437
Delinquent property taxes receivable	51,477
Accounts receivable	93,268
Interest receivable	51,142
Due from Department of Education	5,658,249
Due from federal government through Department of Education	96,038
Due from other Minnesota school districts	237,576
Inventory	39,177
Prepaid items	81,378
Equity interest in joint ventures	607,110
Capital assets not being depreciated	
Land	13,682,902
Capital assets net of depreciation	
Land improvements	1,604,530
Buildings and building improvements	136,321,697
Furniture and equipment	4,718,550
Total assets	271,955,174
Deferred Outflows of Resources	
Deferred outflows of resources related to bond refundings	3,389,917
Deferred outflows of resources related to pensions	82,064,423
Total deferred outflows of resources	85,454,340
Total assets and deferred outflows of resources	$ 357,409,514
Liabilities	
Accounts payable	$ 461,834
Salaries and benefits payable	5,509,256
Interest payable	3,378,236
Due to other Minnesota school districts	134,099
Due to other governmental units	3,175
Unearned revenue	308,602
Net bond principal payable	
Due within one year	43,725,000
Due in more than one year	188,384,287
Compensated absences payable	
Due within one year	267,860
Unfunded other post employment benefits (OPEB) obligation	2,771,658
Net pension liability	130,566,347
Total liabilities	375,510,354
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	12,279,475
Deferred inflows of resources related to bond refundings	768,000
Deferred inflows of resources related to pensions	1,130,512
Total deferred inflows of resources	14,177,987
Net Position	
Net investment in capital assets	(913,926)
Restricted for	
Debt service	1,259,638
Other purposes	5,627,274
Unrestricted	(38,251,813)
Total net position	(32,278,827)
Total liabilities, deferred inflows of resources, and net position	$ 357,409,514

See notes to financial statements.

Independent School District No. 885
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 2,444,507	$ 315,781	$ -	$ -	$ (2,128,726)
District support services	1,219,347	63,799	-	-	(1,155,548)
Elementary and secondary regular instruction	42,759,928	1,440,750	200,890	-	(41,118,288)
Vocational education instruction	1,362,647	-	-	-	(1,362,647)
Special education instruction	8,386,222	-	3,001,827	-	(5,384,395)
Instructional support services	6,861,365	6,965	-	-	(6,854,400)
Pupil support services	4,777,519	31,627	165,501	-	(4,580,391)
Sites and buildings	6,771,151	40,839	-	1,146,300	(5,584,012)
Fiscal and other fixed cost programs	243,159	-	-	-	(243,159)
Food service	2,906,788	1,962,574	870,977	-	(73,237)
Community education and services	5,299,842	4,081,633	299,390	-	(918,819)
Unallocated depreciation	3,647,772	-	-	-	(3,647,772)
Interest and fiscal charges on long-term debt	6,775,896	-	-	-	(6,775,896)
Total governmental activities	$ 93,456,143	$ 7,943,968	$ 4,538,585	$ 1,146,300	(79,827,290)

General revenues	
Taxes	
Property taxes, levied for general purposes	3,888,194
Property taxes, levied for debt service	7,741,439
Property taxes, levied for community service	311,055
State aid-formula grants	54,877,299
Other general revenues	218,622
Investment income	161,755
Gain of sale of assets	9,000
Total general revenues	67,207,364
Change in net position	(12,619,926)
Net position - beginning	(19,658,901)
Net position - ending	$ (32,278,827)

See notes to financial statements.

Independent School District No. 885
Balance Sheet - Governmental Funds
June 30, 2017

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 18,944,556	$ 8,335,569	$ 34,069,186	$ 4,038,471	$ 65,387,782
Cash with fiscal agent	180,900	37,089,961	-	-	37,270,861
Current property taxes receivable	2,099,167	3,805,972	-	148,298	6,053,437
Delinquent property taxes receivable	16,365	33,803	-	1,309	51,477
Accounts receivable	88,587	-	-	4,681	93,268
Interest receivable	51,142	-	-	-	51,142
Due from Department of Education	5,080,841	536,072	-	41,336	5,658,249
Due from federal government through Department of Education	96,038	-	-	-	96,038
Due from other Minnesota school districts	216,801	-	-	20,775	237,576
Inventory	-	-	-	39,177	39,177
Prepaid items	81,378	-	-	-	81,378
Total assets	$ 26,855,775	$ 49,801,377	$ 34,069,186	$ 4,294,047	$ 115,020,385
Liabilities					
Accounts payable	$ 321,337	$ -	$ 68,224	$ 72,273	$ 461,834
Salaries and benefits payable	5,309,481	-	-	199,775	5,509,256
Due to other Minnesota school districts	134,099	-	-	-	134,099
Due to other governmental units	3,636	-	-	(461)	3,175
Unearned revenue	47,000	-	-	261,602	308,602
Total liabilities	5,815,553	-	68,224	533,189	6,416,966
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	4,130,951	7,841,907	-	306,617	12,279,475
Unavailable revenue - delinquent property taxes	16,365	33,803	-	1,309	51,477
Total deferred inflows of resources	4,147,316	7,875,710	-	307,926	12,330,952
Fund Balances					
Nonspendable	81,378	-	-	39,177	120,555
Restricted	2,173,033	41,925,667	34,000,962	3,413,755	81,513,417
Committed	33,250	-	-	-	33,250
Assigned	671,006	-	-	-	671,006
Unassigned	13,934,239	-	-	-	13,934,239
Total fund balances	16,892,906	41,925,667	34,000,962	3,452,932	96,272,467
Total liabilities, deferred inflows of resources, and fund balances	$ 26,855,775	$ 49,801,377	$ 34,069,186	$ 4,294,047	$ 115,020,385

See notes to financial statements.

Independent School District No. 885
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2017

Total fund balances - governmental funds	$ 96,272,467
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Governmental funds do not report an asset for equity interest in joint ventures.	607,110
Capital assets used in governmental activities are not current financial resources	
Cost of capital assets	214,445,339
Less accumulated depreciation	(58,117,660)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(219,335,000)
Bond premiums/discounts, net	(12,774,287)
Deferred outflows of resources related to bond refundings	3,389,917
Deferred inflows of resources related to bond refundings	(768,000)
Compensated absences payable	(267,860)
Net OPEB obligation	(2,771,658)
Net pension liability	(130,566,347)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	82,064,423
Deferred inflows of resources related to pensions	(1,130,512)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	51,477
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(3,378,236)
Total net position - governmental activities	$ (32,278,827)

See notes to financial statements.

Independent School District No. 885
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 3,885,797	$ 7,736,978	$ -	$ 310,841	$ 11,933,616
Revenue from state sources	51,951,553	5,360,717	-	568,441	57,880,711
Revenue from federal sources	402,058	-	-	761,874	1,163,932
Other local and county revenues	1,859,113	13,854	75,581	4,125,176	6,073,724
Sales and other conversion of assets	295,791	-	-	1,954,830	2,250,621
Total revenues	58,394,312	13,111,549	75,581	7,721,162	79,302,604
Expenditures					
Current					
Administration	1,782,063	-	-	-	1,782,063
District support services	1,056,408	-	-	-	1,056,408
Elementary and secondary regular instruction	30,031,866	-	-	-	30,031,866
Vocational education instruction	972,367	-	-	-	972,367
Special education instruction	6,298,488	-	-	-	6,298,488
Instructional support services	5,200,749	-	-	-	5,200,749
Pupil support services	4,255,459	-	-	-	4,255,459
Sites and buildings	5,602,901	-	629,925	-	6,232,826
Fiscal and other fixed cost programs	243,159	-	-	-	243,159
Food service	-	-	-	2,796,728	2,796,728
Community education and services	-	-	-	4,735,453	4,735,453
Capital outlay					
Administration	12,408	-	-	-	12,408
District support services	52,808	-	-	-	52,808
Elementary and secondary regular instruction	147,086	-	-	-	147,086
Special education instruction	15,367	-	-	-	15,367
Instructional support services	423,022	-	-	-	423,022
Sites and buildings	1,095,722	-	625,929	-	1,721,651
Food service	-	-	-	101,940	101,940
Debt service					
Principal	-	7,380,000	-	-	7,380,000
Interest and fiscal charges	-	6,213,819	519,263	-	6,733,082
Total expenditures	57,189,873	13,593,819	1,775,117	7,634,121	80,192,930
Excess of revenues over (under) expenditures	1,204,439	(482,270)	(1,699,536)	87,041	(890,326)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	9,000	9,000
Bond issuance	-	31,335,000	35,705,000	-	67,040,000
Bond premium	-	5,986,596	994,286	-	6,980,882
Transfers in	-	998,788	-	-	998,788
Transfers out	-	-	(998,788)	-	(998,788)
Total other financing sources (uses)	-	38,320,384	35,700,498	9,000	74,029,882
Net change in fund balances	1,204,439	37,838,114	34,000,962	96,041	73,139,556
Fund Balances					
Beginning of year	15,688,467	4,087,553	-	3,356,891	23,132,911
End of year	$ 16,892,906	$ 41,925,667	$ 34,000,962	$ 3,452,932	$ 96,272,467

See notes to financial statements.

Independent School District No. 885
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2017

Net change in fund balances - total governmental funds	$ 73,139,556
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds do not report income or loss in a joint venture.	(136,281)
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the useful lives as depreciation expense.	
Capital outlays	1,978,225
Depreciation expense	(4,209,121)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(23,649)
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(367,720)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	7,380,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(770,782)
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(6,077,721)
Governmental funds report the effect of bond refundings when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(175,193)
Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(16,324,312)
Proceeds from long-term debt are recognized as an other financing source, increasing fund balance in the governmental fund statements, but have no effect on net position in the Statement of Activities.	(67,040,000)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	7,072
Change in net position - governmental activities	$ (12,619,926)

See notes to financial statements.

Independent School District No. 885
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 3,942,778	$ 3,953,702	$ 3,885,797	$ (67,905)
Revenue from state sources	49,827,342	50,534,826	51,951,553	1,416,727
Revenue from federal sources	505,129	428,449	402,058	(26,391)
Other local and county revenues	1,537,930	1,546,410	1,859,113	312,703
Sales and other conversion of assets	350,550	302,800	295,791	(7,009)
Total revenues	56,163,729	56,766,187	58,394,312	1,628,125
Expenditures				
Current				
Administration	1,779,888	1,803,061	1,782,063	(20,998)
District support services	1,043,856	1,049,554	1,056,408	6,854
Elementary and secondary regular instruction	29,947,294	30,008,770	30,031,866	23,096
Vocational education instruction	921,187	937,956	972,367	34,411
Special education instruction	6,011,553	6,325,667	6,298,488	(27,179)
Instructional support services	4,954,872	5,175,518	5,200,749	25,231
Pupil support services	3,817,525	4,115,739	4,255,459	139,720
Sites and buildings	5,538,415	5,585,219	5,602,901	17,682
Fiscal and other fixed cost programs	300,000	250,000	243,159	(6,841)
Capital outlay				
Administration	4,323	4,323	12,408	8,085
District support services	27,736	27,736	52,808	25,072
Elementary and secondary regular instruction	138,972	132,168	147,086	14,918
Special education instruction	-	-	15,367	15,367
Instructional support services	678,956	384,024	423,022	38,998
Sites and buildings	718,948	718,948	1,095,722	376,774
Total expenditures	55,883,525	56,518,683	57,189,873	671,190
Net change in fund balance	$ 280,204	$ 247,504	1,204,439	$ 956,935
Fund Balance				
Beginning of year			15,688,467	
End of year			$ 16,892,906	

See notes to financial statements.

Independent School District No. 885
Statement of Fiduciary Net Position
Year Ended June 30, 2017

	Agency Fund	Private Purpose Trust Fund
Assets		
Current		
Cash and investments	$ (3,036)	$ 39,245
Due from other governments	3,036	-
Total assets	$ -	$ 39,245
Net Position		
Held in trust	$ -	$ 39,245

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

	Private Purpose Trust Fund
Additions	
Tuition, fees, and admissions	$ 156
Other local revenue	20,909
Total additions	21,065
Deductions	
Scholarships	16,749
Change in net position	4,316
Net Position	
Beginning of year	34,929
End of year	$ 39,245

See notes to financial statements.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

Extracurricular student activities are carried on primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with *Minnesota Statutes*, the District′s School Board has elected to account for student activities in the General Fund.

1. Joint Ventures

A joint venture is a legal District or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in two joint ventures.

a. Wright Technical Center

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost.

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

1. Joint Ventures (Continued)

b. St. Michael – Albertville Ice Arena
In 1996-1997, the City or Albertville entered into a Joint Powers Agreement with the City of St. Michael and the District. The Agreement was for the construction and maintenance of a qualified ice arena. During 2006, the City of Albertville was notified as being selected as Mighty Ducks Grant recipient to help fund the cost of the ice arena. The arena was constructed with the grant reward and contributions and donations from the City of Albertville, the City of St. Michael, and the District.

Separate financial statements can be obtained by contacting the City of Albertville.

B. Basic Financial Statement Information

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded 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. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences, and claims and judgments are recognized when payment is due. The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

Description of Funds:

Major Funds:

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Nonmajor Funds:

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

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

Fiduciary Funds:

Agency Fund – This fund is used to account for assets held by the District for Family Youth Community Connections.

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

D. Deposits and Investments

Cash and 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 individual funds based on the average of month-end cash and investment balances.

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

Cash and investments at June 30, 2017, were comprised of deposits, shares in the Minnesota School District Liquid Asset Fund (MSDLAF), certificates of deposit, government securities, municipal bonds and brokered money markets. MSDLAF securities are valued at amortized cost, which approximates fair value

Minnesota Statutes requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Minnesota Statutes authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers′ acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

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

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year′s Expenditures

Property taxes levied for subsequent year′s expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District′s following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2016, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2017. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

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

H. Prepaid Items

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes

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

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

J. Due from Other Governments

Amounts due from the Minnesota Department of Education (MDE) from the federal government through the Department of Education and from other governmental units for General Education Aids and reimbursements under various specific program are reported at the estimated amounts to be received based on available information at the date of this report. In some instances, adjustments, and proration by these agencies, which are dependent upon the amount of funds available for distribution, and may result in differing amount actually being received. Any such differences will be absorbed into operations as of the subsequent period.

K. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 or computer related items with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for buildings and land and building improvements and 5 to 15 years for furniture and equipment.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows/Inflows of Resources

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

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

M. Long-Term Obligations

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences

Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation, and related benefits upon termination. Vacation pay is accrued when incurred in the government-wide and all fiduciary fund financial statements. Unused vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances. Since teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no long-term portion of vacation liabilities is recorded in the financial statements.

O. Pensions

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

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

P. 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; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District′s insurance coverage during the year ending June 30, 2017.

Q. Fund Equity

1. Classification

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form as they are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity (Continued)

1. Classification (Continued)

- Restricted Fund Balances – These amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

- Committed Fund Balances – These amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action. The formal action to commit a fund balance must occur prior to year-end; however, the specific amounts actually committed can be determined in the subsequent year.

- Assigned Fund Balances – These amounts are comprised of unrestricted funds constrained by the District′s intent that they will be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the General Fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the District′s intended use of those resources. Assignments are made by the School Board or the Superintendent. The action to assign fund balance may be taken after the end of the year.

- Unassigned Fund Balances – Residual amount in the General Fund not reported in any other classification, available for expenditure of any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance.

- Minimum Fund Balance – The District will strive to maintain a minimum unassigned General Fund balance equal to approximately 1.5 months of operating expenditures.

R. Net Position

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Use of Estimates

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

T. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
4. Budgets for the funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy in place to address custodial credit risk for deposits, stating all deposits be collateralized as required by *Minnesota Statutes* for any amount exceeding FDIC. At year-end, the District's bank balance was $6,868,141. At June 30, 2017, district deposits of $122,289 were exposed to custodial credit risk as they were not fully insured through FDIC or collateralized by securities held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

At June 30, 2017, the District had the following deposits:

Checking	$ 3,301,065
Certificates of deposit	5,993,496
Money market deposit account	799,610
Total	$ 10,094,171

B. Investments

As of June 30, 2017, the District had the following investments:

Pooled Investments		Investment Maturities		
Investment	Fair Value	Less than 1 Year	1-5 Years	Credit Rating
Brokered Money Market Funds	$ 569,278	$ 569,278	$ -	N/A
Brokered CD	16,923,333	9,545,700	7,377,633	N/A
U.S. Government Agencies	7,245,293	4,118,199	3,127,094	AA+
MSDLAF - Max Class	3,000,242	3,000,242	-	AAAm
MSDLAF - Liquid Class	1,875,094	1,875,094	-	AAAm
MSDLAF Managed Account	8,667,480	8,667,480	-	A-1 to A-1+
MSDLAF Term Series	17,230,000	17,230,000	-	AAAm
Total Investments	$ 55,510,720	$ 45,005,993	$ 10,504,727	

Non-pooled Investments		Investment Maturities		
Investment	Fair Value	Less than 1 Year	1-5 Years	Credit Rating
Brokered Cash	$ 1,683	$ 1,683	$ -	N/A
U.S. Government Agencies	37,088,278	37,088,278	-	Aaa
Total Investments	$ 37,089,961	$ 37,089,961	$ -	

The District had a formal deposit and investment policy in place as of June 30, 2017 to address the following risks:

Custodial Credit Risk – Deposits: For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy in place to address custodial credit risk for deposits, stating all deposits be collateralized as required by *Minnesota Statutes* for any amount exceeding FDIC.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk: This is the risk that market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities should be scheduled to coincide with projected District cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. The policy also indicates investments shall be managed to attain a market rate of return through various economic and budgetary cycles, while preserving and protection the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments to the top two rating issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those specified in the above statutes.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states investments shall be diversified by limiting investments to avoid over concentration in specific instruments, individual finance institutions or maturities. The policy does not state the maximum percentage of the District's investment portfolio that may be invested in any of those categories.

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

The District has the following recurring fair value measurements for pooled investments as of June 30, 2017:

- $15,500,332 of investments are valued using a quoted market prices (Level 1 inputs)
- $8,668,294 of investments are valued using a matrix pricing model (Level 2 inputs)

The District has the following recurring fair value measurements for non-pooled investments as of June 30, 2017:

- $37,088,278 of investments are valued using a quoted market prices (Level 1 inputs)

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Summary of cash, deposits, and investments as of June 30, 2017:

Deposits (Note 3.A.)	$ 10,094,171
Pooled investments	55,510,720
Non-pooled investments (Note 3.B.)	37,089,961
Total deposits and investments	$ 102,694,852

Cash, deposits, and investments are presented in the June 30, 2017, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 65,387,782
Cash with fiscal agent	37,270,861
Statement of Fiduciary Net Position	
Agency fund	(3,036)
Private purpose trust fund	39,245
Total	$ 102,694,852

NOTE 3 – INTERFUND ACTIVITY

A. Interfund Transfers

The Capital Projects Fund transferred $998,788 to the Debt Service Fund in accordance with bond documents of the 2017A General Obligation School Building Bonds.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 13,682,902	$ -	$ -	$ 13,682,902
Capital assets being depreciated				
Land improvements	3,853,927	145,347	-	3,999,274
Building and building improvements	181,707,679	1,119,270		182,826,949
Furniture and equipment	13,224,889	713,608	2,283	13,936,214
Total capital assets being depreciated	198,786,495	1,978,225	2,283	200,762,437
Less accumulated depreciation for				
Land improvements	2,239,677	155,067	-	2,394,744
Building and building improvements	42,852,919	3,652,333	-	46,505,252
Furniture and equipment	8,818,226	401,721	2,283	9,217,664
Total accumulated depreciation	53,910,822	4,209,121	2,283	58,117,660
Total capital assets being depreciated, net	144,875,673	(2,230,896)	-	142,644,777
Governmental activities, capital assets, net	$ 158,558,575	$ (2,230,896)	$ -	$ 156,327,679

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

Administration	$ 2,807
District support services	2,315
Elementary and secondary regular instruction	33,706
Special education instruction	4,339
Instructional support services	91,578
Pupil support services	18,829
Site, buildings and equipment	374,654
Food service	27,416
Community education and services	5,705
Unallocated	3,647,772
Total depreciation expense	$ 4,209,121

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2008A	02/19/08	3.0%-4.5%	$ 41,080,000	02/01/30	$ 37,025,000	$ 37,025,000
2011A	11/09/11	4.25%	10,295,000	02/01/32	10,295,000	-
2014A	09/23/14	2.00%-4.00%	59,275,000	02/01/30	56,435,000	2,380,000
2015A	05/07/15	3.0%-4.0%	17,750,000	02/01/25	14,830,000	1,550,000
2015B	11/24/15	2.0%-3.0%	36,110,000	02/01/27	33,710,000	2,770,000
2016A	10/27/16	3.0%-5.0%	31,335,000	02/01/30	31,335,000	-
2017A	04/13/17	3.2%-5.0%	35,705,000	02/01/32	35,705,000	-
Total G.O. bonds					219,335,000	43,725,000
Net premium and discount					12,774,287	-
Total net G.O. bonds					232,109,287	43,725,000
Other long-term liabilities						
Compensated absences payable					267,860	267,860
Total long-term debt liabilities					$ 232,377,147	$ 43,992,860

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

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

In October 2016, the District issued G.O. School Building Refunding Bonds, Series 2016A in the amount of $31,335,000. The bonds were issued to refund the G.O. School Building Bonds, Series 2008A. The proceeds were placed in escrow and the escrow will be used to pay interest payments on the 2016A bonds while the District continues to make payments on the 2008A bonds. On February 1, 2018, the District will use the remaining amount in escrow to redeem the 2019 through 2030 maturities of the 2008A bonds. As a result of the refunding, the total cash savings to the District was $5,444,486 with a net present value benefit of $4,747,310.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds and Loans

Minimum annual principal and interest payments required to retire bond and loan liabilities:

Year Ending June 30,	G.O. Bonds Principal	G.O. Bonds Interest	G.O. Bonds Total
2018	$ 43,725,000	$ 8,335,283	$ 52,060,283
2019	8,440,000	6,404,178	14,844,178
2020	9,160,000	6,082,728	15,242,728
2021	9,925,000	5,731,178	15,656,178
2022	10,645,000	5,377,778	16,022,778
2023-2027	64,005,000	20,153,953	84,158,953
2028-2032	73,435,000	7,406,363	80,841,363
Total	$ 219,335,000	$ 59,491,461	$ 278,826,461

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 159,675,000	$ 67,040,000	$ 7,380,000	$ 219,335,000
Net bond premium	6,696,566	6,980,882	903,161	12,774,287
Compensated Absences payable	244,211	308,006	284,357	267,860
Total long-term liabilities	$ 166,615,777	$ 74,328,888	$ 8,567,518	$ 232,377,147

NOTE 6 – FUND BALANCES/NET POSITION

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

A. Fund Balances

Fund equity balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

	General	Capital Projects	Debt Service	Other Nonmajor	Total
Nonspendable for					
Inventory	$ -	$ -	$ -	$ 39,177	$ 39,177
Prepaid items	81,378	-	-	-	81,378
Total nonspendable	81,378	-	-	39,177	120,555
Restricted/reserved for					
Staff Development	770,557	-	-	-	770,557
Operating Capital	862,583	-	-	-	862,583
Safe Schools-Crime Levy	91,262	-	-	-	91,262
Long-Term Facilities Maintenance	196,416	-	-	-	196,416
Medical Assistance	252,215	-	-	-	252,215
Capital Projects	-	34,000,962	-	-	34,000,962
Bond Refunding	-	-	37,089,961	-	37,089,961
Debt Service	-	-	4,835,706	-	4,835,706
Food Service	-	-	-	1,246,487	1,246,487
Community Education	-	-	-	1,581,492	1,581,492
Early Childhood Family and Education	-	-	-	348,864	348,864
School Readiness	-	-	-	(33,752)	(33,752)
Community Service	-		-	270,664	270,664
Total restricted/reserved	2,173,033	34,000,962	41,925,667	3,413,755	81,513,417
Committed for					
Separation/retirement benefits	33,250	-	-	-	33,250
Assigned for					
Staff Development	54,424	-	-	-	54,424
Q Comp	196,670		-	-	196,670
Insurance Claims	92,330	-	-	-	92,330
Student Activities	327,582	-	-	-	327,582
Total assigned	671,006	-	-	-	671,006
Unassigned	13,934,239	-	-	-	13,934,239
Total fund balances	$ 16,892,906	$ 34,000,962	$ 41,925,667	$ 3,452,932	$ 96,272,467

Nonspendable for Inventory – This balance represents the portion of fund balance that is not available as amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents the portion of fund balance that is not available as the amounts have already been spent by the District on items for the next year.

Restricted for Staff Development – This balance represents resources set aside to be used for staff development purposes.

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

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Restricted/Reserved for Safe Schools-Crime levy – The unspent resources available from safe school levy must be restricted in this account for future use.

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

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

Restricted/Reserved for Bond Refunding – This balance represents resources set aside from the proceeds of refunded obligations that have not met the criteria of defeasance (crossover bonds). These resources will be used to pay off future bonded obligations.

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

Restricted for Capital Projects – This balance represents the resources available for building construction and other projects.

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

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

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

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

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unreserved/undesignated fund balance for retirement benefits, including compensated absences, pensions, OPEB, and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Assigned for Staff Development – This balance represents resources set aside to be used for staff development purposes.

Assigned for Q Comp – This balance represents resources set aside for Q Comp purposes.

Assigned for Insurance Claims – This balance represents resources set aside to be used for insurance claims.

Assigned for Student Activities – This balance represents the accumulation of the activity to provide student activities.

Net Position

Net position restricted for other purposes are comprised of the positive General Fund restricted fund balances and the total Food Service Fund, Community Service Fund, and Capital Project Fund balances.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017 was $20,836,298. The components of pension expense are noted in the following plan summaries.

Teachers′ Retirement Association

A. Plan Description

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

Teachers employed in Minnesota′s public elementary and secondary school, 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 the Minnesota State College 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 (DCR) administered by MnSCU.

B. Benefits Provided

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

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

Teachers′ Retirement Association (Continued)

B. Benefits Provided (Continued)

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

Tier 1 Benefits

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

With these provisions:

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

Tier II Benefits

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

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.

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

Teachers′ Retirement Association (Continued)

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

C. Contribution Rate
Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2015, June 30, 2016 and June 30, 2017, were:

	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

The following is a reconciliation of employer contributions in TRA′s CAFR ″Statement of Changes in Fiduciary Net Position″ to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 354,961,140
Deduct Employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in schedule of employer and non-employer 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. TRA has rounded percentage amounts to the nearest ten thousandths.

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

Teachers′ Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rat calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
Cost of living adjustment	2.00%
Mortality Assumption	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

Teachers′ Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
Total	100%	

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

E. Discount Rate

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. 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 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% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at the prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

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

Teachers′ Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2017, the District reported a liability of $119,929,797 for its proportionate share of the 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 TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.5028% at the end of the measurement period and 0.4860% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 119,929,797
State's proportionate share of the net pension liability associated with the District	12,038,519

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the District recognized pension expense of $19,582,612. It also recognized $196,895 as an increase to pension expense for the support provided by direct aid.

On June 30, 2017, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,173,527	$ 3,345
Net difference between projected and actual earnings on plan investment	5,112,411	-
Changes in assumptions	68,325,535	-
Changes in proportion	1,193,012	-
District's contribution to TRA subsequent to measurement date	2,129,391	-
Total	$ 77,933,876	$ 3,345

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

Teachers′ Retirement Association (Continued)

F. Net Pension Liability (Continued)

$2,129,391 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018	$ 15,050,756
2019	15,050,764
2020	16,762,962
2021	15,463,525
2022	13,473,133
Total	$ 75,801,140

G. Pension Liability Sensitivity

The following presents the District′s proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1 percent lower and 1 percent higher.

1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
$ 154,499,554	$ 119,929,797	$ 91,773,857

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

H. Pension Plan Fiduciary Net Position

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

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

Public Employees′ Retirement Association

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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.

General Employees Plan Benefits

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

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

Public Employees′ Retirement Association (Continued)

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were $660,197. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2017, the District reported a liability of $10,636,550 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $138,906. 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 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 PERA's participating employers. At June 30, 2016, the District's proportion was 0.1310%, which was a decrease of 0.0011% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $1,253,686 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $41,418 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

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

Public Employees′ Retirement Association (Continued)

D. Pension Costs (Continued)
At June 30, 2017, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 33,978	$ 865,977
Changes in actuarial assumptions	2,310,829	-
Difference between projected and actual investments earnings	1,125,543	-
Changes in proportion and differences between contributions made and district's proportion share of contributions	-	261,190
District's contributions to PERA subsequent to the measurement date	660,197	-
	$ 4,130,547	$ 1,127,167

$660,197 reported as deferred outflows of resources related to pensions resulting from District contributions to subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2018	$ 603,450
2019	341,284
2020	1,014,243
2021	384,206
Total	$ 2,343,183

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

Public Employees′ Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

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

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

The following changes in actuarial assumptions occurred in 2016:

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

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

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

Public Employees′ Retirement Association (Continued)

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
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 Rates

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

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 15,107,054	$ 10,636,550	$ 6,954,072

H. Pension Plan Fiduciary Net Position

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

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

I. Defined Contribution Plan

Two District employees are covered by the Defined Contribution Plan, a multiple-employer deferred compensation plan administered by PERA. The Defined Contribution Plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

The Defined Contribution Plan consists of individual accounts paying a lump-sum benefit, plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses, therefore, there is no future liability to the employer. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official′s employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member′s account annually.

Pension expense for the year is equal to contributions made. Total contributions made by the District during fiscal year 2017 were:

Contribution Amount		Percentage of Covered Payroll		
Employee	Employer	Employee	Employer	Required Rate
$ 488	$ 488	5%	5%	5%

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by BlueCross BlueShield. It is the District′s policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For 2017, the District contributed $117,362 to the plan. As of June 30, 2017, there were approximately 14 retirees receiving health benefits from the District′s health plan.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual Other Post Employment Benefits Cost and Net Other Post Employment Benefits Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

ARC	$ 531,649
Interest on net OPEB obligation	84,138
Adjustment to ARC	(130,705)
Annual OPEB cost (expense)	485,082
Contributions made	(117,362)
Increase in net OPEB obligation	367,720
Net OPEB obligation - beginning of year	2,403,938
Net OPEB obligation - end of year	$ 2,771,658

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015, 2016, and 2017 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obigation
06/30/17	$ 485,082	$ 117,362	24.2%	$ 2,771,658
06/30/16	474,714	128,909	27.2%	2,403,938
06/30/15	573,062	183,037	31.9%	2,058,133

D. Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $3,588,990 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $3,588,990. The covered payroll (annual payroll of active employees covered by the plan) was $35,197,280 and the ratio of the UAAL to the covered payroll was 10.2%.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

At the July 1, 2015, actuarial valuation date, the projected unit credit funding method was used. The actuarial assumptions included a 3.5% discount rate and an inflation rate of 2.75%. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.2% initially, reduced incrementally to an ultimate rate of 5.0% after seven years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2015, was 30 years.

NOTE 9 – SUBSEQUENT EVENTS

During October 2017, the District approved contacts for various construction projects throughout the district. These projects will be funded by the bond issuance during fiscal year 2017.

NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 885
Schedule of Funding Progress - Other Post Employment Benefits
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/11	$ -	$ 3,967,408	$ 3,967,408	0.0%	$ 19,719,883	20.1%
07/01/13	-	4,082,912	4,082,912	0.0%	20,709,782	19.7%
07/01/15	-	3,588,990	3,588,990	0.0%	35,197,280	10.2%

Independent School District No. 885
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Last Ten Years General Employees Retirement Funds

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1414%	$ 6,642,264	$ -	$ 6,642,264	$ 7,425,490	89.5%	78.8%
2015	0.1321%	6,846,108	-	6,846,108	7,637,560	89.6%	78.2%
2016	0.1310%	10,636,550	138,906	10,775,456	8,120,427	131.0%	68.9%

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

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Last Ten Years TRA Retirement Funds

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.5026%	$ 23,159,446	$ 1,629,366	$ 24,788,812	$ 22,941,050	101.0%	81.5%
2015	0.4860%	30,063,907	3,687,540	33,751,447	24,666,013	121.9%	76.8%
2016	0.5028%	119,929,797	12,038,519	131,968,316	26,154,600	458.5%	44.9%

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

Independent School District No. 885
Schedule of District Contributions
General Employees Retirement Funds
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 538,348	$ 538,348	$ -	$ 7,425,490	7.25%
2015	572,817	572,817	-	7,637,560	7.50%
2016	609,032	609,032	-	8,120,427	7.50%
2017	660,197	660,197	-	8,802,627	7.50%

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

Schedule of District Contributions
TRA Retirement Funds
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 1,605,874	$ 1,605,874	$ -	$ 22,941,050	7.00%
2015	1,849,951	1,849,951	-	24,666,013	7.50%
2016	1,961,595	1,961,595	-	26,154,600	7.50%
2017	2,129,391	2,129,391	-	28,391,880	7.50%

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

TRA Retirement Fund

2016 Changes
Changes in Actuarial Assumptions

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

2015 Changes
Changes of Benefit Terms

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

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

General Employees Fund

2016 Changes
Changes in Actuarial Assumptions

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

General Employees Fund (Continued)

2015 Changes
Changes in Plan Provisions

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

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

SUPPLEMENTARY INFORMATION

Independent School District No. 885
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue		
	Food Service	Community Service	Total
Assets			
Cash and investments	$ 1,342,349	$ 2,696,122	$ 4,038,471
Current property taxes receivable	-	148,298	148,298
Delinquent property taxes receivable	-	1,309	1,309
Accounts receivable	-	4,681	4,681
Due from Department of Education	-	41,336	41,336
Due from other Minnesota school districts	-	20,775	20,775
Inventory	39,177	-	39,177
Total assets	$ 1,381,526	$ 2,912,521	$ 4,294,047
Liabilities			
Accounts payable	$ 4,273	$ 68,000	$ 72,273
Salaries and benefits payable	33	199,742	199,775
Due to other governmental units	13	(474)	(461)
Unearned revenue	91,543	170,059	261,602
Total liabilities	95,862	437,327	533,189
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	306,617	306,617
Unavailable revenue - delinquent property taxes	-	1,309	1,309
Total deferred inflows of resources	-	307,926	307,926
Fund Balances			
Nonspendable	39,177	-	39,177
Restricted	1,246,487	2,167,268	3,413,755
Total fund balances	1,285,664	2,167,268	3,452,932
Total liabilities, deferred inflows of resources, and fund balances	$ 1,381,526	$ 2,912,521	$ 4,294,047

Independent School District No. 885
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2017

	Special Revenue		
	Food Service	Community Service	Total
Revenues			
Local property taxes	$ -	$ 310,841	$ 310,841
Revenue from state sources	109,906	458,535	568,441
Revenue from federal sources	761,874	-	761,874
Other local and county revenues	19,653	4,105,523	4,125,176
Sales and other conversion of assets	1,953,461	1,369	1,954,830
Total revenues	2,844,894	4,876,268	7,721,162
Expenditures			
Current			
Food service	2,796,728	-	2,796,728
Community education and services	-	4,735,453	4,735,453
Capital outlay			
Food service	101,940	-	101,940
Total expenditures	2,898,668	4,735,453	7,634,121
Excess of revenues over (under) expenditures	(53,774)	140,815	87,041
Other Financing Sources			
Proceeds from sale of capital assets	9,000	-	9,000
Net change in fund balances	(44,774)	140,815	96,041
Fund Balances			
Beginning of year	1,330,438	2,026,453	3,356,891
End of year	$ 1,285,664	$ 2,167,268	$ 3,452,932

Independent School District No. 885
Statement of Changes in Agency Fund
Assets and Liabilities
Year Ended June 30, 2017

	June 30, 2016	Additions	Deductions	June 30, 2017
Assets				
Cash and investments	$ (25,573)	$ 36,931	$ 14,394	$ (3,036)
Due from other governments	25,573	14,394	36,931	3,036
Total assets	$ -	$ 51,325	$ 51,325	$ -
Liabilities				
Salaries and benefits payable	$ -	$ 64,209	$ 64,209	$ -

Independent School District No. 885
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2017

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 58,394,312	$ 58,394,310	$ 2
Total expenditures		57,189,873	57,189,873	-
Nonspendable:				
460	Nonspendable fund balance	81,378	81,378	-
Restricted/reserved:				
403	Staff Development	770,557	770,557	-
405	Deferred Maintenance	-	-	-
406	Health and Safety	-	-	-
407	Capital Projects Levy	-	-	-
408	Cooperative Programs	-	-	-
409	Alternative Facility Program	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
414	Operating Debt	-	-	-
416	Levy Reduction	-	-	-
417	Taconite Building Maintenance	-	-	-
424	Operating Capital	862,583	862,583	-
426	$25 Taconite	-	-	-
427	Disabled Accessibility	-	-	-
428	Learning and Development	-	-	-
434	Area Learning Center	-	-	-
435	Contracted Alternative Programs	-	-	-
436	State Approved Alternative Program	-	-	-
438	Gifted and Talented	-	-	-
440	Teacher Development and Evaluation	-	-	-
441	Basic Skills Programs	-	-	-
445	Career Technical Programs	-	-	-
448	Achievement and Integration Revenue	-	-	-
449	Safe School Crime	91,262	91,262	-
450	Transition for Pre-Kindergarten	-	-	-
451	QZAB and QSCB Payments	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
453	Unfunded Severance and Retirement Levy	-	-	-
467	Long-term Facilities Maintenance	196,416	196,416	-
472	Medical Assistance	252,215	252,215	-
Restricted:				
464	Restricted fund balance	-	-	-
Committed:				
418	Committed for separation	33,250	33,250	-
461	Committed	-	-	-
Assigned:				
462	Assigned fund balance	671,006	671,006	-
Unassigned:				
422	Unassigned fund balance	13,934,239	13,934,239	-
02 Food Services Fund				
Total revenue		$ 2,844,894	$ 2,844,893	$ 1
Total expenditures		2,898,668	2,898,667	1
Nonspendable:				
460	Nonspendable fund balance	39,177	39,177	-
Restricted/reserved:				
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	1,246,487	1,246,488	(1)
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 4,876,268	$ 4,876,268	$ -
Total expenditures		4,735,453	4,735,452	1
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
426	$25 Taconite	-	-	-
431	Community Education	1,581,492	1,581,492	-
432	ECFE	348,864	348,864	-
440	Teacher Development and Evaluation			
444	School Readiness	(33,752)	(33,752)	-
447	Adult Basic Education	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
464	Restricted fund balance	270,664	270,664	-
Unassigned:				
463	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ 75,581	$ 75,581	$ -
Total expenditures		1,775,117	1,775,117	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
407	Capital Projects Levy	34,000,962	34,000,962	-
413	Building Projects Funded by COP/LP	-	-	-
467	Long-term Facilities Maintenance	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 13,111,549	$ 13,111,550	$ (1)
Total expenditures		13,593,819	13,593,823	(4)
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
425	Bond refundings	37,089,961	37,089,961	-
451	QZAB and QSCB payments	-	-	-
Restricted:				
464	Restricted fund balance	4,835,706	4,835,704	2
Unassigned:				
463	Unassigned fund balance	-	-	-
08 Trust Fund				
Total revenue		$ 21,065	$ 21,065	$ -
Total expenditures		16,749	16,750	(1)
Unassigned:				
422	Unassigned fund balance (net position)	39,245	39,245	-
20 Internal Service Fund				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
25 OPEB Revocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
45 OPEB Irrevocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
47 OPEB Debt Service				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted:		-	-	-
425	Bond refundings			
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-

Independent School District No. 885
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	$ 231,157
Special Milk	10.556	642
Type A Lunch	10.555	530,075
Total Child Nutrition Cluster and U.S. Department of Agriculture		761,874
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	154,807
Title II, Part A - Improving Teacher Quality	84.367	33,045
Title III, Part A - Language Enhancement	84.365	12,870
Through Sherburne and Northern Wright Special Education Cooperative		
Special Education	84.027	201,556
Total U.S. Department of Education		402,278
Total Federal Expenditures		$ 1,164,152

See notes to the schedule of expenditures of federal awards.

Independent School District No. 885
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 4 INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 885
Albertville, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 885, Albertville, Minnesota, as of and for the year ending June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 21, 2017.

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance to be a material weakness: Audit Finding 2008-001.

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Internal Control over Financial Reporting (Continued)
A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance to be a significant deficiency: Audit Finding 2008-006.

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

District′s Response to the Findings
The District′s responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance. The District′s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 21, 2017

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

Independent Auditor's Report

To the School Board
Independent School District No. 885
Albertville, Minnesota

Report on Compliance for Each Major Federal Program
We have audited Independent School District No. 885, Albertville, Minnesota compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost in Accordance with the Uniform Guidance.

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

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

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

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Opinion on Each Major Federal Program
In our opinion, Independent School District No. 885 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 21, 2017

Independent School District No. 885
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2008-001
• Significant deficiency(ies) identified?	Yes, Audit Finding 2008-006
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

CFDA No.:	10.555 and 10.556
Name of Federal Program or Cluster	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	No

Independent School District No. 885
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2008-001 – Lack of Segregation of Accounting Duties

Criteria or Specific Requirement:
Internal control that supports the District′s ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties relating to the recording of journal entries and access to all functions of the District′s accounting system.

Condition:
The District does not have adequate segregation of accounting duties relating to the recording of journal entries and access to all functions of the District′s accounting system.

Context:
This finding impacts the internal control for all significant accounting functions.

Effect:
The lack of adequate segregation of accounting duties could adversely affect the District′s ability to record, process, summarize, and report financial data.

Cause:
There are a limited number of office employees.

Recommendation:
Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   Administration will review current segregation of accounting duties to determine if further segregation is possible.

3. Official Responsible for Ensuring CAP
   Dr. Ann Marie Foucault, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2008-001 - Lack of Segregation of Accounting Duties (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (Continued)

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2018.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

Audit Finding 2008-006 - Inadequate Controls for Preparation of Annual Financial Statements

Criteria or Specific Requirement:
Internal control should be established to provide for the preparation of the financial statements being audited.

Condition:
The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements.

Context:
This finding impacts the District′s ability to internally prepare the financial statements.

Effect:
This could result in a misstatement to the financial statements that would not be prevented or detected as a result of the District′s current internal controls.

Cause:
District personnel do not have adequate training to apply accounting principles generally accepted in the United States of America related to external financial reporting.

Recommendation:
Obtain additional training on accounting principles generally accepted in the United States of America to adequately apply them internally or continue to request assistance from a third-party to draft the financial statements and accompanying notes to financial statements and thoroughly review these financial statements after they have been prepared so the District can take responsibility for them.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2008-006 - Inadequate Controls for Preparation of Annual Financial Statements (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   Administration will review current processes and related internal control to determine if training could be provided to current employees to prepare the financial statements. The School Board will also review and approve the annual audit report.

3. Official Responsible for Ensuring CAP
   Dr. Ann Marie Foucault, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2018.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 885
Albertville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 885, Albertville, MN, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated November 21, 2017.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 21, 2017

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Independent School District No. 885
Schedule of Findings and Corrective
Action Plans on Legal Compliance

CURRENT YEAR LEGAL COMPLIANCE FINDING:

Public Purpose Expenditures

According to Attorney General Publications *59a-3,* May 21 1948; *59a-22,* November 23, 1966; *and 174E,* a district must refrain from donating money to people, nonprofit organizations, and charities unless allowed by specific authority.

During our audit, we noted the District made numerous purchases, including food and flowers that do not meet the public purpose requirements.

We recommend the District refrain from paying for such activities unless allowed by specific authority.

CORRECTIVE ACTION PLANNED:

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District will refrain from such purchases in the future.

3. Official Responsible for Ensuring CAP
   Dr. Ann Marie Foucault, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2018.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

CURRENT YEAR LEGAL COMPLIANCE FINDING: (CONTINUED)

Insufficient Collateral

The depositories of public funds and public investment laws of *Minnesota Statutes* 118A.01 and 118A.08 requires that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of Federal Depository Insurance Corporation (FDIC) insurance.

At June 30, 2017, the District's deposits were under collateralized.

CORRECTIVE ACTION PLANNED:

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District will obtain appropriate levels of collateral to secure District assets.

3. Official Responsible for Ensuring CAP
   Dr. Ann Marie Foucault, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is immediate.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.