Independent School District No. 47
Sauk Rapids, Minnesota

Financial Statements

June 30, 2017

bergan KDV
CPAS | ADVISORS

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Independent School District No. 47
Board of Education and Administration
June 30, 2017

Board of Education	Position	Term Expires
Mark Hauck	Chairperson	December 31, 2020
Phillip Rogholt	Vice Chairperson	December 31, 2018
Lisa Braun	Clerk	December 31, 2018
Robyn Holthaus	Treasurer	December 31, 2018
Ryan Butkowski	Director	December 31, 2020
Tracy Morse	Director	December 31, 2020
Jan Solarz	Director	December 31, 2020

Administration	
Daniel Bittman	Superintendent
Kim Eisenschenk	Business Manager
JoAnn Landwehr	Business Office Coordinator

Independent Auditor's Report

To the School Board
Independent School District No. 47
Sauk Rapids, 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. 47, Sauk Rapids, 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.

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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. 47, Sauk Rapids, 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.

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 the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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 October 30, 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
October 30, 2017

Independent School District No. 47
Management's Discussion and Analysis

As management of Independent School District No. 47 Sauk Rapids-Rice Schools (the "District"), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. All amounts, unless otherwise indicated, are expressed in thousands of dollars. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the Management's Discussion and Analysis (MD&A).

Financial Summary

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by $12,801 (net position).

- The District's total net position decreased by $4,023. The decrease was the result of a significant increase in the district's net pension liability as of June 30, 2017. At the end of the last reporting period June 30, 2016 the District's net pension liability was $26,488. At the end of the current reporting period, June 30, 2017, the net pension liability rose to $92,107. Although this is a significant increase, the volatility of the liability is based, in part, on the market value of the pension assets during the measurement period. The district does not have control of the pension funds but is required to contribute to both the Teachers Retirement Association and the Public Employee Retirement Association. In the past, this liability was reported by the State of Minnesota agencies, but a change in accounting principle now requires the proportionate share of the liability to be disclosed on the individual entities financial statements.

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $33,417 an overall increase of $3,738. This increase was made up several different components. The unassigned fund balance in the General Fund increased by $2,614. Increases were also noted in the General Fund, committed, and assigned fund balance categories. These improvements were mainly due to increases in state funding and student enrollment; additional dollars committed to fund severance payments in future years, as well as increases in a fund balance that provides for department carryover funds and third party special education revenue that will be used for future special education related personnel additions. The District again experienced an increase in student growth, which provided additional revenue in the form of General Education Aid. This additional revenue, combined with an increase in special education revenue, allowed the General Fund balance to increase by $3,548. The combined other nonmajor funds and the debt service fund also experienced increases over the balances from a year ago.

- At the end of the current fiscal year, the unassigned fund balance for the General Fund was $18,651, which equates to 41.25% of total General Fund expenditures and is equivalent to slightly less than five months of operating expenditures. Although the unassigned fund balance increased by $2,614, the projected increase is earmarked to; continue to meet referendum promises made to the community, fund new staffing positions and support our Districtwide technology initiative designed to provide equal access and opportunity to all Sauk Rapids-Rice students.

Financial Summary (Continued)

- The General Fund includes a committed fund balance for severance payments in the amount of $2,468, which increased by $164 this fiscal year. The District plans to fully fund its severance liability by building up this committed fund balance account with the intent to fund future severance payments from this commitment (see Note 6).

OVERVIEW OF THE FINANCIAL STATEMENTS

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related net cash flows. Thus, revenues and expenses are reported in the Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave, pension obligations).

The government-wide financial statements distinguish functions of the District that are principally supported by state aid-formula, grants, and local property taxes. The governmental activities include general school operations, food service operations, community service operations, and capital projects. The government-wide financial statements can be found on pages 20 and 21 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated from specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds

Governmental funds are used to account for basic services and serve essentially the same function as those reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Governmental Funds (Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds can be found on page 25 of this report. In addition, the Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds can be found on page 23 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds and is handled on the accrual-basis accounting method as well.

The basic fiduciary fund financial statements can be found on page 27 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 29 to 61 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a district's financial position. In the case of the District, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by $12,801 at the close of the most recent fiscal year (see Table A-1); this was a decrease of $4,023 over the previous year due to an increase in the net pension liability reported from year over year. This fluctuation comes as a result of changes in actuarial assumptions on pension plans which had a dramatic effect on the District's net position this fiscal year.

The largest portion of the District's assets is reflected in its investment in capital assets (e.g., land, buildings, and equipment). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The current fiscal year marked an increase in the state funded per pupil unit general education formula allowance. The District did take advantage of local optional revenue provided by the legislature. This funding source, made up of both a levy and an aid component, provided additional funds for district use. This revenue source along with an ongoing operating referendum has provided the District financial stability so that it will be able to focus on aligning class sizes and restoring other areas previously reduced during significant budget cuts. In the last ten years, General Fund revenues exceeded expenditures, fund balance has improved, and enrollment continues to increase.

Although the General Fund, fund balance increased at the end of each of the last ten fiscal years, the District still finds itself particularly dependent on the State of Minnesota and its economic condition. Changes made during a legislative session can have a significant impact on the District's cash flow situation. As the State Legislature has attempted in the past to balance the state budget, they have chosen to borrow from school districts to meet their cash flow obligations. This action, taken by the State of Minnesota, has in turn forced school districts to either borrow to fulfill local cash flow needs, or maintain higher fund balances to meet cash flow obligations, in case the State of Minnesota chooses to borrow from districts. Fortunately in recent years, the District has maintained sufficient cash flow reserves so that it has not had to borrow funds to meet its financial obligations. Currently the aid shift is at a ratio of 90.0/10.0%, the minimum statutory shift set forth in law. During the peak of the State's economic downturn, the aid shift was being funded at a 64.3%/35.7% level. As a result, the District has worked diligently to keep fund balance at an adequate level to ensure it would not have to borrow in tough economic times.

In previous years, the District found itself having difficulty providing similar programing compared to other neighboring Districts and as a result sought voter approved operating referendum authority, which was approved in November 2012. This referendum funding was used to add back programs and services that were lost in previous budget reductions and provide stability to the budget as promised to resident tax-payers. The referendum promises made were to; protect District programs from further reductions, preserve student course offerings, restore bus transportation for all district resident students, and improve class-size ratios where and when possible. The District also remains committed to improving and maintaining technology District wide. Currently the District has fully implemented its phased 1:1 technology plan and it remains committed to continue to fund this important District wide initiative. The initiative was designed to provide equal access and opportunity for all students by providing technology devices from early childhood through graduation for Sauk Rapids-Rice students. On-going lease costs will now be budgeted for, and funded, from the Districts fund balance reserves on an annual basis.

These significant events have resulted in the following:

- The District has ensured it financial stability by planning to increase fund balance in the current year to adequate levels allowing it to be able to withstand the volatility of the District's major funding source, the State of Minnesota. This fund balance will allow the District to focus on achieving and maintaining referendum promises made to tax-payers upon the successful operating referendum vote in November 2012.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

- The District is in the midst of fulfilling referendum promises made to taxpayers by continuing to provide the following; bus transportation to all resident students, adding back programs when possible and adding additional staff in a measured way to maintain and lower class sizes when able. The District has also made a commitment to preserving and enhancing current programing with referendum and local optional revenue funds and has worked diligently and thoughtfully in a measured way over the last five years to do so. The Sauk Rapids-Rice Middle School model was reviewed and changes were implemented during the current fiscal year that resulted in four additional staff positions. This change was also planned as a phased in approach with an additional four staff positions planned to be added in the next fiscal year as well. The District remains committed to fulfilling promises to the community and providing the best education for students.

- Technology infrastructure improvements and our 1:1 technology initiative have been fully implemented and sustainability of these programs are ongoing.

Statement of Net Position
As of June 30, 2017
Table A-1

	Governmental Activities		Total Percentage Change
	2017	2016	2017-2016
Assets			
Total current assets	$ 48,092	$ 44,154	8.92%
Total capital assets	59,577	60,614	-1.71%
Total assets	107,669	104,768	2.77%
Deferred Outflows of Resources	57,582	5,211	1005.01%
Total assets and deferred outflows of resources	$ 165,251	$ 109,979	50.26%
Liabilities			
Current liabilities	$ 11,308	$ 11,421	-0.99%
Long-term liabilities	130,776	69,681	87.68%
Total liabilities	142,084	81,102	75.19%
Deferred Inflows of Resources	10,366	12,053	-14.00%
Net Position			
Net investment in capital assets	16,651	13,544	22.94%
Restricted amounts	6,766	5,842	15.82%
Unrestricted amounts	(10,616)	(2,562)	314.36%
Total net position	12,801	16,824	-23.91%
Total liabilities, deferred inflows of resources, and net position	$ 165,251	$ 109,979	50.26%

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The District's combined total position was $165,251 on June 30, 2017. This was an increase of 50.26% over the prior year (see table A-1). This increase in total assets and liabilities was mainly due to increased deferred outflows of resources and an increase in Long-term liabilities as the result of fluctuations in pension valuations and its accounting effects on the district wide financial statements. Increased enrollment, an increase in the formula allowance for General Education, and increases in Special Education funding contributed to the overall increase in current assets of 8.92% over the prior year while total current liabilities have decreased. Pension accounting valuations are having a dramatic effect on the Statement of Net Position. Pensions are funded and paid out over long periods of time and therefore are accounted for under the long-term liability section of the district wide statements. They are also subject to substantial movements of the financial markets in which those funds are invested. Although the district is required to report these changes for transparency, the district does not maintain any control over those assets nor the investment vehicles they are invested in, as that is a function of the state pension boards. See note 7 for more details.

Governmental Activities

Governmental activities decreased the District's net position by $4,023. Pension fluctuations on a state wide basis is contributing to this decrease. With an increase in both enrollment and the per pupil formula allowance, revenues have surpassed expenditures again in the current year, improving the District's net position exclusive of pension liability reporting.

The District maintains five individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Change in Fund Balances for the General Fund and the Debt Service Fund, of which both are considered to be major funds. Data from the other three funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the supplementary information section of this report beginning on page 70.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The following Table A-2 presents the change in net position of the District:

Change in Net Position
Table A-2

	Governmental Activities for the Fiscal Year Ended June 30, 2017	Governmental Activities for the Fiscal Year Ended June 30, 2016	Total Percentage Change 2017-2016
Revenues			
Program revenues			
Charges for services	$ 4,064	$ 3,753	8.29%
Operating grants and contributions	13,957	12,340	13.10%
Capital grants and contributions	1,265	776	63.02%
General revenues			
Property taxes	8,290	8,773	-5.51%
State aid-formula grants	30,339	28,759	5.49%
Other	331	368	-10.05%
Investment income	253	103	145.63%
Total revenues	58,499	54,872	6.61%
Expenditures			
Administration	2,394	1,573	52.19%
District support services	1,695	1,392	21.77%
Elementary and secondary regular education	23,780	16,787	41.66%
Vocational education instruction	709	570	24.39%
Special education instruction	12,557	8,636	45.40%
Instructional support services	3,875	3,043	27.34%
Pupil support services	5,707	4,249	34.31%
Sites and buildings	4,782	4,608	3.78%
Fiscal and other fixed cost programs	124	126	-1.59%
Food service	2,399	2,212	8.45%
Community service	1,549	1,155	34.11%
Unallocated depreciation	1,859	1,841	0.98%
Interest and fiscal charges on long-term debt	1,092	2,154	-49.30%
Total expenditures	62,522	48,346	29.32%
Increase in net position	(4,023)	6,526	-161.65%
Beginning of year net position	16,824	10,298	63.37%
Ending of year net position	$ 12,801	$ 16,824	-23.91%

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The decrease in net position is a result of the District's pension plan recognition for the fiscal year ended June 30, 2017.

The District's total revenues were $58,499 for the year ended June 30, 2017. Property taxes and state aids accounted for 14% and 52%, respectively, of total revenues. For the fiscal year ended June 30, 2017, the overall percentage of revenue funds received from state aid has remained similar to the previous year. (see Figure A-1).

The total costs of all programs and services were $62,522. Most of these costs are instruction and pupil support services, 66% and 9%, respectively (see Figure A-2).

Figure A-1 Sources of District's Revenues for Fiscal 2017

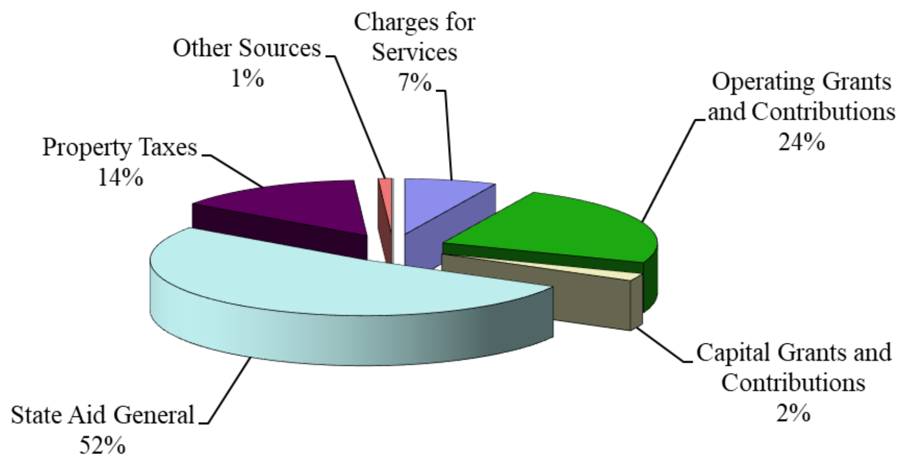
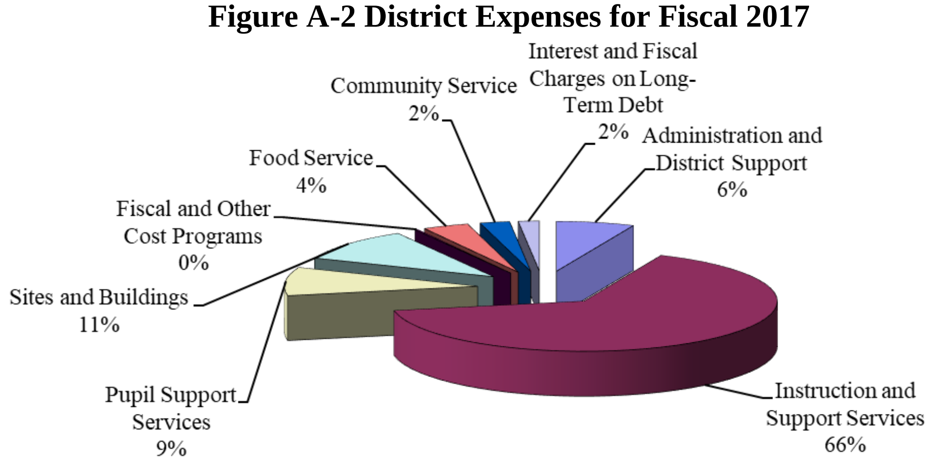


Figure A-2 District Expenses for Fiscal 2017



GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

The significant changes in the Statement of Activities are as follows:

- Operating Grants and contributions increased by $1,617 from the prior year, while state aid-formula grant revenue increased from by $1,580, property tax revenue decreased by $483 while investment income increased by $150. These changes are partially the result of increased enrollment, an increase in the per-pupil formula allowance and changes in special education funding.

- In 2016-2017, the District added additional positions in elementary and secondary regular instruction, special education instruction, and the pupil support services areas and the overall cost for services also rose during the year. additional programing continues to provide resources for students in many educational areas and the district is enhancing programming and reducing class sizes where and when possible. As the District continues to grow, an investment in administration and district support services was also required to meet student and family needs.

- The District refunded the one remaining debt service obligation during the 2015-2016 school year and as a result interest and fiscal charges have now decreased as a result. This refunding will provide tax relief for District property owners over the remaining life of the bond obligation.

Table A-3 presents the total cost of governmental activities as well as the net cost of those activities. The net cost represents total cost less program revenues applicable in each category.

Net Cost of Governmental Activities
Table A-3

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2017	2016	2017-2016	2017	2016	2017-2016
Administration	$ 2,394	$ 1,573	52.19%	$ 2,394	$ 1,573	52.19%
District Support Services	1,695	1,392	21.77%	1,695	1,392	21.77%
Elementary and Secondary Regular Education	23,780	16,787	41.66%	19,996	13,152	52.04%
Vocational Education Instruction	709	570	24.39%	709	570	24.39%
Special Education Instruction	12,557	8,636	45.40%	5,725	3,177	80.20%
Instructional Support Services	3,875	3,043	27.34%	2,171	1,472	47.49%
Pupil Support Services	5,707	4,249	34.31%	3,504	2,096	67.18%
Sites and Buildings	4,782	4,608	3.78%	3,517	3,832	-8.22%
Fiscal and Other Fixed Cost Programs	124	126	-1.59%	124	126	-1.59%
Food Service	2,399	2,212	8.45%	(75)	(180)	-58.33%
Community Service	1,549	1,155	34.11%	526	272	93.38%
Depreciation - Unallocated	1,859	1,841	0.98%	1,859	1,841	0.98%
Interest and Fiscal Charges on Long-Term Debt	1,092	2,154	-49.30%	1,092	2,154	-49.30%
Total	$ 62,522	$ 48,346	29.32%	$ 43,237	$ 31,477	37.36%

In addition, GASB Statement No. 34 requires certain revenues and expenses to be recognized in order to show a full accrual statement. The Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds is shown on page 25 and shows a net change in assets of $4,023.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a district's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $33,417, an increase of $3,738 in comparison with the prior year. Of the total remaining fund balance, $18,651 constitutes unassigned fund balance, which is available for spending at the District's discretion. The remaining fund balance has been designated as committed for severance $2,468 assigned; $271 for student activities, $1,569 for third party medical assistance, and $2,975 for budget carryovers. The remainder of fund balance is either nonspendable, $112 which included inventory and prepaid items already committed to for use in the next fiscal year or restricted which indicates that it is not available for new spending because it has already been committed to 1) pay debt service $1,221, 2) complete health and safety projects, operating capital projects as well as all other restrictions required by the State of Minnesota $4,949 and 3) pay for community education, food service, and early childhood and family education programs $1,201.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12 and beyond, including transportation services and capital outlay projects.

General Fund revenues are outlined in Table A-4 below:

Summary of General Fund Revenues
Table A-4

	June 30, 2017	June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property taxes	$ 3,721	$ 3,656	$ 65	1.78%
Other	2,803	2,653	150	5.65%
State sources	41,011	38,351	2,660	6.94%
Federal sources	1,143	946	197	20.82%
Sales and other conversion of assets	98	54	44	81.48%
Total General Fund revenue	$ 48,776	$ 45,660	$ 3,116	6.82%

Total General Fund revenue increased by $3,116, or 6.82%, from the previous year. The main reason for the increase was due to additional enrollment, the per-pupil formula increase over the previous year, and changes in special education funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED

General Fund (Continued)

General Fund Expenditures are itemized in Table A-5:

Summary of General Fund Expenditures
Table A-5

	Year Ended June 30, 2017	Year Ended June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 26,688	$ 24,254	$ 2,434	10.04%
Employee benefits	7,113	6,904	209	3.03%
Purchased services	5,881	5,577	304	5.45%
Supplies, material, and equipment	5,031	5,055	(24)	-0.47%
Other expenditures	496	382	114	29.84%
Total expenditures	$ 45,209	$ 42,172	$ 3,037	7.20%

Total General Fund expenditures increased by $3,037, or 7.20% over the prior year.

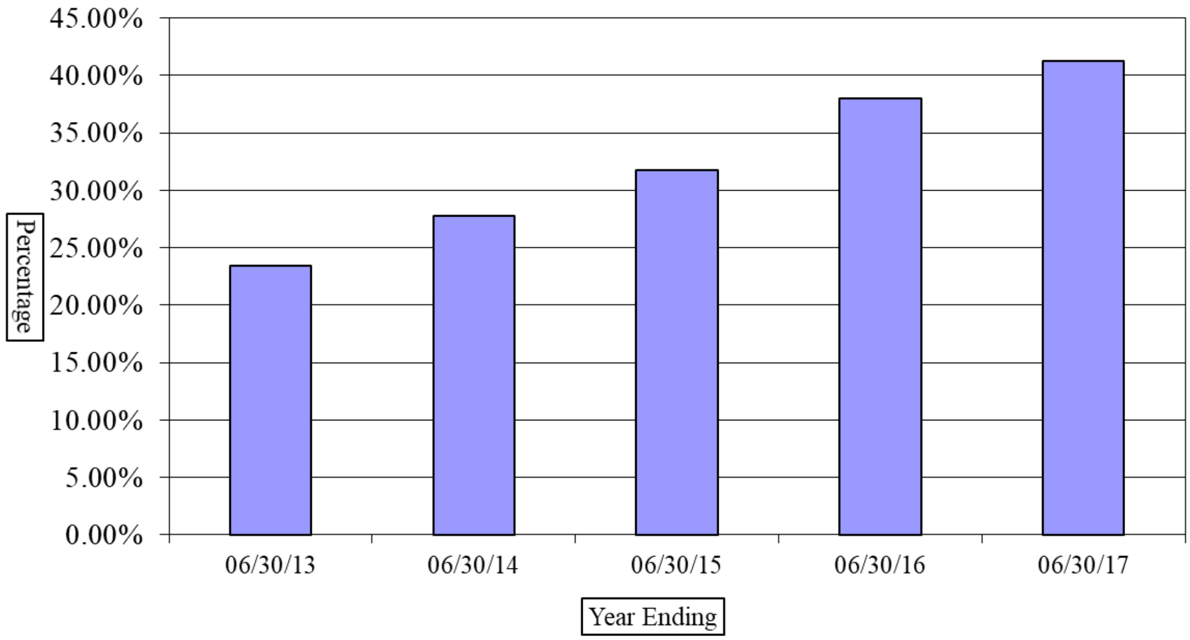
The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund increased to $18,651, while the total General Fund, fund balance moved to $30,977. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total General Fund, fund balance to total General Fund expenditures. Unassigned fund balance represents 41.26% of total General Fund expenditures, while total fund balance represents 68.52% of that same amount.

The fund balance of the District's General Fund increased by $3,548 during the current fiscal year. The key factors resulting in the increase are listed previously in this narrative in the governmental activities section and can be summarized by the following 1) additional operating referendum revenue, 2) additional students being served by the District combined with an increase in the per-pupil formula allowance from the state, and 3) funding of the committed fund balance for future severance payments.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

General Fund
Unassigned – Fund Balance as
a Percentage of Expenditures
Figure A-3



See Figure A-3 for the recent history of unassigned fund balance as a percentage of expenditures. Over the last five years, the unassigned fund balance has continued to increase to adequate levels which will allow the district to withstand volatility in difficult economic times. Fund balance had been at an all-time low in 2006-2007, however, due to large budget cuts in 2007-2008 and 2008-2009, increases in student enrollment, additional state funding and a successful operating referendum vote in November 2012, the unassigned fund balance has rebounded to a level where the district can maintain programs, restore programs previously cut and begin new initiatives that will be sustainable in the future.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District investment in capital assets for its governmental activities equates to $59,577 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery, and equipment (see Table A-6). Additional information on capital assets can be found in Note 3 of this report.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

Capital Assets - Governmental Activities
Table A-6

	2017	2016	Total Percent Change 2017-2016
Land and land improvements	$ 6,640	$ 6,640	0.00%
Construction in progress	471	152	209.87%
Buildings	82,096	81,625	0.58%
Equipment	7,236	6,864	5.42%
Less accumulated depreciation	(36,866)	(34,666)	6.35%
Total	$ 59,577	$ 60,615	-1.71%

A major capital asset event during the current fiscal year included the following:

- The District has begun to replace roofing and investing in other building system improvements. As the District now qualifies for long-term facility maintenance (LTFM) revenue for the first time in 2016-2017, roofing and other building projects were underway at the end of the 2016-2017 school year as can be noted in Table A-6 under construction in progress. These projects are planned for in a ten year facilities/maintenance plan and will help the District continue to maintain and improve existing facilities over the course of time.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of $42,468. The District only has one debt obligation. This bond was refunded in 2015-2016 and will result in considerable taxpayer savings over the life of the General Obligation Building bond (see Table A-7). Additional information on long-term debt can be found in Note 5 of this report.

Outstanding Long-Term Liabilities
Table A-7

	Total School District		Total Percent Change
	2017	2016	2017-2016
G. O. Bonds payable	$ 36,070	$ 38,960	-7.42%
Capital lease obligations	914	1,653	-44.71%
Premium/issuance costs	5,129	5,709	-10.16%
Compensated absences and severance payable	339	345	-1.74%
Special assessments	16	36	-55.56%
Total	$ 42,468	$ 46,703	-9.07%

The District implemented GASB Statement No. 45 in the fiscal year ended June 30, 2009. The District's net other post-employment benefits (OPEB) obligation at the end of the year was $565. Details of the District's OPEB obligation can be found in Note 8 on page 60 of this report.

State Economic Factors and Next Year's Budget

- The budget for the 2017-2018 fiscal year was completed using the latest funding information available from the State Legislature at the time of the adoption of the budget, which occurred prior to June 30, 2017.
- Estimates of changes in contract settlements were taken into consideration in the budget development process. The majority of employee contracts are currently settled for the upcoming years.
- Anticipated increases in the cost of operation of all facilities were taken into consideration in the budget development process.
- A budget revision will be done mid-year to reflect all known and anticipated changes to the budget as of that date.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Independent School District No. 47 Sauk Rapids-Rice Schools, Attention: Business Manager, 1833 Osauka Road, Sauk Rapids, Minnesota, 56379.

BASIC FINANCIAL STATEMENTS

Independent School District No. 47
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	$ 37,427,561
Current property taxes receivable	4,038,626
Delinquent property taxes receivable	247,483
Accounts receivable	108,451
Interest receivable	2,885
Due from Department of Education	4,816,519
Due from Federal Government through Department of Education	455,147
Due from other Minnesota school districts	883,184
Inventory	16,456
Prepaid items	95,187
Capital assets not being depreciated	
Land	853,206
Construction in progress	470,788
Capital assets less: accumulated depreciation	
Buildings	82,096,185
Land improvements	5,786,491
Equipment	7,236,676
Less accumulated depreciation	(36,865,998)
Total assets	107,668,847
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	57,581,931
Total assets and deferred outflows of resources	$ 165,250,778
Liabilities	
Accounts payable	$ 213,195
Contracts payable	411,090
Salaries and benefits payable	4,929,999
Interest payable	729,445
Due to other Minnesota school districts	557,033
Due to other governmental units	1,104
Unearned revenue	101,837
Bond principal payable, net of premium	
Payable within one year	3,460,000
Payable after one year	37,739,213
Capital lease payable	
Payable within one year	614,205
Payable after one year	299,827
Special assessment payable	
Payable within one year	11,452
Payable after one year	4,860
Compensated absences payable	
Payable within one year	278,777
Payable after one year	59,791
Severance payable	
Other post employment benefits (OPEB) payable	565,112
Net pension liability	92,106,771
Total liabilities	142,083,711
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	8,309,945
Deferred inflows of resources related to gain on refunding	1,243,975
Deferred inflows of resources related to pensions	812,436
Total deferred inflows of resources	10,366,356
Net Position	
Net investment in capital assets	16,651,415
Restricted for	
Debt service	592,195
Other purposes	6,173,575
Unrestricted	(10,616,474)
Total net position	12,800,711
Total liabilities, deferred inflows of resources, and net position	$ 165,250,778

See notes to financial statements.

Independent School District No. 47
Statement of Activities
Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	$ 2,393,557	$ -	$ -	$ -	$ (2,393,557)
District support services	1,694,765	-	-	-	(1,694,765)
Elementary and secondary regular instruction	23,780,406	1,884,450	1,900,658	-	(19,995,298)
Vocational education instruction	709,443	-	-	-	(709,443)
Special education instruction	12,556,513	350,588	6,480,953	-	(5,724,972)
Instructional support services	3,875,270	90,685	1,613,883	-	(2,170,702)
Pupil support services	5,706,717	86,500	2,116,623	-	(3,503,594)
Sites and buildings	4,781,981	-	-	1,264,912	(3,517,069)
Fiscal and other fixed cost programs	124,431	-	-	-	(124,431)
Food service	2,398,509	1,112,953	1,360,477	-	74,921
Community education and services	1,548,991	538,321	484,484	-	(526,186)
Unallocated depreciation	1,859,178	-	-	-	(1,859,178)
Interest and fiscal charges on long-term debt	1,092,270	-	-	-	(1,092,270)
Total governmental activities	$ 62,522,031	$ 4,063,497	$ 13,957,078	$ 1,264,912	(43,236,544)
	General revenues				
	Taxes				
	Property taxes, levied for general purposes				3,718,451
	Property taxes, levied for community service				246,052
	Property taxes, levied for debt service				4,325,321
	State aid-formula grants				30,339,340
	Other general revenues				330,995
	Investment income				252,862
	Total general revenues				39,213,021
	Change in net position				(4,023,523)
	Net position - beginning				16,824,234
	Net position - ending				$ 12,800,711

See notes to financial statements.

Independent School District No. 47
Balance Sheet - Governmental Funds
June 30, 2017

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
Assets				
Cash and investments	$ 32,602,814	$ 3,518,327	$ 1,306,420	$ 37,427,561
Current property taxes receivable	1,742,916	2,171,619	124,091	4,038,626
Delinquent property taxes receivable	92,930	145,980	8,573	247,483
Accounts receivable	102,680	-	5,771	108,451
Interest receivable	2,885	-	-	2,885
Due from Department of Education	4,718,445	49,545	48,529	4,816,519
Due from Federal Government through Department of Education	455,147	-	-	455,147
Due from other Minnesota school districts	733,184	-	150,000	883,184
Inventory	-	-	16,456	16,456
Prepaid items	93,814	-	1,373	95,187
Total assets	$ 40,544,815	$ 5,885,471	$ 1,661,213	$ 48,091,499
Liabilities				
Accounts payable	$ 204,946	$ -	$ 8,249	$ 213,195
Contracts payable	411,090	-	-	411,090
Salaries and benefits payable	4,807,601	-	122,398	4,929,999
Due to other Minnesota school districts	557,033	-	-	557,033
Due to other governmental units	1,104	-	-	1,104
Unearned revenue	54,836	-	47,001	101,837
Total liabilities	6,036,610	-	177,648	6,214,258
Deferred Inflows of Resources				
Unavailable revenue - delinquent property taxes	54,893	90,205	5,563	150,661
Property taxes levied for subsequent year's expenditures	3,476,447	4,574,145	259,353	8,309,945
Total deferred inflows of resources	3,531,340	4,664,350	264,916	8,460,606
Fund Balances				
Nonspendable	93,814	-	17,829	111,643
Restricted	4,949,363	1,221,121	1,200,820	7,371,304
Committed	2,467,667	-	-	2,467,667
Assigned	4,815,200	-	-	4,815,200
Unassigned	18,650,821	-	-	18,650,821
Total fund balances	30,976,865	1,221,121	1,218,649	33,416,635
Total liabilities, deferred inflows of resources, and fund balances	$ 40,544,815	$ 5,885,471	$ 1,661,213	$ 48,091,499

See notes to financial statements.

Independent School District No. 47
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2017

Total fund balances - governmental funds	$ 33,416,635
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	96,443,346
Less accumulated depreciation	(36,865,998)
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	(36,070,000)
Capital lease payable	(914,032)
Special assessment payable	(16,312)
Unamortized premium	(5,129,213)
Compensated absences payable	(338,568)
OPEB payable	(565,112)
Net pension liability	(92,106,771)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	57,581,931
Deferred inflows of resources related to pensions	(812,436)
Refunding gains are recognized when received in the governmental funds but amortized over the life of the debt in the Statement of Activities.	(1,243,975)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	150,661
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(729,445)
Total net position - governmental activities	$ 12,800,711

See notes to financial statements.

Independent School District No. 47
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
Revenues				
Local property taxes	$ 3,720,757	$ 4,373,354	$ 247,913	$ 8,342,024
Other local and county revenues	2,803,694	17,984	641,547	3,463,225
Revenue from state sources	41,010,711	495,574	682,699	42,188,984
Revenue from federal sources	1,143,480	-	1,142,305	2,285,785
Sales and other conversion of assets	97,812	-	1,112,953	1,210,765
Total revenues	48,776,454	4,886,912	3,827,417	57,490,783
Expenditures				
Current				
Administration	1,721,937	-	-	1,721,937
District support services	1,766,801	-	-	1,766,801
Elementary and secondary regular instruction	17,121,677	-	-	17,121,677
Vocational education instruction	565,080	-	-	565,080
Special education instruction	9,314,219	-	-	9,314,219
Instructional support services	3,066,249	-	-	3,066,249
Pupil support services	4,727,332	-	655	4,727,987
Sites and buildings	4,199,314	-	-	4,199,314
Fiscal and other fixed cost programs	124,431	-	-	124,431
Food service	-	-	2,261,109	2,261,109
Community education and services	-	-	1,180,077	1,180,077
Capital outlay				
Administration	1,052	-	-	1,052
District support services	59,090	-	-	59,090
Elementary and secondary regular instruction	135,299	-	-	135,299
Special education instruction	384	-	-	384
Instructional support services	114,663	-	-	114,663
Pupil support services	71,859	-	-	71,859
Sites and buildings	1,454,499	-	-	1,454,499
Food service	-	-	115,296	115,296
Community education and services	-	-	278	278
Debt service				
Principal	738,798	2,690,000	-	3,428,798
Interest and fiscal charges	26,667	2,296,353	-	2,323,020
Total expenditures	45,209,351	4,986,353	3,557,415	53,753,119
Excess of revenues (under) expenditures	3,567,103	(99,441)	270,002	3,737,664
Other Financing Sources (Uses)				
Transfers in	-	-	19,000	19,000
Transfers out	(19,000)	-	-	(19,000)
Total other financing sources (uses)	(19,000)	-	19,000	-
Net change in fund balances	3,548,103	(99,441)	289,002	3,737,664
Fund Balances				
Beginning of year	27,428,762	1,320,562	929,647	29,678,971
End of year	$ 30,976,865	$ 1,221,121	$ 1,218,649	$ 33,416,635

See notes to financial statements.

Independent School District No. 47
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	$ 3,737,664
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	1,186,946
Depreciation expense	(2,218,269)
Disposal of capital assets	(5,840)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	6,940
OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(152,951)
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.	3,648,060
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.	507,296
Proceeds from the issuance of the capital lease are recognized as an other financing share in the governmental funds but as a liability in the Statement of Net Position.	
Bond premiums and deferred charges on refunding's are amortized on the Statement Activities, whereas governmental fund record the entire amount at the time of issuance.	726,296
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(11,407,465)
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.	(52,200)
Change in net position - governmental activities	$ (4,023,523)

Independent School District No. 47
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 3,750,774	$ 3,728,738	$ 3,720,757	$ (7,981)
Other local and county revenues	2,398,850	2,226,537	2,803,694	577,157
Revenue from state sources	37,536,031	40,916,228	41,010,711	94,483
Revenue from federal sources	693,849	745,653	1,143,480	397,827
Sales and other conversion of assets	-	48,413	97,812	49,399
Total revenues	44,379,504	47,665,569	48,776,454	1,110,885
Expenditures				
Current				
Administration	1,628,648	1,736,939	1,721,937	(15,002)
District support services	3,307,901	2,263,166	1,766,801	(496,365)
Elementary and secondary regular instruction	17,301,681	18,859,178	17,121,677	(1,737,501)
Vocational education instruction	462,171	362,735	565,080	202,345
Special education instruction	9,156,670	10,726,330	9,314,219	(1,412,111)
Instructional support services	2,427,009	3,679,316	3,066,249	(613,067)
Pupil support services	4,149,625	4,792,071	4,727,332	(64,739)
Sites and buildings	3,659,847	3,848,616	4,199,314	350,698
Fiscal and other fixed cost programs	485,000	485,000	124,431	(360,569)
Capital outlay				
Administration	-	-	1,052	1,052
District support services	-	-	59,090	59,090
Elementary and secondary regular instruction	15,000	32,500	135,299	102,799
Special education instruction	93,055	93,055	384	(92,671)
Instructional support services	-	150,000	114,663	(35,337)
Pupil support services	152,853	342,298	71,859	(270,439)
Sites and buildings	1,336,092	1,338,023	1,454,499	116,476
Debt service				
Principal	746,738	770,798	738,798	(32,000)
Interest and fiscal charges	60,841	59,456	26,667	(32,789)
Total expenditures	44,983,131	49,539,481	45,209,351	(4,330,130)
Excess of revenues over (under) expenditures	(603,627)	(1,873,912)	3,567,103	5,441,015
Other Financing Sources				
Transfers out	(19,000)	(19,000)	(19,000)	-
Net change in fund balances	$ (622,627)	$ (1,892,912)	3,548,103	$ 5,441,015
Fund Balances				
Beginning of year			27,428,762	
End of year			$ 30,976,865	

Independent School District No. 47
Statement of Fiduciary Net Position
June 30, 2017

	Agency Fund	Private Purpose Trust Fund
Assets		
Current		
Cash and cash equivalents	$ 190,780	$ 45,906
Liabilities		
Accounts payable	$ 190,780	$ -
Net position		
Held in trust for scholarships		$ 45,906

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

	Private purpose trust fund
Additions	
Contributions	$ 3,844
Investment income	173
Total additions	4,017
Deductions	
Program Expense	2,041
Scholarships	1,710
Total deductions	3,751
Change in net position	266
Net Position	
Beginning of year	45,640
End of year	$ 45,906

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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 seven member board elected by the voters of the District to serve four-year terms.

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

A. Reporting Entity

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

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

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

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

1. Joint Powers Agreement

The District has entered into a joint powers agreement to form the Central Minnesota Area Learning Center (ALC). Other member school districts include Independent School District No. 51, Foley; Independent School District No. 738, Holdingford; Independent School District No. 739, Kimball; Independent School District No. 742, St. Cloud and Independent School District No. 748, Sartell. The agreement establishes an area learning center to provide, by cooperative effort, increased educational opportunities for member students.

The agreement establishes a Joint Powers ALC Board, which consists of one representative appointed by each member district school board. Each district is entitled to one vote. Independent School District No. 742, St. Cloud, has been identified as the fiscal host district which, on behalf of the member districts, applies, receives, and administers educational funding that is appropriate to an area learning center. The care, management, and control of the Central Minnesota ALC are vested in the Joint Powers ALC Board. Any funding received by the Central Minnesota ALC is passed through to the member districts except for a 4% administrative fee and an additional joint powers fee allocation.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

1. Joint Powers Agreement (Continued)

A copy of the financial statements of the Central Minnesota ALC may be obtained by writing in care of Independent School District No. 47, 1833 NE Osauka Road, Sauk Rapids, Minnesota 56379.

B. Basic Financial Statement Information

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

Description of Funds:

Major Funds:

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

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

Nonmajor Funds:

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds (Continued):

Nonmajor Funds (Continued):

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

Fiduciary Funds:

Agency Fund – This Fund is used to account for resources received and held by the District as the agent for others to be used in making scholarships and for the Recreation Program.

Trust Fund – This Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

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

Cash and investments at June 30, 2017, were comprised of deposits, shares in the Minnesota School District Liquid Asset Fund (MSDLAF) and MNTrust Investment Shares. MSDLAF and MNTrust Investment Shares are valued at amortized cost, which approximates fair value.

Minnesota Statutes require 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust Investment Shares. 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.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

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

H. Prepaid Items

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

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Benton County is the collecting agency for the levy and remit(s) 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 $5,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their aquisition 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 and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

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 two items that qualify for reporting in this category. A deferred charge on refunding, and deferred outflows of resources related to pensions are reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

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 three 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.

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 various full-time classified employees upon termination of employment for unused vacation time. The accumulated liability for unpaid vacation benefits was $269,777 as of June 30, 2017. Vacation benefits expected to be paid within one year are recorded as a current obligation.

District classified employees are entitled to sick leave at various rates for each month of full-time service. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences (Continued)

Certain classified employees who have 15 years of continuous service of at least 1,000 work hours a year with the District and have attained the age of 55 years receive severance pay based on 50% of unused sick leave of the maximum of 120 days.

Certain clerical employees who have at least 15 years of continuous service of at least 1,000 work hours a year with the District receive severance pay equal to 50% of the maximum of 120 days of an employee's unused accumulated sick leave days.

Certain custodians who have at least 20 years of continuous service of at least 1,000 work hours a year with the District receive severance pay equal to 50% of the maximum of 120 days of an employee's unused accumulated sick leave days.

The accumulated liability for compensated absences based on sick leave was $68,791 as of June 30, 2017.

N. Severance Benefits

Certain certified and classified employees, including school administration, are eligible for severance pay upon retirement.

Certain administrators who have nine years of continuous service in the District are entitled to severance pay equal to a percentage of one half of one year's pay.

During the year ended June 30, 2017, the District paid out a total of $82,332 in severance benefits to the eight participants eligible to receive benefits.

O. Pensions

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2017.

Q. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- 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 but are not limited to, prepaids and inventory.

- Restricted Fund Balances – These amounts are subject to externally enforceable legal restrictions.

- Committed Fund Balances – The government's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment must be made by the School Board.

- Assigned Fund Balances – These are amounts that are constrained by the District's intent to be used for specific purposes that are neither restricted nor committed. Assignments are made by the Business Manager.

- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of 7% of the annual budget.

- Stabilization Arrangement – Fiscal stabilization funds in the amount of at least 3% of the prior year total General Fund expenditures shall be established by the Business Manager to protect the system from sudden shortfalls in revenue and to cover unanticipated expenditures. These stabilization funds may also be used to cover adverse financial or economic circumstances as they occur. These funds are reported as unassigned.

R. 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, laws, or regulations of other governments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Use of Estimates

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

T. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy in place to address custodial credit risk for deposits, stating deposit type securities shall be collateralized as required by *Minnesota Statutes* 118A. As of June 30, 2017, the District's bank balance was not exposed to custodial credit risk. It was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name. The District's deposits had a book balance as listed below.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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

Certificates of deposit	$ 280,000

B. Investments

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

Investment Type	Fair Value	S&P Ratings
MSDLAF	37,382,826	AAAm
MNTrust Investment Shares	766	AAAm
Total investments	$ 37,383,592	

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District may invest in those instruments specified in those Statutes. As of June 30, 2017, the District's investments were rated as noted in the table above.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District has an investment policy in place that addresses concentration of credit risk, stating the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, and maturities. However, it places no specific limit on the amount the District may invest in any one issuer.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy addresses interest rate risk, stating investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles. Furthermore, investment maturities shall be scheduled to coincide with projected District cash flow needs and shall provide for stability of income and reasonable liquidity.

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 addresses custodial credit risk for investments, stating all investment securities shall be held in third party safekeeping by an institution designated as custodial agent.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	$ 280,000
Investments (Note 3.B.)	37,383,592
Petty cash	655
Total deposits and investments	$ 37,664,247

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

Statement of Net Position	
Cash and investments	$ 37,427,561
Statement of Fiduciary Net Position	
Cash and cash equivalents	
Agency fund	190,780
Private purpose trust fund	45,906
Total deposits and investments	$ 37,664,247

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	$ 853,206	$ -	$ -	$ 853,206
Construction in progress	152,040	729,138	410,390	470,788
Total capital assets not being depreciated	1,005,246	729,138	410,390	1,323,994
Capital assets being depreciated				
Buildings	81,624,880	471,305	-	82,096,185
Land improvements	5,786,491	-	-	5,786,491
Equipment	6,863,637	396,893	23,854	7,236,676
Total capital assets being depreciated	94,275,008	868,198	23,854	95,119,352
Less accumulated depreciation for				
Buildings	25,870,454	1,607,653	-	27,478,107
Land improvements	3,743,200	251,525	-	3,994,725
Equipment	5,052,089	359,091	18,014	5,393,166
Total accumulated Depreciation	34,665,743	2,218,269	18,014	36,865,998
Total capital assets being depreciated, net	59,609,265	(1,350,071)	5,840	58,253,354
Governmental activities capital assets, net	$ 60,614,511	$ (620,933)	$ 416,230	$ 59,577,348

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $2,218,269 for the year ended June 30, 2017, was charged to the following governmental functions:

Administration	$ 16,008
Elementary and secondary regular instruction	175,230
Special Education	38,443
Pupil support	63,609
Food service	59,085
Community service	6,716
Unallocated	1,859,178
Total depreciation expense	$ 2,218,269

NOTE 4 – INTERFUND ACTIVITY

A. Transfers

The General Fund transferred $19,000 to the Community Service fund to help fund employee salaries that are paid by the Community Service fund.

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds, including Refunding bonds						
2015A School Building Refunding Bonds	11/03/15	4.00%-5.00%	$ 38,340,000	02/01/26	$ 35,650,000	$ 3,255,000
2014A Tax Abatement Bonds	08/07/14	3.00%	850,000	02/01/19	420,000	205,000
					36,070,000	3,460,000
Capital leases					914,032	614,205
Special assessments					16,312	11,452
Unamortized Premium					5,129,213	-
Compensated absences Payable					338,568	278,777
Total all long-term liabilities					$ 42,468,125	$ 4,364,434

NOTE 5 – LONG-TERM DEBT (CONTINUED)

A. Components of Long-Term Liabilities (Continued)

The long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. Capital Leases, Special Assessments, Tax Abatement Bonds, and Compensated Absences are normally liquidated through the General Fund.

B. Minimum Debt Payments for Bonds and Loans

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

Year Ending June 30,	G.O. Bonds Principal	G.O. Bonds Interest	G.O. Bonds Total
2018	$ 3,460,000	$ 1,747,150	$ 5,207,150
2019	3,600,000	1,578,250	5,178,250
2020	3,555,000	1,402,550	4,957,550
2021	3,735,000	1,224,800	4,959,800
2022	3,920,000	1,038,050	4,958,050
2023-2026	17,800,000	2,089,700	19,889,700
Total	$ 36,070,000	$ 9,080,500	$ 45,150,500

C. Capital Lease Obligations

The District is obligated under certain leases accounted for as capital leases. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset.

On June 15, 2014, the District entered into a lease purchase agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled $1,257,445. Because the individual equipment items were under the District's capitalization threshold none of the item were capitalized. The capital lease agreement includes annual principal and interest payments of $324,049.

On July 15, 2015, the District entered into a lease purchase agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled $549,320. Because the individual equipment items were under the District's capitalization threshold none of the items were capitalized. The capital lease agreement includes annual principal and interest payments of $140,412.

On May 18, 2016, the District entered into a lease purchase agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled $642,821. Because the individual equipment items were under the District's capitalization threshold none of the items were capitalized. The capital lease agreement includes annual principal and interest payments of $163,088.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

C. Capital Lease Obligations (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,	
2018	$ 627,548
2019	303,500
Total minimum lease payments	931,048
Less amount representing interest	(17,016)
Present value of minimum lease payments	$ 914,032

D. Special Assessments

The District is obligated to pay special assessment and abatement fees for various City of Sauk Rapids' and county projects. The minimum annual principal and interest payments required to retire long-term liabilities are as
follows:

Year Ending June 30,	Special Assessments Principal	Special Assessments Interest	Special Assessments Total
2018	$ 11,452	$ 812	$ 12,264
2019	3,240	219	3,459
2020	1,620	73	1,693
Total	$ 16,312	$ 1,104	$ 17,416

E. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 38,960,000	$ -	$ 2,890,000	$ 36,070,000
Capital lease obligations	1,652,830	-	738,798	914,032
Special assessments and abatements	35,574	-	19,262	16,312
Premium	5,709,159	-	579,946	5,129,213
Compensated absences Payable	345,508	319,746	326,686	338,568
Total long-term liabilities	$ 46,703,071	$ 319,746	$ 4,554,692	$ 42,468,125

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

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 Balance

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

	General Fund	Debt Service	Other Nonmajor Funds	Total
Nonspendable for				
Inventory	$ -	$ -	$ 16,456	$ 16,456
Prepaid items	93,814	-	1,373	95,187
Total nonspendable	93,814	-	17,829	111,643
Restricted/reserved for				
Safe Schools - Crime Levy	321,120	-	-	321,120
Teacher Development and Evaluation	75,406	-	-	75,406
Health and Safety	28,209	-	-	28,209
Operating Capital	4,104,976	-	-	4,104,976
Gifted and Talented	256,856	-	-	256,856
Long-Term Facilities Maintenance	44,450	-	-	44,450
Medical Assistance	118,346	-	-	118,346
Community Education	-	-	67,451	67,451
Early Childhood and Family Education	-	-	73,226	73,226
School Readiness	-	-	271,135	271,135
Adult Basic Education	-	-	30,799	30,799
Restricted for				
Food Service	-	-	752,680	752,680
Community Service	-	-	5,529	5,529
Debt Service	-	1,221,121	-	1,221,121
Total restricted/reserved	4,949,363	1,221,121	1,200,820	7,371,304
Committed for				
Separation benefits	2,467,667	-	-	2,467,667
Assigned for				
Budget carryover	2,974,716	-	-	2,974,716
Third party billing	1,569,224	-	-	1,569,224
Student activities	271,260	-	-	271,260
Total assigned	4,815,200	-	-	4,815,200
Unassigned	18,650,821	-	-	18,650,821
Total fund balance	$ 30,976,865	$ 1,221,121	$ 1,218,649	$ 33,416,635

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balance (Continued)

Nonspendable for Inventory – A portion of the fund balance has been spent on inventory and is not available for other uses.

Nonspendable for Prepaid Items – A portion of the fund balance has been spent on prepaid items and is not available for other uses.

Restricted/Reserved for Safe Schools – Crime Levy – The unspent resources available from the levy must be reserved in this account for future use.

Restricted/Reserved for Teacher Development and Evaluation – This balance represents resources available for teacher development and evaluation uses listed in *Minnesota Statutes* 122A.40, subd. 8 or 122A.41, subd. 5.

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 years end must be reserved in this Balance Sheet account.

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 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. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balance (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 accumulation of the activity to provide the food service program.

Restricted for Community Service – This balance represents the remaining aggregate resources for community service programs after other restrictions are removed.

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

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

Assigned for Budget Carryover – This balance represents amounts segregated from unrestricted funds for unspent budget amounts.

Assigned for Third Party Billing – This balance represents amounts segregated from unrestricted funds to be spent on costs related to third party billings. This amount represents dollars set aside prior to the 2017 legislation change.

Assigned for Student Activities – This balance represents the aggregate activity for student accounts under School Board control.

B. Net Position

Net position restricted for other purposes is comprised of the total General Fund and Special Revenue Funds positive restricted balances adjusted to net position.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017, was $15,747,723. The components of pension expense are noted in the following plan summaries.

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

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.

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

With these provisions:

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

Tier II Benefits

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

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

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

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.

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

Teachers' Retirement Association (Continued)

C. Contribution Rate

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

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

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 354,961,140
Deduct Employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in schedule of employer and non-employer pension allocations	$ 390,131,928

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest 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 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term 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 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2017, the District reported a liability of $83,459,499 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.3499% at the end of the measurement period and 0.3383% 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	$ 83,459,499
State's proportionate share of the net pension liability associated with the District	8,376,703

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 $14,634,719. It recognized $1,169,668 as an increase to this 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	$ 818,586	$ 2,325
Net difference between projected and actual earnings on plan investments	3,552,082	-
Changes of assumptions	47,548,282	-
Changes in proportion	745,011	-
Contributions to TRA subsequent to the measurement date	1,521,707	-
Total	$ 54,185,668	$ 2,325

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

$1,521,707 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018	$ 10,442,468
2019	10,442,475
2020	11,641,400
2021	10,760,240
2022	9,375,053
Total	$ 52,661,636

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%)
$ 107,516,695	$ 83,459,499	$ 63,865,697

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

Public Employees' Retirement Association

A. Plan Description

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

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

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

C. Benefits Provided

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

General Employees Plan Benefits

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

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

Public Employees' Retirement Association (Continued)

D. Contributions

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

General Employees Fund Contributions

Basic Plan members and Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were $555,280. The District's contributions were equal to the required contributions as set by state statute.

E. Pension Costs

General Employees Fund Pension Costs

At June 30, 2017, the District reported a liability of $8,647,272 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $112,946. 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 0.1065%, which was a decrease of 0.0008% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $1,113,004 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $33,678 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

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

Public Employees' Retirement Association (Continued)

E. 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	$ 26,554	$ 703,856
Changes in actuarial assumptions	1,871,462	-
Difference between projected and actual investments earnings	942,967	-
Change in proportion	-	106,255
Contributions paid to PERA subsequent to the measurement date	555,280	-
Total	$ 3,396,263	$ 810,111

$555,280 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	$ 548,869
2019	343,993
2020	825,659
2021	312,351
Total	$ 2,030,872

F. 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 %	

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

Public Employees' Retirement Association (Continued)

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

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

The following changes in actuarial assumptions occurred in 2016:

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

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

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 %	

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

Public Employees' Retirement Association (Continued)

G. 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.

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 12,281,689	$ 8,647,272	$ 5,653,501

I. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Description

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

B. Funding Policy

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For 2017, the District contributed $143,798 to the plan. As of June 30, 2017, there were approximately 22 retirees receiving health benefits from the District's health plan.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

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

ARC	$ 305,104
Interest on net OPEB obligation	12,365
Adjustment to ARC	(20,720)
Annual OPEB cost (expense)	296,749
Contributions made	(143,798)
Increase in net OPEB obligation	152,951
Net OPEB obligation - beginning of year	412,161
Net OPEB obligation - end of year	$ 565,112

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obigation
06/30/15	$ 241,465	$ 164,121	68.0%	$ 338,059
06/30/16	239,868	165,766	69.1%	412,161
06/30/17	296,749	143,798	48.5%	565,112

D. Funded Status and Funding Progress

As of July 1, 2017, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $2,349,486 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $2,349,486. The covered payroll (annual payroll of active employees covered by the plan) was $23,964,598 and the ratio of the UAAL to the covered payroll was 9.8 percent.

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

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

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

At the July 1, 2017, actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 3.0% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 6.75% initially, reduced incrementally to an ultimate rate of 5.0% after seven years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2017, was 30 years.

NOTE 9 – COMMITMENTS

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

Project	Contractor	Original Contract Amount	Remaining Commitments
Rice Partial ReRoofing	McDowall Company	$ 416,511	$ 231,976
Rice Elementary Ceiling Project	Various	153,486	90,791
Total commitments		$ 569,997	$ 322,767

NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 47
Schedule of Funding Progress - Other Post Employment Benefits
June 30, 2017

Actuarial Valuation Date*	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/12	$ -	$ 1,858,384	$ 1,858,384	0.0%	$ 17,007,383	10.9%
07/01/14	-	2,072,192	2,072,192	0.0%	19,303,444	10.7%
07/01/16	-	2,349,486	2,349,486	0.0%	23,964,598	9.8%

* See Note 8 in the notes to financial statements for more details on this Schedule.

Independent School District No. 47
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 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	0.1105%	$ 5,190,736	$ -	$ 5,190,736	$ 5,802,469	89.5%	78.8%
2016	0.1073%	5,560,843	-	5,560,843	6,200,133	89.7%	78.2%
2017	0.1065%	8,647,272	112,946	8,760,218	6,610,693	130.8%	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	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.3506%	$ 16,155,396	$ 1,136,619	$17,292,015	$ 16,002,214	101.0%	81.5%
2016	0.3383%	20,927,201	2,566,950	23,494,151	17,170,227	121.9%	76.8%
2017	0.3499%	83,459,499	8,376,703	91,836,202	18,202,280	458.5%	44.9%

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

Independent School District No. 47
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	$ 420,679	$ 420,679	$ -	$ 5,802,469	7.25%
2015	465,010	465,010	-	6,200,133	7.50%
2016	495,802	495,802	-	6,610,693	7.50%
2017	555,280	555,280	-	7,403,733	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	$ 1,120,155	$ 1,120,155	$ -	$ 16,002,214	7.00%
2015	1,287,767	1,287,767	-	17,170,227	7.50%
2016	1,365,171	1,365,171	-	18,202,280	7.50%
2017	1,521,707	1,521,707	-	20,289,427	7.50%

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

TRA Retirement Fund

2016 Changes
Changes in Actuarial Assumptions
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes
Changes of Benefit Terms
- The DTRFA was merged into TRA on June 30, 2015.

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

General Employees Fund

2016 Changes
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

General Employees Fund (Continued)

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

SUPPLEMENTARY INFORMATION

Independent School District No. 47
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
Assets			
Cash and investments	$ 856,262	$ 450,158	$ 1,306,420
Current property taxes receivable	-	124,091	124,091
Delinquent property taxes receivable	-	8,573	8,573
Accounts receivable	5,771	-	5,771
Due from Department of Education	-	48,529	48,529
Due from other Minnesota school districts	-	150,000	150,000
Inventory	16,456	-	16,456
Prepaid items	-	1,373	1,373
Total assets	$ 878,489	$ 782,724	$ 1,661,213
Liabilities			
Accounts payable	$ -	$ 8,249	$ 8,249
Salaries and benefits payable	67,995	54,403	122,398
Unearned revenue	41,358	5,643	47,001
Total liabilities	109,353	68,295	177,648
Deferred Inflows of Resources			
Unavailable revenue - delinquent property taxes	-	5,563	5,563
Property taxes levied for subsequent year's expenditures	-	259,353	259,353
Total deferred inflows of resources	-	264,916	264,916
Fund Balances			
Nonspendable	16,456	1,373	17,829
Restricted	752,680	448,140	1,200,820
Total fund balances	769,136	449,513	1,218,649
Total liabilities, deferred inflows of resources, and fund balances	$ 878,489	$ 782,724	$ 1,661,213

Independent School District No. 47
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2017

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
Revenues			
Local property taxes	$ -	$ 247,913	$ 247,913
Other local and county revenues	6,043	635,504	641,547
Revenue from state sources	218,808	463,891	682,699
Revenue from federal sources	1,142,305	-	1,142,305
Sales and other conversion of assets	1,112,953	-	1,112,953
Total revenues	2,480,109	1,347,308	3,827,417
Expenditures			
Current			
Pupil support services	-	655	655
Food service	2,261,109	-	2,261,109
Community education and services	-	1,180,077	1,180,077
Capital outlay			
Food service	115,296	-	115,296
Community education and services	-	278	278
Total expenditures	2,376,405	1,181,010	3,557,415
Excess of revenues over expenditures	103,704	166,298	270,002
Other Financing Sources			
Transfers in	-	19,000	19,000
Net change in fund balances	103,704	185,298	289,002
Fund Balances			
Beginning of year	665,432	264,215	929,647
End of year	$ 769,136	$ 449,513	$ 1,218,649

Independent School District No. 47
Statement of Changes in Agency Funds
Assets and Liabilities
Year Ended June 30, 2017

	Balance 06/30/16	Additions	Deletions	Balance 06/30/17
Assets				
Cash	$ 165,542	$ 260,547	$ (235,309)	$ 190,780
Liabilities				
Accounts payable	$ 165,542	$ 260,547	$ (235,309)	$ 190,780

Independent School District No. 47
Uniform Financial Accounting And Reporting Standards
Compliance Table
Year Ended June 30, 2017

	Audit	UFARS	Audit-UFARS
01 General Fund			
Total revenue	$ 48,776,454	$ 48,776,457	$ (3)
Total expenditures	45,209,351	45,209,354	(3)
Nonspendable:			
460 Nonspendable fund balance	93,814	93,814	-
Restricted/reserved:			
403 Staff Development	-	-	-
406 Health and Safety	28,209	28,209	-
407 Capital Projects Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Project Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	4,104,976	4,104,976	-
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	256,856	256,856	-
440 Teacher Development and Evaluation	75,406	75,406	-
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration Revenue	-	-	-
449 Safe School Crime	321,120	321,120	-
450 Transition to 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	44,450	44,450	-
472 Medical Assistance	118,346	118,346	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Separation benefits	2,467,667	2,467,667	-
461 Committed	-	-	-
Assigned:			
462 Assigned fund balance	4,815,200	4,815,199	1
Unassigned			
422 Unassigned fund balance (net position)	18,650,821	18,650,822	(1)
02 Food Services Fund			
Total revenue	$ 2,480,109	$ 2,480,108	$ 1
Total expenditures	2,376,405	2,376,402	3
Nonspendable:			
460 Nonspendable fund balance	16,456	16,456	-
Restricted/reserved:			
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	752,680	752,680	-
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ 1,347,308	$ 1,347,307	$ 1
Total expenditures	1,181,010	1,181,008	2
Nonspendable:			
460 Nonspendable fund balance	1,373	1,373	-
Restricted/reserved:			
426 $25 Taconite	-	-	-
431 Community Education	67,451	67,451	-
432 ECFE	73,226	73,226	-
440 Teacher Development and Evaluation	-	-	-
444 School Readiness	271,135	271,135	-
447 Adult Basic Education	30,799	30,799	-
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	5,529	5,528	1
Unassigned:			
463 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 Building Construction Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ 4,886,912	$ 4,886,915	$ (3)
Total expenditures	4,986,353	4,986,353	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
425 Bond refunding	-	-	-
451 QZAB and QSCB payments	-	-	-
Restricted:			
464 Restricted fund balance	1,221,121	1,221,122	(1)
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ 4,017	$ 4,017	$ -
Total expenditures	3,751	3,751	-
Restricted/reserved:			
419 Encumbrances	-	-	-
Unrestricted/reserved:			
422 Unassigned fund balance (net position)	45,906	45,905	1
20 Internal Service Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
25 OPEB Revocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
45 OPEB Irrevocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
47 OPEB Debt Service			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted:			
425 Bond refundings	-	-	-
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-

Independent School District No. 47
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Grant Name	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	$ 176,623
School Breakfast	10.553	226,423
National School Lunch	10.555	739,259
Total Child Nutrition Cluster and U.S. Department of Agriculture		1,142,305
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	379,730
Title II, Part A - Improving Teacher Quality	84.367	89,825
Through Benton-Stearns Education District		
Special Education Cluster		
Special Education	84.027	511,843
Early Childhood Special Education	84.173	4,452
Total Special Education Cluster		516,295
Carl Perkins	84.048a	40,549
Total U.S. Department of Education		1,026,399
Corporation for National and Community Service		
Through Initiative Foundation		
Social Innovation Fund	94.019	122,856
Institute of Museum and Library Services		
Library Services Technology Act	45.310	2,500
Total Federal Expenditures		$ 2,294,060

See notes to Schedule of Expenditures of Federal Awards.

Independent School District No. 47
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

NOTE 4 – INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 47
Sauk Rapids, 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. 47, Sauk Rapids, 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 October 30, 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.

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Internal Control over Financial Reporting
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified . Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Finding and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency, 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 response to the finding identified in our audit is described in the accompanying Schedule of Finding and Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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
October 30, 2017

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. 47
Sauk Rapids, Minnesota

Report on Compliance for Each Major Federal Program
We have audited Independent School District No. 47's, Sauk Rapids, Minnesota, compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned 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 a legal determination of the compliance of Independent School District No. 47.

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Opinion on Each Major Federal Program

In our opinion, Independent School District No. 47 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
October 30, 2017

Independent School District No. 47
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 Finding 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 and 10.555
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. 47
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDING:

Audit Finding 2001-001

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:
The District does not have adequate segregation of accounting duties.

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.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

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

2. Actions Planned in Response to Finding
   Administration will examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.

SECTION II – FINANCIAL STATEMENT FINDING (CONTINUED):

Audit Finding 2001-001 (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (Continued)

3. Official Responsible for Ensuring CAP
   Bruce Watkins, 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 ongoing.

5. Plan to Monitor Completion of CAP
   The School Board will be responsible to monitor the ongoing progress towards the completion of the CAP by approving the policies brought forth by Administration and review of the annual audit.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:

There were no findings or questioned costs.

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Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 47
Sauk Rapids, 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. 47, Sauk Rapids, 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 October 30, 2017.

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

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

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

BerganKDV, Ltd.

St. Cloud, Minnesota
October 30, 2017

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PRIOR YEAR INTERNAL CONTROL FINDING:

Responsible Contractor Requirement

Minnesota Statutes 16C.285 states that the District is to obtain verification of compliance signed by the contractor for each construction contract in excess of $50,000, awarded to a lowest responsible bidder or best value process. This verification states that the contractor is in compliance with the minimum criteria set forth under *Minnesota Statutes* 16C.285, subdivision 3.

CORRECTIVE ACTION TAKEN:

The District has obtained signed verification of compliance for all construction contracts tested for the 2016-2017 school year.