Independent School District No. 750
ROCORI Schools
Cold Spring, Minnesota

Financial Statements

June 30, 2017

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ROCORI Schools
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Independent School District No. 750
ROCORI Schools
Board of Education and Administration
June 30, 2017

Board of Education	Position	Term Expires
Kara Habben	Chairperson	December 31, 2018
Lynn Schurman	Vice Chairperson	December 31, 2020
Lisa Demuth	Clerk	December 31, 2018
Jason Wesenberg	Treasurer	December 31, 2018
Sunny Hesse	Director	December 31, 2020
Shannon Humbert	Director	December 31, 2020
Administration		
Scott Staska	Superintendent	
Beth Bertram	Director of Business Services	

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Independent Auditor's Report

To the School Board
Independent School District No. 750
ROCORI Schools
Cold Spring, 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. 750, Cold Spring, 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.

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. 750, Cold Spring, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 74 and GASB 75

As discussed in Note 8 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, 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 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 O.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.

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 September 29, 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.

BerganKDV, Ltd.

St. Cloud, Minnesota
September 29, 2017

Independent School District No. 750
Management's Discussion and Analysis

This section of Independent School District No. 750 – ROCORI Schools' (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by the Governmental Accounting Standards Board (GASB) Statement No. 34 – *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-2017 year include the following:

- Net position decreased by $9,477,976 after a prior period adjustment and change in accounting principle of $ (4,305,308) and $ (5,172,668) for current year activity
- Overall governmental fund revenues were $28,428,188 while overall expenses totaled $33,600,856
- General Fund balance increased $14,019 after current activity of $69,514 and a change in accounting principle of $ (55,495)
- General Fund unassigned fund balance increased $80,281

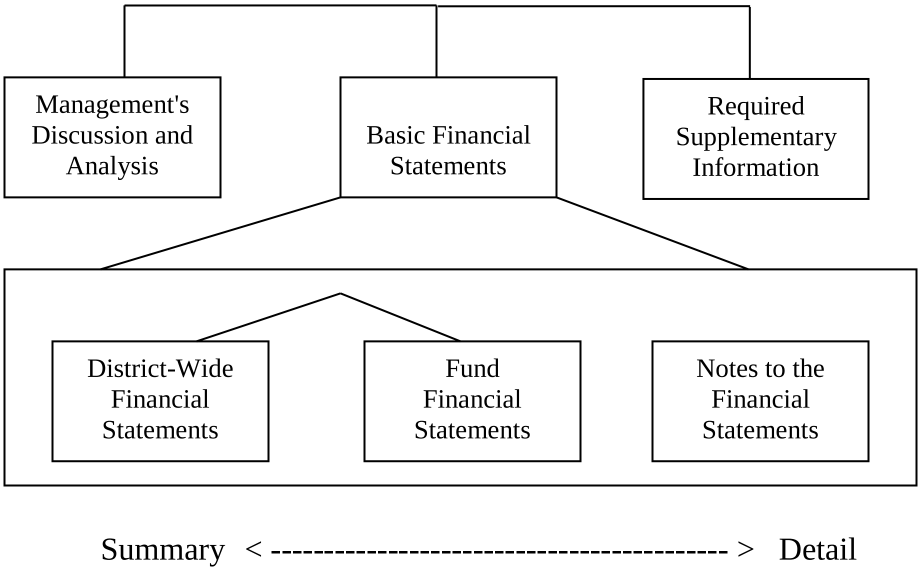
OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are district-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 district-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.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements. The diagram on the following page shows how the various parts of this annual report are arranged and related to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)



The major features of the District's financial statements, including the portion of the District's activities they cover, and the types of information they contain, are summarized on the next page. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Basic Financial Statements			
	District Wide 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 funds set aside for future other post employment benefits (OPEB) payments
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 Assets/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.	All assets and liabilities, both short-term and long-term; funds to not currently contain capital assets, although they can.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All additions and dedications during the year, regardless of when cash is received or paid

District-Wide Statements

The district-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 and liabilities. All of the current year revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-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.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

- 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 overall health of the District you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements, the District's activities are shown in one category:

- Governmental Activities – All of the District's basic services are included here, such as regular and special education, transportation, administration, food services and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. 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 (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

All of the District's funds, except the OPEB Trust Fund, are governmental funds. Governmental funds generally focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to 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 district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

The OPEB Trust Fund is a fiduciary fund. The District is the trustee, or fiduciary, for assets that belong to others, such as money set aside to pay future OPEB liabilities. The District is responsible for ensuring that the assets in this fund are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS)

Net Position

The District's combined net position was $(14,462,463) on June 30, 2017 (see details in Table A-1). This is a decrease of $5,172,668 from $(9,289,795), the restated beginning net position as shown in Table A-2. Beginning net position for 2016-2017 was restated due to the implementation of GASB Statements No. 74 and No. 75, which restated the beginning net OPEB liability.

Table A-1

	2015-2016	2016-2017
Current and other assets	$ 15,553,105	$ 39,527,422
Capital assets	36,194,041	35,047,009
Total assets	$ 51,747,146	$ 74,574,431
Deferred outflows of resources	$ 2,439,142	$ 28,141,041
Long-term liabilities	$ 45,225,004	$ 102,131,990
Other liabilities	6,488,167	8,448,786
Total liabilities	$ 51,713,171	$ 110,580,776
Deferred inflows of resources	$ 7,457,604	$ 6,597,159
Net position		
Net investment in capital assets	$ 5,789,788	$ 6,042,704
Restricted for other purposes	1,104,874	1,177,635
Unrestricted	(11,879,149)	(21,682,802)
Total net position	$ (4,984,487)	$ (14,462,463)

Change in Net Position

The increase of current assets is largely due to an increase in cash and investments as the District issued $26,540,000 in advance refundings of debt. Cash is held with a fiscal agent until the refunded bonds are fully paid in February of 2018 and February of 2019. This increase in current assets is offset by an increase in current liabilities and long term liabilities. Long term liabilities also increased as a result of implementing GASB Statements No. 74 and No. 75. There was a decrease in capital assets which resulted from the current year's depreciation of assets and minimal asset additions. A summary of the revenue and expense is presented in Table A-2 on the next page.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

Change in Net Position (Continued)

Table A-2

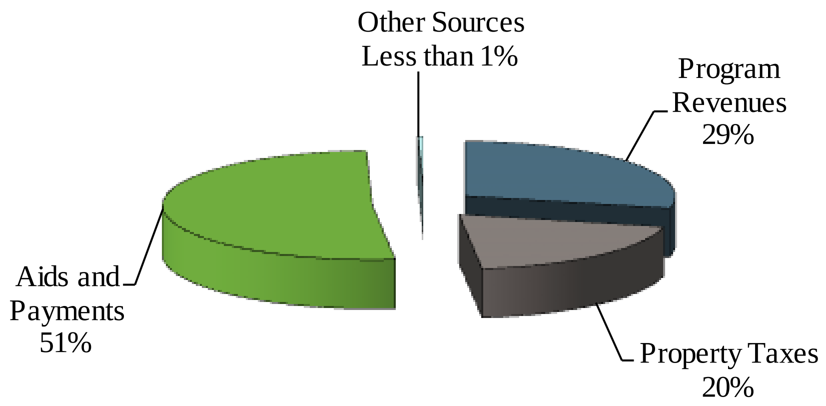
	2015-2016	2016-2017
Revenues		
Program revenues		
Charges for services	$ 1,985,293	$ 1,841,537
Operating grants and contributions	5,220,104	6,051,451
Capital grants and contributions	418,557	328,613
General revenues		
Property taxes	5,361,395	5,622,434
Aids and payments from state and other	13,514,237	14,714,930
Other sources	11,797	(130,777)
Total revenues	$ 26,511,383	$ 28,428,188
Expenses		
Administration	$ 1,461,944	$ 1,966,097
District support services	486,388	448,033
Elementary and secondary regular instruction	8,478,981	14,254,360
Vocational instruction	123,091	255,076
Special education instruction	3,298,142	4,387,153
Instructional support services	1,512,625	2,164,134
Pupil support services	2,194,674	2,488,537
Site, buildings and equipment	2,311,873	2,389,493
Fiscal and other fixed cost programs	126,294	110,833
Student activities	1,342,280	0
Food service	1,203,872	1,348,232
Community education and services	566,781	757,866
Unallocated depreciation	1,096,712	1,099,915
Interest and fiscal charges on long-term debt	1,627,349	1,931,127
Total expenses	25,831,006	33,600,856
Change in net position	680,377	(5,172,668)
Net position- beginning	(5,664,864)	(4,984,487)
Change in accounting principle	-	(4,266,992)
Prior period adjustment	-	(38,316)
Net position- beginning, restated	(5,664,864)	(9,289,795)
Net positon - ending	$ (4,984,487)	$ (14,462,463)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

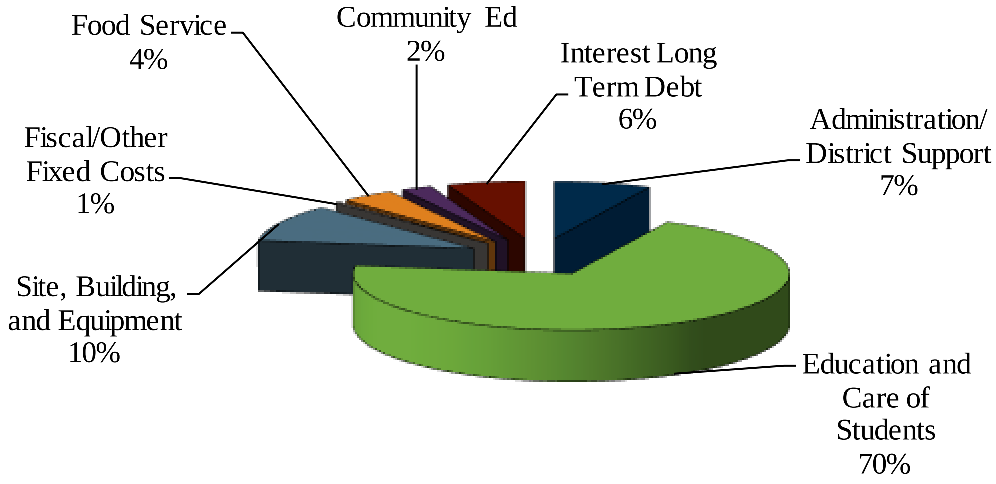
Change in Net Position (Continued)

The District's total revenue consisted of program revenues of $8,221,601, property taxes of $5,622,434, aid and payments from the state of $14,714,930 and $(130,777) from investment income. Expenses totaling $33,600,856 consisted mainly of regular, vocational and special education instruction costs of $14,254,360. Other areas of cost included: support services (District, administrative, instructional and pupil) $7,066,801, site, buildings and equipment (including unallocated depreciation) $3,489,408, fiscal and other fixed cost program $110,833, food service $1,348,232, community education and services $757,866 and interest and fiscal charges on long-term debt $1,931,127.

2016-2017 Revenues - Table A-3



2016-2017 Expenses - Table A-4



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

Change in Net Position (Continued)

The net cost of governmental activities is their total costs less program revenues applicable to each category. Table A-5 presents these costs.

Table A-5

	Total Cost of Services			Net Cost of Services		
	2015-2016	2016-2017	Percent Change	2015-2016	2016-2017	Percent Change
Administration	$ 1,461,944	$ 1,966,097	34%	$ 1,444,722	$ 1,950,074	35%
District support services	486,388	448,033	-8%	486,388	448,033	-8%
Elementary and secondary regular instruction	8,478,981	14,254,360	68%	7,088,213	12,207,692	72%
Vocational education instruction	123,091	255,076	107%	112,206	236,155	110%
Special education instruction	3,298,142	4,387,153	33%	1,351,029	1,975,384	46%
Instructional support services	1,512,625	2,164,134	43%	1,194,539	1,839,868	54%
Pupil support services	2,194,674	2,488,537	13%	1,098,644	1,377,429	25%
Sites and buildings	2,311,873	2,389,493	3%	1,989,634	2,034,081	2%
Fiscal and other fixed-cost programs	126,294	110,833	-12%	126,294	110,833	-12%
Student activities	1,342,280	0	-100%	658,006	0	-100%
Food service	1,203,872	1,348,232	12%	(160,489)	(92,784)	-42%
Community education and services	566,781	757,866	34%	123,805	261,448	111%
Unallocated depreciation	1,096,712	1,099,915	0%	1,096,712	1,099,915	0%
Interest and fiscal charges on Long term debt	1,627,349	1,931,127	19%	1,627,349	1,931,127	19%
Total expense	$ 25,831,006	$ 33,600,856		$ 18,237,052	$ 25,379,255	

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $31,331,292. This is up $25,847,310 from the June 30, 2016, restated combined fund balance total, which was $5,483,982. The difference is largely due to the issuances of the refunding bonds, as the revenue is recognized in the 2017 fiscal year, but the refunded bonds will not be repaid and the expense recorded until fiscal year 2018 and 2019, and the repayment of a refunded bond from 2016. If this activity is removed, the governmental funds experienced an overall decrease of $87,532 as a result of positive operations in the operating funds offset by spending down excess fund balance in the debt service funds.

Revenue and Expenditures

Revenues of the District's governmental funds totaled $27,912,230. In addition, the District reported bond proceeds of $28,288,950. Total expenditures were $30,353,870. A summary of the revenues and expenditures reported on the governmental fund financial statements appears in Table A-6 on the following page.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS) (CONTINUED)

Revenues and Expenditures – Governmental Funds

Table A-6

	Revenue	Expenditures	Net Other Financing Sources	Fund Balance Increase (Decrease)
General	$ 23,109,332	$ 23,039,818	$ -	$ 69,514
Debt service	2,311,955	4,828,714	24,815,203	22,298,444
Other funds	2,490,943	2,485,338	3,473,747	3,479,352
Total	$ 27,912,230	$ 30,353,870	$ 28,288,950	$ 25,847,310

General Fund Budgetary Highlights

During the year ended June 30, 2017, the District revised its operating budget in June. The revision is necessary because when the initial budget is prepared and adopted (a budget must be in place prior to the beginning of the fiscal year on July 1) details of student enrollments, staffing levels and other significant information items are estimates. When these items become known, the budget is then revised. A similar revision is made each year for the same reasons.

The District's final General Fund budget anticipated that expenditures would exceed revenues by $130,428. The actual result was $69,514 revenues over expenditures. Both the revenues and expenditures were significantly over budget. Part of the variance is a result of an adjustment required by GASB reporting which recorded an additional $66,899 in both state revenue and employee benefit expenditure. The remaining revenue variance is due to conservative revenue estimates for state special education funding, alternative compensation funding and other local revenues. The remaining expenditure variance is a result of spending down the capital outlay fund balance, as well as not transferring the implicit costs of other health insurance post-employment benefits from the trust fund, which had been budgeted as a decrease to expenditures.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District decreased capital assets by a net of $1,147,032. Depreciation of $1,546,134 was offset against new additions of $399,102. Detail of capital assets can be found in Note 3 to the financial statements.

Long-Term Debt

At year-end, the District had $60,937,100 of long-term debt. This consisted of bonded indebtedness of $57,560,000, an unamortized bond premium of $2,114,635, capital leases of $854,804 and compensated absences of $407,661. Detail regarding long-term debt can be found in Note 4 to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

- The ROCORI District had been experiencing declining enrollment for more than a decade. The rate of decline has slowed and the district has more stable conditions with improved overall economic conditions, the condition of district buildings and facilities, and continued emphasis on academic development. The District has begun to witness this stabilization as enrollment for the past several years has been holding at about 2000 students, and the enrollment for the 2018 year has increased. The District has projected, annually, greater losses of students but the enrollment each year has proven to be better than expected.

- The political environment at the state level has a significant effect on future finances. The State Legislature sets the amount of basic revenue Minnesota school districts are able to secure from foundation aid payments and through various levies. Because state revenues are the single most important source of District operating funds, developments at the state level have a significant influence on the financial condition of the District. Over the last two legislative sessions, several significant financial bills were enacted into law. The District has seen positive effects from local optional revenue and integration aid. The 2016 legislative session offered a shift from health and safety and deferred maintenance aid to long term facilities maintenance revenue, which has provided ROCORI with funding resources that have not previously been available.

- The State Legislature has increased the foundation formula for several fiscal years. While the increases were helpful, they did not keep up with inflationary pressures and forced the district to continually make reductions to stay within a balanced budget. This has been a financial pattern for more than a decade. The State Legislature approved increases to the general funding formula, increasing by 2% each year for the 2017, 2018 and 2019 fiscal years. With the increases in general funding for fiscal year 2017, the ROCORI District has seen a stronger financial base and has been able to grow fund balance. The District is hopeful that the increase to the formula for the 2018 and 2019 fiscal years will allow the general fund unassigned fund balance to grow.

- In addition to changes to the basic formula, the State Legislature has created a new funding formula for special education expenditures. Historically expenditures had been funded on a current year basis, but beginning with fiscal year 2016 state special education aids were based on prior fiscal year costs. While this change is not anticipated to decrease overall funding, it does cause a potential cash flow and fund balance issue as contract settlement increases and inflationary costs are recognized before the revenue increase is seen. The District has continued to budget conservatively for state special education funding because of these factors.

- For the past several years the District has seen decreased funding for its intervention services, specifically the Title programs that are federally funded. The District applied for additional state special education dollars as a way to mitigate the effect of the federal budget sequestration. Much like a Title I program, the State's Alternative Delivery of Special Education Services (ADSIS) is a program designed to help those students who have not yet been identified as needing special education services and intervene before that designation would occur. The ADSIS program was approved for fiscal year 2016, but as it is a part of special education funding, the revenue generated from the program was received in fiscal year 2017.

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- An operating referendum of $344 per pupil unit for six years was approved by the voters in November 2007 and was renewed in the fall of 2012. This had allowed the District to generate approximately $800,000 per year. In the 2014 legislative session, the State Legislature approved Local Optional Revenue for all districts, which had been previously available only to districts in the seven county metro area. The Local Optional Revenue allowed the District to convert the voter approved levy to Local Optional Revenue, up to $424 per pupil unit. The State also allowed an additional Board approved levy authority of up to $300 per pupil unit. The District decided to participate in both these legislative actions to more securely anticipate future funding. The levies have helped to maintain class size as well as provide licensed pupil support staff and equipment purchases. The goals outlined for referendum resources included strengthening math and reading instruction in order to improve student performance and better meet standards of adequate yearly progress. The resources continue to help meet the goals of maintaining class size, enhancing student performance, and strengthening math and reading performance with a focus on the primary grades.

- The District strategic roadmap provides a planning process to more clearly and directly focus the efforts and energy of the District. The roadmap continues to have financial implications regarding priorities in allocation and distribution of resources for short and long-term planning. The roadmap directs resources toward key efforts in student learning, culture shift, professional learning communities, reputation management, and funding and facilities.

- The District stabilized the General Fund expenditures for retiree insurance obligations through the implementation of a $4,500,000 bond. This allows the district a tool to fund Other Post-Employment Benefits (OPEB) obligations. The funds have been placed into an irrevocable trust with the express purpose of helping meet the OPEB obligations.

- The District has contracted with Center for Efficient School Operations (CESO) for transportation consulting services for a number of years. This arrangement has resulted in changes in bus contractor pay structure, a shift from a two-tier transportation system to a single-tier system, movement to an electronic routing system, fuel escalator efficiencies, budget savings, and overall system efficiencies.

- The District implemented the State's Q Comp program for the 2017 fiscal year. It is a voluntary program that allows local districts and exclusive representatives of the teachers to design and collectively bargain a plan that meets the five components of the law. The five components under Q Comp include Career Ladder/Advancement Options, Job-embedded Professional Development, Teacher Evaluation, Performance Pay, and an Alternative Salary Schedule. The District received up to $260 per student ($169 per student in state aid and $91 per student in board-approved levy) for the program.

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- District voters approved a $29.9 million bond construction project in 2009. The construction project provided a middle school addition at the existing ROCORI High School site, expand senior high school facilities at that site, include extensive remodeling of the existing high school site, include demolition of the oldest parts of the current middle school site, and remodel parts of the remaining middle school site as a District Education Facility. In the fall of 2011, the District changed to a K-5 elementary configuration, moved sixth grade students to the 6-12 site to allow a sixth through eighth grade middle school, and continued services of a 9-12 senior high setting at the 6-12 site. The new configuration of grades has allowed the District to see increased efficiencies in its operations. The changes have allowed some consolidation of services, permits some issues of reassignment of personnel and encourages shared resources in areas that otherwise can be costly to maintain separately (industrial technology, art and family, and consumer science classrooms, for example). The final steps of facility improvement were completed in calendar year 2015 to close out the construction project and resources. A renovation of the heating system at Cold Spring Elementary (changing from a series of heat pumps to a boiler-based system) required some of the remaining construction funds. The other element was completing the renovation steps at the District Education Facility to provide classroom spaces for Community Education and Early Childhood programming.

- The District has examined and implemented means of increasing efficiency and deployment of resources to take advantage of the consolidated physical locations. Efforts have been made to streamline positions and increase efficiency in operations. Secretarial, custodial, and other support positions have been consolidated, restructured, or eliminated. Other efficiencies in operations (physical operations, utilities, energy savings and the like) are still being realized.

- Over the past several years, a number of positions have been established in the ROCORI School District. These positions were based on the District's referendum campaign promise to the community to bring a more specific focus in reading and math skills. The positions have been developed with the goal of helping teachers more directly meet the needs of students in the ROCORI District. The District wants to use data appropriately to identify and serve students. It is important to be able to use data and information to more directly meet student needs. The District continues to monitor, evaluate, and adjust these positions and assignments in effort to most efficiently provide the services students and staff need.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This report is designed to provide the District's citizens, taxpayers, customers, 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 any questions about this report or would like additional information, contact Beth Bertram, Director of Business Services, at the District Office 534 N 5th Avenue, Cold Spring, Minnesota 56320.

BASIC FINANCIAL STATEMENTS

Independent School District No. 750
ROCORI Schools
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	$ 6,024,330
Cash with fiscal agent	27,738,429
Current property taxes receivable	2,895,894
Delinquent property taxes receivable	34,432
Accounts receivable	159,956
Due from Department of Education	2,028,685
Due from Federal Government through Department of Education	255,771
Due from other Minnesota school districts	133,048
Due from federal government	
Due from other governmental units	19,330
Inventory	105,709
Prepaid items	131,838
Capital assets	
Capital assets not being depreciated	
Land	1,085,737
Capital assets being depreciated (net of depreciation)	
Land improvements	456,752
Buildings	32,645,010
Equipment	859,510
Total assets	74,574,431
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	28,141,041
Total assets and deferred outflows of resources	$ 102,715,472
Liabilities	
Accounts payable	$ 149,976
Salaries and benefits payable	1,807,042
Interest payable	722,682
Due to other Minnesota school districts	87,791
Due to other governmental units	83
Unearned revenue	98,256
Bond principal payable , net of premiums	
Payable within one year	5,140,000
Payable after one year	54,534,635
Capital lease payable	
Payable within one year	173,490
Payable after one year	681,314
Compensated absences payable	
Payable within one year	269,466
Payable after one year	138,195
Net pension liability	44,962,017
Net other post employment benefit (OPEB) liability	1,815,829
Total liabilities	110,580,776
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	5,767,069
Deferred inflows of resources related to OPEB	8,118
Deferred inflows of resources related to pensions	821,972
Total deferred inflows of resources	6,597,159
Net Position	
Net investment in capital assets	6,042,704
Restricted	1,177,635
Unrestricted	(21,682,802)
Total net position	(14,462,463)
Total liabilities, deferred inflows of resources, and net position	$ 102,715,472

See notes to financial statements.

Independent School District No. 750
ROCORI Schools
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	$ 1,966,097	$ 16,023	$ -	$ -	$ (1,950,074)
District support services	448,033	-	-	-	(448,033)
Elementary and secondary regular instruction	14,254,360	667,682	1,378,986	-	(12,207,692)
Vocational education instruction	255,076	-	18,921	-	(236,155)
Special education instruction	4,387,153	79,407	2,332,362	-	(1,975,384)
Instructional support services	2,164,134	12,412	311,854	-	(1,839,868)
Pupil support services	2,488,537	3,335	1,107,773	-	(1,377,429)
Sites and buildings	2,389,493	26,799	-	328,613	(2,034,081)
Fiscal and other fixed cost programs	110,833	-	-	-	(110,833)
Food service	1,348,232	732,444	708,572	-	92,784
Community education and services	757,866	303,435	192,983	-	(261,448)
Unallocated depreciation	1,099,915	-	-	-	(1,099,915)
Interest and fiscal charges on long-term debt	1,931,127	-	-	-	(1,931,127)
Total governmental activities	$ 33,600,856	$ 1,841,537	$ 6,051,451	$ 328,613	(25,379,255)

General revenues	
Taxes	
Property taxes, levied for general purposes	2,790,461
Property taxes, levied for community service	146,295
Property taxes, levied for debt service	2,685,678
State aid-formula grants	14,714,930
Investment income	(130,777)
Total general revenues	20,206,587
Change in net position	(5,172,668)
Net position - beginning	(4,984,487)
Change in accounting principle (Note 8)	(4,266,992)
Prior period adjustment (Note 9)	(38,316)
Net position - beginning, as restated	(9,289,795)
Net position - ending	$ (14,462,463)

See notes to financial statements.

Independent School District No. 750
ROCORI Schools
Balance Sheet - Governmental Funds
June 30, 2017

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	$ 3,476,735	$ 1,661,597	$ 885,998	$ 6,024,330
Cash with fiscal agent	-	24,426,566	3,311,863	27,738,429
Current property taxes receivable	1,487,121	1,172,995	235,778	2,895,894
Delinquent property taxes receivable	15,804	15,095	3,533	34,432
Accounts receivable	159,956	-	-	159,956
Due from Department of Education	1,976,893	17,940	33,852	2,028,685
Due from Federal Government through Department of Education	255,771	-	-	255,771
Due from other Minnesota school districts	121,118	-	11,930	133,048
Due from other governmental units	19,330	-	-	19,330
Inventory	35,048	-	70,661	105,709
Prepaid items	123,560	-	8,278	131,838
Total assets	$ 7,671,336	$ 27,294,193	$ 4,561,893	$ 39,527,422
Liabilities				
Accounts payable	$ 148,184	$ -	$ 1,792	$ 149,976
Salaries and benefits payable	1,804,784	-	2,258	1,807,042
Compensated absences payable	251,481	-	-	251,481
Due to other Minnesota school districts	87,791	-	-	87,791
Due to other governmental units	83	-	-	83
Unearned revenue	25,107	-	73,149	98,256
Total liabilities	2,317,430	-	77,199	2,394,629
Deferred Inflows of Resources				
Unavailable revenue - delinquent property taxes	15,804	15,095	3,533	34,432
Property taxes levied for subsequent year's expenditures	2,906,960	2,381,431	478,678	5,767,069
Total deferred inflows of resources	2,922,764	2,396,526	482,211	5,801,501
Fund Balances				
Nonspendable	158,608	-	78,939	237,547
Restricted	570,597	24,897,667	3,928,302	29,396,566
Committed	208,857	-	-	208,857
Assigned	496,386	-	-	496,386
Unassigned	996,694	-	(4,758)	991,936
Total fund balances	2,431,142	24,897,667	4,002,483	31,331,292
Total liabilities, deferred inflows of resources, and fund balances	$ 7,671,336	$ 27,294,193	$ 4,561,893	$ 39,527,422

Independent School District No. 750
ROCORI Schools
Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds
June 30, 2017

Total fund balances - governmental funds	$ 31,331,292
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	56,956,570
Less accumulated depreciation	(21,909,561)
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, net of premiums	(59,674,635)
Capital lease payable	(854,804)
Compensated absences payable	(156,180)
Net OPEB liability	(1,815,829)
Net pension liability	(44,962,017)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences in timing and estimates related to pension and OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	28,141,041
Deferred inflows of resources related to pensions	(821,972)
Deferred inflows of resources related to OPEB	(8,118)
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.	34,432
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(722,682)
Total net position - governmental activities	$ (14,462,463)

See notes to financial statements.

Independent School District No. 750
ROCORI Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General	Debt Service	Nonmajor Funds	Total Governmental Funds
Revenues				
Local property taxes	$ 2,790,803	$ 2,289,260	$ 546,822	$ 5,626,885
Other local and county revenues	883,359	(156,710)	312,341	1,038,990
Revenue from state sources	18,732,562	179,405	323,978	19,235,945
Revenue from federal sources	587,608	-	584,005	1,171,613
Sales and other conversion of assets	115,000	-	723,797	838,797
Total revenues	23,109,332	2,311,955	2,490,943	27,912,230
Expenditures				
Current				
Administration	1,551,377	-	-	1,551,377
District support services	426,980	-	-	426,980
Elementary and secondary regular instruction	10,546,184	-	-	10,546,184
Vocational education instruction	186,594	-	-	186,594
Special education instruction	3,564,995	-	-	3,564,995
Instructional support services	1,558,960	-	-	1,558,960
Pupil support services	2,257,650	-	-	2,257,650
Sites and buildings	1,861,156	-	-	1,861,156
Fiscal and other fixed cost programs	110,833	-	-	110,833
Food service	-	-	1,306,952	1,306,952
Community education and services	-	-	612,476	612,476
Capital outlay				
District support services	5,293	-	-	5,293
Elementary and secondary regular instruction	163,757	-	-	163,757
Vocational education instruction	4,172	-	-	4,172
Instructional support services	161,151	-	-	161,151
Sites and buildings	433,121	-	-	433,121
Food service	-	-	1,200	1,200
Debt service				
Principal	166,745	3,280,000	260,000	3,706,745
Interest and fiscal charges	40,850	1,548,714	304,710	1,894,274
Total expenditures	23,039,818	4,828,714	2,485,338	30,353,870
Excess of revenues over (under) expenditures	69,514	(2,516,759)	5,605	(2,441,640)
Other Financing Sources (Uses)				
Bond issuance	-	23,080,000	3,460,000	26,540,000
Premium on bond issuance	-	1,735,203	13,747	1,748,950
Total other financing sources (uses)	-	24,815,203	3,473,747	28,288,950
Net change in fund balances	69,514	22,298,444	3,479,352	25,847,310
Fund Balances				
Beginning of year	2,417,123	2,599,223	561,447	5,577,793
Change in accounting principle (Note 8)	(55,495)	-	-	(55,495)
Prior period adjustment (Note 9)	-	-	(38,316)	(38,316)
Beginning of year, restated	2,361,628	2,599,223	523,131	5,483,982
End of year	$ 2,431,142	$ 24,897,667	$ 4,002,483	$ 31,331,292

Independent School District No. 750
ROCORI Schools
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	$ 25,847,310
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	399,102
Depreciation expense	(1,546,134)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	54,172
Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in the differences between actual and expected contributions and earnings on plan investments as well as changes in proportion.	(5,406,946)
Governmental funds recognize OPEB contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to OPEB on a full accural perspective.	103,337
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	3,706,745
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.	(78,872)
The issuance of long-term debt provides current financial resources to governmental funds and has no effect on net position. These amounts are reported in the governmental funds as a source of financing. These amounts are not shown as revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.	(26,540,000)
Governmental funds report bond premiums as an other financing source at the time of issuance. Premiums are reported as a liability in the government-wide financial statements and amortized over the life of the bond.	(1,706,931)
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.	(4,451)
Change in net position - governmental activities	$ (5,172,668)

See notes to financial statements.

Independent School District No. 750
ROCORI Schools
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	$ 2,700,817	$ 2,700,817	$ 2,790,803	$ 89,986
Other local and county revenues	696,550	736,710	883,359	146,649
Revenue from state sources	18,073,658	18,353,658	18,732,562	378,904
Revenue from federal sources	517,853	598,580	587,608	(10,972)
Sales and other conversion of assets	93,600	93,600	115,000	21,400
Total revenues	22,082,478	22,483,365	23,109,332	625,967
Expenditures				
Current				
Administration	1,530,714	1,542,441	1,551,377	8,936
District support services	458,403	459,375	426,980	(32,395)
Elementary and secondary regular instruction	9,968,297	10,074,352	10,546,184	471,832
Vocational education instruction	168,798	173,724	186,594	12,870
Special education instruction	3,233,332	3,499,195	3,564,995	65,800
Instructional support services	1,511,441	1,594,431	1,558,960	(35,471)
Pupil support services	2,259,052	2,295,752	2,257,650	(38,102)
Sites and buildings	1,946,022	1,936,764	1,861,156	(75,608)
Fiscal and other fixed cost programs	217,500	217,500	110,833	(106,667)
Capital outlay				
Administration	2,000	1,000	-	(1,000)
District support services	15,000	5,000	5,293	293
Elementary and secondary regular instruction	54,000	78,710	163,757	85,047
Vocational education instruction	-	-	4,172	4,172
Special education instruction	6,300	5,853	-	(5,853)
Instructional support services	153,000	206,086	161,151	(44,935)
Sites and buildings	349,800	336,717	433,121	96,404
Debt service				
Principal	147,008	147,008	166,745	19,737
Interest and fiscal charges	39,885	39,885	40,850	965
Total expenditures	22,060,552	22,613,793	23,039,818	426,025
Net change in fund balances	$ 21,926	$ (130,428)	69,514	$ 199,942
Fund Balances				
Beginning of year			2,417,123	
Change in accounting principle (Note 8)			(55,495)	
Beginning of year, restated			2,361,628	
End of year			$ 2,431,142	

Independent School District No. 750
ROCORI Schools
Statement of Fiduciary Net Position
June 30, 2017

	OPEB Trust Fund
Assets	
Current	
Investments	
Brokered money markets	$ 369,401
Negotiable certificates of deposit	1,294,291
Interest receivable	22,612
Total assets	$ 1,686,304
Liabilities	
Accounts payable	$ 156,889
Net Position	
Restricted for OPEB	$ 1,529,415

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

	OPEB Trust Fund
Additions	
Investment income	
Interest revenue	$ 28,388
Deductions	
Health insurance expense	156,889
Fees	250
Total deductions	157,139
Change in net position	(128,751)
Net Position Held in Trust for OPEB	
Beginning of year	1,658,166
End of year	$ 1,529,415

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 basic financial statements of the District because of the significance of their operational or financial relationships with the District.

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

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

The student activity accounts of the District are not under the School Board's control for certain activities; for these activities, separate audited financial statements have been issued. Other activity accounts are under School Board's control and are included within the General Fund activity.

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 segment is 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 are not included among program revenues; instead they are properly reported as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated 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 fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The OPEB Trust Fund is 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, this Fund is not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

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, G.O. bond principal, interest, and related costs.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this fund to specifically support the Food Service Program.

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. The District receipts property tax and local and state revenues that were received for these specific purposes in this fund.

Post Employment Benefits Debt Service Fund – This fund is used to record levy proceeds and the payments of G.O. Taxable OPEB Bonds, principal, interest, and related costs.

Fiduciary Fund:

OPEB Trust Fund – This fund is used to account for financial resources held by the District in a trustee capacity to be used by the District to pay OPEB benefits to employees.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

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

The District's total cash and investments are comprised of two major components, each with its own set of legal and contractual provisions as described below and on the following pages.

Cash and investments at June 30, 2017, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF), including MSDLAF + Max. 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. In addition, deposits related to bond refundings are held and invested separately in U.S. Treasury Notes.

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.

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.

OPEB Trust Fund

These funds represent investments administered by the District's OPEB Trust Fund investment managers. As of June 30, 2017, they were comprised of MN Trust money markets and negotiable certificates of deposit. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

OPEB Trust Fund (Continued)

Minnesota Statutes authorize the OPEB Trust Fund 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, corporate bonds, common stock, and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years, and are deferred and included in the liability section of the fund financial statements as deferred 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 2017. The remaining portion of the levy will be recognized when measurable and available. Property taxes levied for subsequent year's expenditures are reported as deferred inflows of resources.

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 an expenditure at the time of consumption.

I. Property Taxes

Property tax 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 if recorded as revenue when it becomes measurable and available. Stearns 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes (Continued)

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $2,500 and an estimated useful life in excess of three years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market 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 land improvements and buildings and 5 to 15 years for equipment.

Capital assets not being depreciated include land. 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.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. Deferred outflows of resources related to pensions are reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions are recorded for various estimate differences that will be amortized and recognized over future years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

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

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the 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 or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Compensated Absences

The District compensates certain employees upon termination of employment for unused vacation. Vacation days are to be used by September 1 of the next school year and are not cumulative for classified employees and principals. Administrative employees' and the Superintendent's vacation days are to be used by July 1 of the next school year and are not cumulative.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences (Continued)

District regular employees are entitled to sick leave at various rates based on employee classification and related contracts. All employees receive sick leave based on the number of hours worked. The maximum number of hours that may be accumulated is based on individual contracts. Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.N. Sick leave pay is shown as an expenditure in the year paid.

Beginning July 1, 2005, the District started making matching contributions to 403(b) accounts for all licensed staff. The contribution amounts vary depending on the individual's employment group. Any amount contributed by the District to an individual's 403(b) account will be deducted from the total compensated absence and severance amounts paid out. All licensed staff hired after July 1, 2005, will only be eligible for the 403(b) matching program and not the existing severance pay plans.

Compensated absences payable, as reported in the Statement of Net Position, consists of the severance payments available to eligible employees based on their unused sick leave. See Note 1.N.

N. Severance

Teacher contracts provide for the accumulation of severance pay at the rate of 5 days for each year of full-time teaching in the District up to a maximum of 50 days subject to a proration formula. In addition, teachers are eligible to receive as severance pay, upon retirement, the amount obtained by multiplying one-third of the unused number of sick leave days, not to exceed 50 days, times teachers' daily rate of pay. Severance shall be paid by contributing 100% of the amount to a health care savings plan.

Administrative contracts provide for the accumulation of severance pay at the rate of 5 days for each year of service accumulative to 20 days for administrators prior to age 56 or less than 10 years of service. Administrators who are at least 56 years of age and have been employed by the District for not less than 10 years shall, upon retirement, be eligible for severance pay calculated at the rate of 5 days for each year of service accumulative to 50 days. In addition, administrators will receive, upon retirement, the amount obtained by multiplying one-third of unused sick leave days, not to exceed 50 days, times their daily rate of pay. Severance shall be paid by contributing 100% of the amount to a health care savings plan. The remaining two-thirds of the unused sick leave days and years of service over 50 days are applied to a health insurance bank to pay for family group health coverage.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions (Continued)

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. Additional information can be found in TRA Note 7.

P. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Q. 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.

R. Fund Equity

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 not in spendable form as they are legally or contractually required to be maintained intact and include amounts set aside for inventory and prepaid items.

- Restricted Fund Balances – These amounts are subject to externally enforceable legal restrictions by either a) creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through enabling legislation.

- Committed Fund Balances – The District's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment is through a resolution.

- Assigned Fund Balances – The School Board delegates the Superintendent and the Director of Business Services the power to assign balances for specific purposes. Amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed are classified as assigned fund balances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Equity (Continued)

- Unassigned Fund Balances – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

The District's target General Fund balance is a minimum of 6% to 8% of the annual operating budget.

S. Net Position

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

T. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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.

U. 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 the General, Special Revenue, Capital Projects, and Debt Service Funds.
4. Budgets for the General, Special Revenue, Capital Projects, and Debt Service 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

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

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118A.03 for any amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, FCUA, or other federal deposit coverage. As of June 30, 2017, the District's bank balances were not exposed to custodial credit risk because they were fully insured through FDIC and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

As of June 30, 2017, the District's governmental funds had the following deposits:

Checking	$ 307,018
Savings	2,055,484
Total	$ 2,362,502

B. Investments

District Governmental Funds

As of June 30, 2017, the District's governmental funds had the following investments:

	Maturities		
Pooled - Investment	1 Year	1-3 Years	Total
MSDLAF	$ 105,828	$ -	$ 105,828
MSDLAF + Max Class	3,556,000	-	3,556,000
Total pooled	3,661,828	-	3,661,828
Non-Pooled			
U.S. Treasury Notes	4,029,270	23,707,865	27,737,135
Brokered cash	1,294	-	1,294
Total non-pooled	4,030,564	23,707,865	27,738,429
Total	$ 7,692,392	$ 23,707,865	$ 31,400,257

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

District Governmental Funds (Continued)
Interest Rate Risk: This is the risk related to managing exposure to fair value arising from increasing interest rates. The District's investment policy states their investments should be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy requires investments to be in instruments specified in *Minnesota Statutes* 118A.04 and 118A.05. As of June 30, 2017, the District's governmental fund investments in MSDLAF and MSDLAF+ Max Class were rated AAAm by S&P, and investments in U.S. Treasury Notes were rated Aaa by Moody's.

Concentration of Credit Risk: This relates to the limit on the amount the District may invest in any one issuer. The District's policy states the District should diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities.

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

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

- $27,737,135 of investments are valued using a matrix pricing model (Level 2 inputs)

OPEB Trust Fund

As of June 30, 2017, the District's OPEB Trust Fund had the following investments:

	Maturities		
Investment	1 Year	1-3 Years	Total
MNTrust Money Markets	$ 369,401	$ -	$ 369,401
Negotiable Certificates of Deposit	687,832	606,459	1,294,291
Total investments	$ 1,057,233	$ 606,459	$ 1,663,692

NOTE 2 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

OPEB Trust Fund (Continued)

Credit Risk: As of June 30, 2017, the District's OPEB Trust Fund investments in the MNTrust Money Market Account was rated AAAm by S&P. The brokered money market and negotiable certificates of deposit were unrated.

Concentration of Credit Risk: As of June 30, 2017, more than 5% of the trusts investments were in brokered certificates of deposit such as Onewest Bank (14.92%), Enerbank USA (14.93%), Kansas State Bank Manhattan (14.62%), Industrial & Commercial Bank China (14.60%), First National Bank (11.49%), and Ally Bank (7.24%).

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

- $1,294,291 are valued using a matrix pricing model (Level 2 inputs)

C. Deposits and Investments

The following is a summary of deposits and investments as of June 30, 2017:

District governmental funds	
Deposits (Note 2.A.)	$ 2,362,502
Investmens pooled (Note 2.B.)	3,661,828
Investments non-pooled (Note 2.B.)	27,738,429
OPEB Trust Fund	
Investments (Note 2.B.)	1,663,692
Total deposits and investments	$ 35,426,451

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

Statement of Net Position	
Cash and investments	$ 6,024,330
Cash with fiscal agent	27,738,429
Statement of Fiduciary Net Position	
Investments	
Brokered money markets	369,401
Negotiable certificates of deposit	1,294,291
Total deposits and investments	$ 35,426,451

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 1,085,737	$ -	$ -	$ 1,085,737
Capital assets being depreciated				
Land improvements	1,614,088	82,953	-	1,697,041
Buildings	51,490,372	177,877	109,002	51,559,247
Equipment	2,555,710	138,272	79,437	2,614,545
Total capital assets being depreciated	55,660,170	399,102	188,439	55,870,833
Less accumulated depreciation for				
Land improvements	1,207,339	32,950	-	1,240,289
Buildings	17,663,162	1,360,077	109,002	18,914,237
Equipment	1,681,365	153,107	79,437	1,755,035
Total accumulated depreciation	20,551,866	1,546,134	188,439	21,909,561
Total capital assets being depreciated, net	35,108,304	(1,147,032)	-	33,961,272
Governmental activities, capital assets, net	$ 36,194,041	$ (1,147,032)	$ -	$ 35,047,009

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

Administration	$ 2,381
Elementary and secondary regular instruction	35,405
Special education	790
Instructional support services	29,142
Sites and buildings	368,145
Food service	10,356
Unallocated	1,099,915
Total depreciation expense	$ 1,546,134

NOTE 4 – 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						
G.O. Taxable OPEB Bonds, 2009A	01/08/09	5.00%-6.75%	$ 4,500,000	02/01/29	$ 3,330,000	$ 3,330,000
G.O. School Building Bonds, 2009B	07/01/09	2.50%-5.00%	29,990,000	02/01/34	24,750,000	895,000
G.O. Alternative Facilities Bonds, 2014A	04/16/14	1.00%-2.25%	1,445,000	02/01/22	945,000	180,000
G.O. Refunding Bonds, 2016A	04/20/16	2.00%	2,075,000	02/01/27	2,075,000	190,000
G.O. OPEB Refunding Bonds, 2016B	10/05/16	1.3%-3.0%	3,460,000	02/01/29	3,380,000	65,000
G.O. Refunding Building Bonds, 2017A	05/18/17	2.0%-5.0%	23,080,000	02/01/34	23,080,000	480,000
Unamortized bond premium					2,114,635	-
Capital leases					854,804	173,490
Compensated absences					407,661	269,466
Total all long-term liabilities					$ 60,937,100	$ 5,582,956

The long-term bond liabilities listed above were issued to fund OPEB, finance acquisition, and construction of capital facilities. Other long-term liabilities, such as compensated absences, are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds

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

Year Ending	G.O. Bonds		
June 30,	Principal	Interest	Total
2018	$ 5,140,000	$ 2,088,928	$ 7,228,928
2019	24,600,000	2,077,021	26,677,021
2020	1,620,000	946,273	2,566,273
2021	1,655,000	906,197	2,561,197
2022	1,695,000	864,529	2,559,529
2023-2027	8,245,000	3,363,911	11,608,911
2028-2032	10,080,000	1,660,799	11,740,799
2033-2034	4,525,000	204,750	4,729,750
Total	$ 57,560,000	$ 12,112,408	$ 69,672,408

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 34,560,000	$ 26,540,000	$ 3,540,000	$ 57,560,000
Unamortized bond premium	407,704	1,748,950	42,019	2,114,635
Capital leases	1,021,549	-	166,745	854,804
Compensated absences	307,143	434,423	333,905	407,661
Total long-term liabilities	$ 36,296,396	$ 28,723,373	$ 4,082,669	$ 60,937,100

On October 5, 2016, the District issued $3,460,000 G.O. Taxable OPEB Refunding Bonds, Series 2016B for the refunding of the G.O. Taxable OPEB Bond, Series 2009A. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in debt service payments of $851,229. The net present value cash flow savings was $749,455. The call date of the 2009A bonds is February 1, 2018.

On May 18, 2017, the District issued $23,080,000 G.O. School Building Refunding Bonds, Series 2017A for the refunding of the G.O. School Building Bond, Series 2009B. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in debt service payments of $3,516,272. The net present value cash flow savings was $2,774,900. The call date of the 2009B bonds is February 1, 2019.

D. Capital Lease Obligations

On September 22, 2006, the District entered into a lease purchase agreement for energy capital improvements. The capital lease obligation totaled $2,019,022. The capital lease agreement includes semiannual principal and interest payments of $93,447 through 2022. At June 30, 2017, the book value of the energy improvements was $420,168.

On July 21, 2014, the District entered into a lease purchase agreement for various technology equipment. The capital lease obligation and corresponding equipment totaled $79,921. The capital lease agreement includes semiannual principal and interest payments of $20,701 through 2018. The technology equipment was not capitalized as items are less than the District's capitalization threshold individually.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments are listed below.

Year Ending June 30,	
2018	$ 207,594
2019	186,893
2020	186,893
2021	186,892
2022	186,894
Total minimum lease payments	955,166
Less amount representing interest	(100,362)
Present value of net minimum lease payments	$ 854,804

NOTE 5 – 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 balances are classified below to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service	Nonmajor Funds	Total
Nonspendable				
Inventory	$ 35,048	$ -	$ 70,661	$ 105,709
Prepaid Items	123,560	-	8,278	131,838
Total nonspendable	158,608	-	78,939	237,547
Restricted for				
Health and Safety	46,010	-	-	46,010
Operating Capital	315,421	-	-	315,421
Gifted and Talented	22,975	-	-	22,975
Safe Schools Levy	10,675	-	-	10,675
Long-Term Facilities Maintenance	60,638	-	-	60,638
Medical Assistance	114,878	-	-	114,878
Bond Refunding	-	24,426,566	3,311,863	27,738,429
Debt Service	-	471,101	89,283	560,384
Community Education	-	-	2,348	2,348
Early Childhood and Family Education	-	-	23,408	23,408
School Readiness	-	-	2,958	2,958
Adult Basic Education	-	-	5,449	5,449
Food Service	-	-	492,993	492,993
Total restricted	570,597	24,897,667	3,928,302	29,396,566
Committed for				
Separation/Retirement Benefits	208,857	-	-	208,857
Assigned for				
Staff Development - Curriculum	20,655	-	-	20,655
Staff Development - District	41,378	-	-	41,378
Building Activities	169,786	-	-	169,786
Quality Compensation	151,399	-	-	151,399
Targeted Services	80,342	-	-	80,342
Repairs and Maintenance	32,826	-	-	32,826
Total assigned	496,386	-	-	496,386
Unassigned for				
General Purposes	996,694	-	-	996,694
Community Service*	-	-	(4,758)	(4,758)
Total unassigned	996,694	-	(4,758)	991,936
Total fund balance	$ 2,431,142	$ 24,897,667	$ 4,002,483	$ 31,331,292

* Negative restricted fund balances have been reclassified as unassigned.

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

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

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

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

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

Restricted/Reserved for Gifted and Talented – The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account.

Restricted/Reserved for Safe Schools Levy – The unspent resources available from the safe schools 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. These resources will be used to pay off future bonded obligations.

Restricted/Reserved for Debt Service – This balance represents the balances of the Debt Service Fund and the Post Employment Benefits Debt Service Fund available for future debt principal and interest payments.

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

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

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

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

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

Restricted for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences and OPEB (as defined in GASB Statements Nos. 16 and 45).

Assigned Fund Balances – These balances represent amounts segregated from the unassigned fund balance for various purposes as determined by the Superintendent and the Director of Business Services in accordance with the District's Fund Balance Policy.

Unassigned for Community Service – This balance represents the negative remaining fund balance of the Community Service Fund.

B. Net Position

Net position restricted for other purposes on the Statement of Net Position is comprised of the total positive net position of the Food Service and Community Service Funds and the total positive position of the restricted fund balance portion of the General Fund.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017 was $66,991,714. 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 cities of Duluth and 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.

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

Teachers' Retirement Association (Continued)

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

- 3% per year early retirement reduction factor for all years under normal retirement age.

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

Tier II Benefits

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

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

C. Contribution Rate

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

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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 6 – 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 rate 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 6 – 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 Expected Real Rate of Return
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 6 – 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 $40,739,875 for its proportionate share of the net pension liability. The net pension liability was measure 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 0.1708% at the end of the measurement period and 0.1632% 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	$ 40,739,875
State's proportionate share of the net pension liability associated with the District	4,088,266

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 $6,476,438. It recognized $570,859 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	$ 414,056	$ 1,135
Net difference between projected and actual earnings on plan investments	1,678,941	-
Changes of assumptions	23,202,927	-
Changes in proportion	391,780	387,384
Contributions to TRA subsequent to the measurement date	742,655	-
Total	$ 26,430,359	$ 388,519

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

$742,655 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 and (deferred inflows of resources) related to TRA pensions will be recognized in pension expense as follows:

2018	$ 4,935,838
2019	4,935,840
2020	5,560,160
2021	5,271,037
2022	4,596,310
Total	$ 25,299,185

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.

District proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
$ 52,483,142	$ 40,739,875	$ 31,175,367

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

H. Pension Plan Fiduciary Net Position

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

NOTE 6 – 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 status, 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 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

Public Employees' Retirement Association (Continued)

C. Contributions

Minnesota Statutes Chapter 353 sets 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 percent of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5 percent for the Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were $254,805. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2017, the District reported a liability of $4,222,142 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 2017. 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 $55,165. 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 0.0520 %, which was an increase of 0.002% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $515,276 for its proportionate share of General Employees Plan's pension expense. Included in this amount, the District recognized $16,449 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 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund 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	$ 12,976	$ 339,503
Changes in actuarial assumptions	913,840	-
Difference between projected and actual investments earnings	451,322	-
Change in proportion	77,739	93,950
Contributions paid to PERA subsequent to the measurement date	254,805	-
Total	$ 1,710,682	$ 433,453

$254,805 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:

2018	$ 269,427
2019	169,307
2020	431,180
2021	152,510
Total	$ 1,022,424

NOTE 6 – 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 on a regular basis of the long-term expected rate of return using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (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 Expected Real Rate of Return
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	100%	

F. Discount Rate

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 proprionate share of the PERA net pension liability	$ 5,996,693	$ 4,222,142	$ 2,760,395

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

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

Detailed information about 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 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by Blue Cross Blue Shield. 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. Benefits Provided

Certain teachers, principals, and administrators who apply for early retirement shall remain eligible to receive subsidized health insurance benefits until the end of the school year in which the retiree becomes Medicare eligible. Other retirees are eligible to remain on the District's plan. Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy.

C. Members

As of June 30, 2017, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	42
Active employees	254
Total	296

D. Contributions

Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. For the year 2017, the District contributed $304,110 to the plan.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Investment rate of return	1.10%, net of investment expense
Salary increases	3.00%
Inflation	2.50%
Healthcare cost trend increases	6.75% initially, decreasing to 5.0% over seven years
Mortality Assumption	RP-2014 white collar mortality tables with MP-2015 generational improvement scale

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2017.

The long-term expected rate of return on OPEB plan investments was set based on the plan's target investment allocation along with long-term return expectations by asset class. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed income	80 %	N/A
Cash	20	N/A
Total	100 %	

The details of the investments and the investment policy are described in Note 2 of the District's financial statements. For the year ended June 30, 2017, the annual money-weighed rate of return on investments was 1.68 percent.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Discount Rate

The discount rate used to measure the total OPEB liability was 2.8%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

G. Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2016	$ 3,575,302	$ 1,658,166	$ 1,917,136
Changes for the year			
Service cost	133,504	-	133,504
Interest	97,437	-	97,437
Differences between expected and actual economic experience	-	10,148	(10,148)
Employer contributions	-	304,110	(304,110)
Net investment income	-	18,240	(18,240)
Benefit payments	(460,999)	(460,999)	-
Administrative expense	-	(250)	250
Net changes	(230,058)	(128,751)	(101,307)
Balances at June 30, 2017	$ 3,345,244	$ 1,529,415	$ 1,815,829
Plan fiduciary net position as a percentage of the total OPEB liability			45.72%

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 2.8% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (1.8%)	Current (2.8%)	1% increase (3.8%)
Net OPEB Liability	$ 1,973,067	$ 1,815,829	$ 1,660,909

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

	1% decrease (5.75% decreasing to 4.00%)	Current (6.75% decreasing to 5.00%)	1% increase (7.75% decreasing to 6.00%)
Net OPEB Liability	$ 1,607,176	$ 1,815,829	$ 2,053,704

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

For the year ended June 30, 2017, the District recognized OPEB expense of $210,921. At June 30, 2017, the Distract reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 8,118
Total	$ -	$ 8,118

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

Year Ending June 30,	Total
2018	$ (2,030)
2019	(2,030)
2020	(2,030)
2021	(2,028)
Total	$ (8,118)

J. Payable from the OPEB Plan

At June 30, 2017, the OPEB plan reported a payable of $156,889 to the District. The amount is reported as a payable on the OPEB Trust Fund Statement of Fiduciary Net Position.

NOTE 8 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2017, the District implemented GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This resulted in an adjustment to the beginning net position on the Statement of Activities of $4,211,497 to add the beginning net OPEB liability.

In addition, the District approved moving student activities out from under board control. As a result, an adjustment to decrease the beginning fund balance in the General Fund on the Statement of Revenues, Expenditures, and Changes in Fund Balances and beginning net position on the Statement of Activities of $55,495.

NOTE 9 – PRIOR PERIOD ADJUSTMENT

For the year ended June 30, 2017, the District reviewed its revenue recognition policies regarding community education revenue. Now revenues are recognized during the year classes are held instead of at the time of receipt of payment. This resulted in a prior period adjustment in the nonmajor Community Service Fund of $38,316.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 750
ROCORI Schools
Schedule of Changes in Net OPEB Liability and Related Ratios

	June 30, 2017
Total OPEB Liability	
Service cost	$ 133,504
Interest	97,437
Benefit payments	(460,999)
Net change in total OPEB liability	(230,058)
Beginning of year	3,575,302
End of Year	$ 3,345,244
Plan Fiduciary Net Pension (FNP)	
Employer contributions	$ 304,110
Projected investment income	18,240
Differences between expected and actual experience	10,148
Benefit payments	(460,999)
Administrative expense	(250)
Net change in plan fiduciary net position	(128,751)
Beginning of year	1,658,166
End of year	$ 1,529,415
Net OPEB Liability	$ 1,815,829
Plan FNP as a percentage of the total OPEB liability	45.72%
Covered-employee payroll	$ 11,157,339
Net OPEB liability as a percentage of covered-employee payroll	16.27%

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

Independent School District No. 750
ROCORI Schools
Schedule of Employer Contributions - OPEB

	June 30, 2017
Actuarially determined contribution	$ 304,110
Contributions in relation to the actuarially determined contribution	304,110
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 11,157,339
Contributions as a percentage of covered-employee payroll	2.73%

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

Independent School District No. 750
ROCORI Schools
Schedule of Investment Returns

	June 30, 2017
Annual money-weighted rate of return, net of investment expense	1.68%

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

Independent School District No. 750
Schedule of District's and Non-Employer Proportionate Share (if Applicable) of Net Pension Liability
Last Ten Years GERF 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	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0540%	$ 2,536,649	$ -	$ 2,536,649	$2,833,103	89.5%	78.8%
2016	0.0500%	2,591,260	-	2,591,260	2,892,480	89.6%	78.2%
2017	0.0520%	4,222,142	55,165	4,277,307	3,225,653	130.9%	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 (if Applicable) 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	Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.1775%	$ 8,179,072	$ 575,427	$ 8,754,499	$8,101,857	101.0%	81.5%
2016	0.1632%	10,095,534	1,238,192	11,333,726	8,283,160	121.9%	76.8%
2017	0.1708%	40,739,875	4,088,266	44,828,141	8,886,520	458.4%	44.9%

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

Independent School District No. 750
Schedule of District Contributions
GERF Retirement Funds
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 205,400	$ 205,400	$ -	$ 2,833,103	7.25%
2015	216,936	216,936	-	2,892,480	7.50%
2016	241,924	241,924	-	3,225,653	7.50%
2017	254,805	254,805	-	3,397,400	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

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 567,130	$ 567,130	$ -	$ 8,101,857	7.00%
2015	621,237	621,237	-	8,283,160	7.50%
2016	666,489	666,489	-	8,886,520	7.50%
2017	742,655	742,655	-	9,902,067	7.50%

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

TRA Retirement Funds

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.

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. 750
ROCORI Schools
Combining Balance Sheet - Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Funds				
	Food Service	Community Service	Total	Post Employment Benefits Debt Service	Total Nonmajor Funds
Assets					
Cash and investments	$ 523,064	$ 107,328	$ 630,392	$ 255,606	$ 885,998
Cash with fiscal agent	-	-	-	3,311,863	3,311,863
Current property taxes receivable	-	73,877	73,877	161,901	235,778
Delinquent property taxes receivable	-	943	943	2,590	3,533
Due from Department of Education	-	33,383	33,383	469	33,852
Due from other Minnesota school districts	-	11,930	11,930	-	11,930
Inventory	70,661	-	70,661	-	70,661
Prepaid items	8,278	-	8,278	-	8,278
Total assets	$ 602,003	$ 227,461	$ 829,464	$ 3,732,429	$ 4,561,893
Liabilities					
Accounts payable	$ 1,296	$ 496	$ 1,792	$ -	$ 1,792
Salaries and benefits payable	1,188	1,070	2,258	-	2,258
Unearned revenue	27,587	45,562	73,149	-	73,149
Total liabilities	30,071	47,128	77,199	-	77,199
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	-	943	943	2,590	3,533
Property taxes levied for subsequent year's expenditures	-	149,985	149,985	328,693	478,678
Total deferred inflows of resources	-	150,928	150,928	331,283	482,211
Fund Balances					
Nonspendable	78,939	-	78,939	-	78,939
Restricted	492,993	34,163	527,156	3,401,146	3,928,302
Unassigned	-	(4,758)	(4,758)	-	(4,758)
Total fund balances	571,932	29,405	601,337	3,401,146	4,002,483
Total liabilities, deferred inflows of resources, and fund balances	$ 602,003	$ 227,461	$ 829,464	$ 3,732,429	$ 4,561,893

Independent School District No. 750
ROCORI Schools
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2017

	Special Revenue Funds				
	Food Service	Community Service	Total	Post Employment Benefits Debt Service	Total Nonmajor Funds
Revenues					
Local property taxes	$ -	$ 146,488	$ 146,488	$ 400,334	$ 546,822
Other local and county revenues	8,647	303,435	312,082	259	312,341
Revenue from state sources	124,567	194,722	319,289	4,689	323,978
Revenue from federal sources	584,005	-	584,005	-	584,005
Sales and other conversion of assets	723,797	-	723,797	-	723,797
Total revenues	1,441,016	644,645	2,085,661	405,282	2,490,943
Expenditures					
Current					
Food service	1,306,952	-	1,306,952	-	1,306,952
Community education and services	-	612,476	612,476	-	612,476
Capital outlay					
Food service	1,200	-	1,200	-	1,200
Debt service					
Principal	-	-	-	260,000	260,000
Interest and fiscal charges	-	-	-	304,710	304,710
Total expenditures	1,308,152	612,476	1,920,628	564,710	2,485,338
Excess of revenues over (under) expenditures	132,864	32,169	165,033	(159,428)	5,605
Other Financing Sources					
Bond Issuance	-	-	-	3,460,000	3,460,000
Premium on Bond Issuance	-	-	-	13,747	13,747
Total other financing sources	-	-	-	3,473,747	3,473,747
Net change in fund balances	132,864	32,169	165,033	3,314,319	3,479,352
Fund Balances					
Beginning of year	439,068	35,552	474,620	86,827	561,447
Prior period adjustment (Note 9)	-	(38,316)	(38,316)	-	(38,316)
Beginning of year, restated	439,068	(2,764)	436,304	86,827	523,131
End of year	$ 571,932	$ 29,405	$ 601,337	$ 3,401,146	$ 4,002,483

Independent School District No. 750
ROCORI Schools
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2017

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 23,109,332	$ 23,109,330	$ 2
Total expenditures		23,039,818	23,039,815	3
Nonspendable:				
460	Nonspendable fund balance	158,608	158,607	1
Restricted/Reserved:				
403	Staff Development	-	-	-
406	Health and Safety	46,010	46,010	-
407	Capital Projects Levy	-	-	-
408	Cooperative Programs	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
414	Operating Debt	-	-	-
416	Levy Reduction	-	-	-
417	Taconite Building Maintenance	-	-	-
423	Certain Teacher Programs	-	-	-
424	Operating Capital	315,421	315,421	-
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	22,975	22,975	-
440	Teacher Development and Evaluation	-	-	-
441	Basic Skills Programs	-	-	-
445	Career Technical Programs	-	-	-
448	Achievement and Integration Revenue	-	-	-
449	Safe School Crime	10,675	10,675	-
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	60,638	60,638	-
472	Medical Assistance	114,878	114,878	-
Restricted:				
464	Restricted fund balance	-	-	-
Committed:				
418	Committed for separation	208,857	208,857	-
461	Committed	-	-	-
Assigned:				
462	Assigned fund balance	496,386	496,386	-
Unassigned:				
422	Unassigned fund balance (net position)	996,694	996,693	1
02 Food Services Fund				
Total revenue		$ 1,441,016	$ 1,441,016	$ -
Total expenditures		1,308,152	1,308,151	1
Nonspendable:				
460	Nonspendable fund balance	78,939	78,938	1
Restricted/Reserved:				
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	492,993	492,994	(1)
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 644,645	$ 644,646	$ (1)
Total expenditures		612,476	612,478	(2)
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/Reserved:				
426	$25 Taconite	-	-	-
431	Community Education	2,348	2,348	-
432	ECFE	23,408	23,408	-
440	Teacher Development and Evaluations	-	-	-
444	School Readiness	2,958	2,958	-
447	Adult Basic Education	5,449	5,449	-
452	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	(4,758)	(4,759)	1

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
460	Nonspendable Fund Balance	-	-	-
Restricted/Reserved:				
407	Capital Projects Levy	-	-	-
413	Building Projects Funded by COP	-	-	-
467	LTFM	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 2,311,955	$ 2,311,954	$ 1
Total expenditures		2,753,714	2,753,712	2
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/Reserved:				
425	Bond refunding	24,426,566	24,426,566	-
451	QZAB and QSCB payments	-	-	-
Restricted:				
464	Restricted fund balance	471,101	471,102	(1)
Unassigned:				
463	Unassigned fund balance	-	-	-
08 Trust Fund				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
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		$ 28,388	$ 28,388	$ -
Total expenditures		157,139	157,139	-
Unassigned:				
422	Unassigned fund balance (net position)	1,529,414	1,529,415	(1)
47 OPEB Debt Service				
Total revenue		$ 405,282	$ 405,283	$ (1)
Total expenditures		564,710	564,710	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted:				
425	Bond refundings	3,311,863	3,311,863	-
464	Restricted fund balance	89,283	89,282	1
Unassigned:				
463	Unassigned fund balance	-	-	-

Independent School District No. 750
ROCORI Schools
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
Through Minnesota Department of Education			
Department of Agriculture	10.553	School Breakfast Program	$ 116,579
Department of Agriculture	10.555	Commodities Programs	6,774
Department of Agriculture	10.555	Commodities Programs (Noncash Assistance)	144,449
Department of Agriculture	10.555	Child Nutrition Type A Lunch	315,885
Department of Agriculture	10.556	Special Milk	318
		Total Child Nutrition Cluster	584,005
Department of Education	84.010	Title I, Part A	256,402
Department of Education	84.365	Title III, Part A - English Language Acquisition	18,565
Department of Education	84.367	Title II, Part A - Improving Teacher Quality	56,783
Through Wright Technical Center District No. 966			
Department of Education	84.048A	Carl Perkins	9,044
Through Benton Stearns Education District			
Department of Education	84.027	Special Education	246,814
		Total Federal Expenditures	$ 1,171,613

The notes to the schedule of expenditures of federal awards are an integral part of this statement.

Independent School District No. 750
Notes to 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 basic 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.

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. 750
ROCORI Schools
Cold Spring, 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. 750, Cold Spring, 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 September 29, 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.

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

Internal Control over Financial Reporting

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We identified a certain deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency in internal control which is listed as audit finding 2001-001.

Compliance and Other Matters

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
September 29, 2017

bergankdv

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. 750
ROCORI Schools
Cold Spring, Minnesota

Report on Compliance for Each Major Federal Program
We have audited Independent School District No. 750, Cold Spring, Minnesota 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 Costs, in Accordance with the Uniform Guidance.

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

BerganKDV, Ltd.
bergankdv.com

Opinion on Each Major Federal Program
In our opinion, Independent School District No. 750 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.

St. Cloud, Minnesota
September 29, 2017

Independent School District No. 750
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?	No
• Significant deficiency(ies) identified?	Yes, Audit Findings 2001-001
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

CFDA No.:	10.553, 10.555, 10.556
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?	Yes

Independent School District No. 750
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2001-001 – 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.

Condition:
During the year ended June 30, 2017, the District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the School Board, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

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 initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

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.

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2001-001 – Lack of Segregation of Accounting Duties (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
   Internal control is always a consideration when duties within the District Office are assigned. Steps are being taken to have more internal control in receipting deposits and issuing payments. The District Office will review the job duties of the office staff to improve the internal controls of the District.

3. Official Responsible for Ensuring CAP
   Scott Staska, 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

There were no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None

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Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 750
ROCORI Schools
Cold Spring, 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. 750, Cold Spring, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated September 29, 2017.

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

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
September 29, 2017

BerganKDV, Ltd.
bergankdv.com