INDEPENDENT SCHOOL DISTRICT NO. 831
FOREST LAKE, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2017

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INDEPENDENT SCHOOL DISTRICT NO. 831

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 831

School Board and Administration
Year Ended June 30, 2017

SCHOOL BOARD

	Board Position During 2016–2017
Robert Rapheal	Chairperson (President)
Karen Morehead	Vice Chairperson (Vice President)
Jill Olson	Clerk
Luke Odegaard	Treasurer
Julie Corcoran	Director
Jeff Peterson	Director
Gail Theisen	Director

ADMINISTRATION

Linda Madsen	Superintendent
Lawrence Martini	Director of Business Services

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 831
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Phone: 952-545-0424 • Fax: 952-545-0569 • www.mmkr.com

OPINIONS

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

EMPHASIS OF MATTER

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

OTHER MATTERS

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The 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 basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

(continued)

The supplemental information, the Schedule of Expenditures of Federal Awards, and the UFARS Compliance Table 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Prior Year Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated December 14, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
December 13, 2017

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This section of Independent School District No. 831's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2017. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2017 by $43,083,458 (deficit net position). The District's total net position decreased by $19,083,488 during the fiscal year ended June 30, 2017, excluding the change in accounting principle reported in the current year as discussed below.

- The District recorded a change in accounting principle in the current year with the implementation of the Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans,* and GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. The change reflects standards established for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures as they relate to other post-employment benefit (OPEB) obligations. The implementation of these standards reduced beginning net position in the government-wide financial statements by $7,063,748.

- Government-wide revenues totaled $90,999,816 and were $19,083,488 less than expenses of $110,083,304.

- The General Fund's total fund balance (under the governmental fund presentation) decreased to $1,699,023, or $745,245 less than the prior year, compared to a decrease of $225,102 planned in the budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

The District maintains the following kinds of funds:

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

Proprietary Funds – The District maintains one type of proprietary fund. The internal service funds are used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for the self-insurance activities of the district employees' medical and dental claims. These services have been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

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

	2017	2016
Assets		
Current and other assets	$ 143,992,286	$ 111,428,199
Capital assets, net of depreciation	98,470,905	56,787,159
Total assets	$ 242,463,191	$ 168,215,358
Deferred outflows of resources		
Bond refunding deferments	$ 518,906	$ –
OPEB plan deferments	36,173	–
Pension plan deferments	96,759,357	10,353,130
Total deferred outflows of resources	$ 97,314,436	$ 10,353,130
Liabilities		
Current and other liabilities	$ 27,556,186	$ 19,966,450
Long-term liabilities, including due within one year	327,880,162	149,712,108
Total liabilities	$ 355,436,348	$ 169,678,558
Deferred inflows of resources		
Bond refunding deferments	$ 389,020	$ –
Pension plan deferments	4,313,678	7,048,013
Property taxes levied for subsequent year	22,722,039	18,778,139
Total deferred inflows of resources	$ 27,424,737	$ 25,826,152
Net position		
Net investment in capital assets	$ 31,954,266	$ 31,389,004
Restricted	573,291	1,126,272
Unrestricted	(75,611,015)	(49,451,498)
Total net position	$ (43,083,458)	$ (16,936,222)

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

The District's increase in net investment in capital assets is due mostly to the District repaying debt at a faster rate than the assets being depreciated. The District's reduction in net position restricted for capital asset acquisition, debt service, and other state funding purposes contributed to the decrease in the restricted portion of net position. The decrease in unrestricted net position was partially due to the implementation of the GASB statement for OPEB liabilities discussed earlier in this report. An increase in the District's share of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans also contributed to the change in deferred outflows of resources, long-term liabilities, and unrestricted net position.

Table 2 presents a summarized version of the District's Statement of Activities:

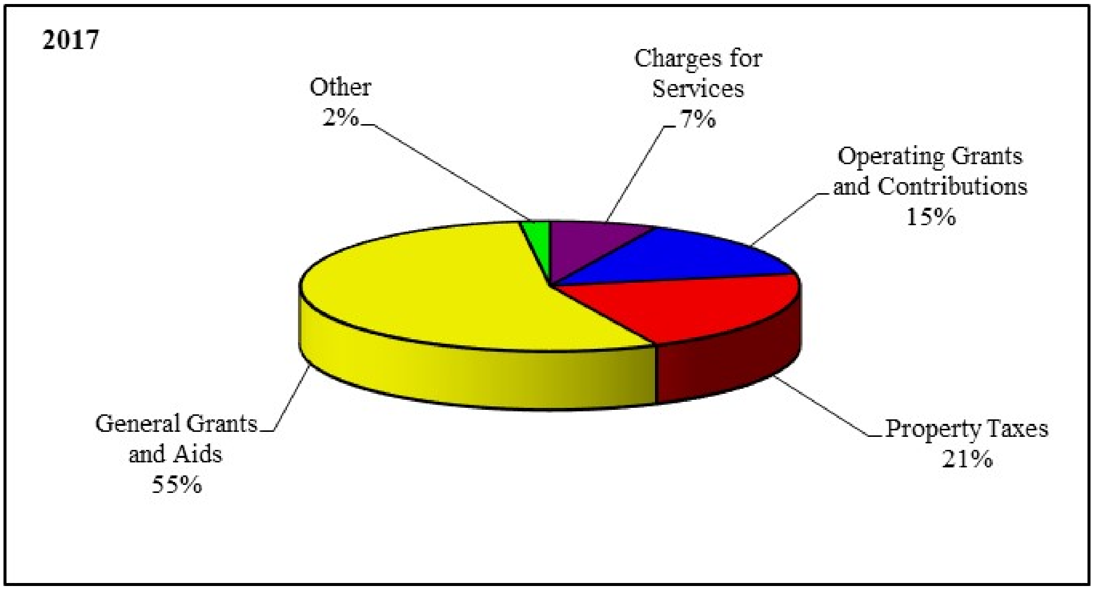
Table 2
Summary Statement of Activities
for the Years Ended June 30, 2017 and 2016

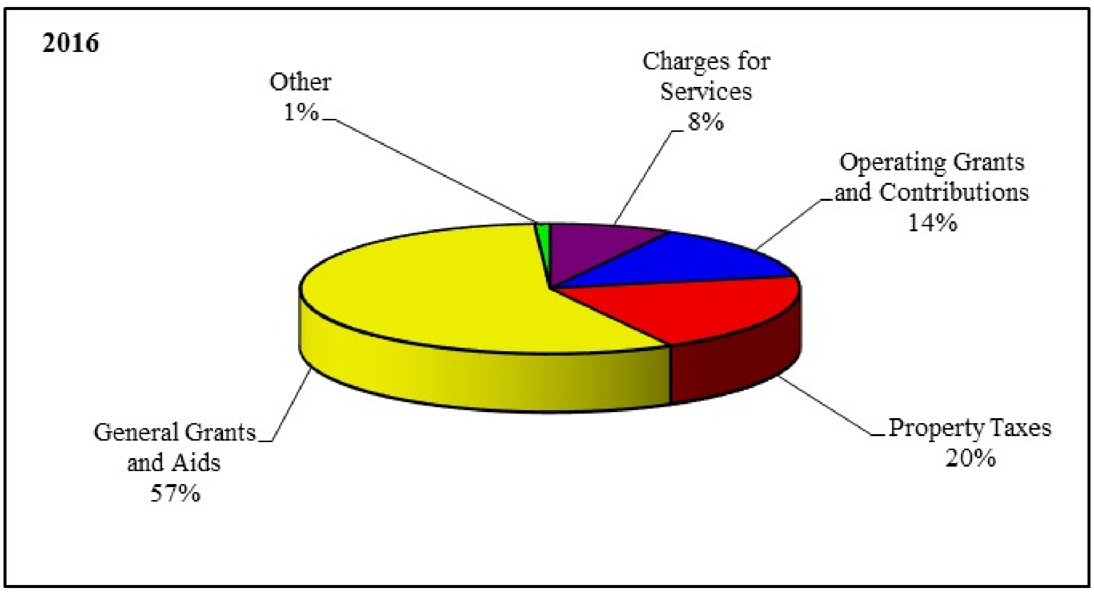
	2017	2016
Revenues		
Program revenues		
Charges for services	$ 6,437,175	$ 6,847,529
Operating grants and contributions	13,194,175	12,672,382
General revenues		
Property taxes	19,430,966	17,057,514
General grants and aids	50,352,014	49,382,999
Other	1,585,486	629,701
Total revenues	90,999,816	86,590,125
Expenses		
Administration	4,923,047	3,796,645
District support services	2,052,095	2,322,473
Elementary and secondary regular instruction	39,074,208	29,008,857
Vocational education instruction	1,727,610	954,911
Special education instruction	17,305,271	12,558,342
Instructional support services	6,333,778	4,610,217
Pupil support services	12,344,131	11,046,015
Sites and buildings	8,490,188	8,776,019
Fiscal and other fixed cost programs	574,212	526,412
Food service	3,957,910	4,276,582
Community service	4,990,631	4,531,548
Depreciation not allocated to other functions	2,835,218	2,545,922
Interest and fiscal charges	5,475,005	2,243,227
Total expenses	110,083,304	87,197,170
Change in net position	(19,083,488)	(607,045)
Net position – beginning, as previously reported	(16,936,222)	(16,329,177)
Change in accounting principle	(7,063,748)	–
Net position – beginning, as restated	(23,999,970)	(16,329,177)
Net position – ending	$ (43,083,458)	$ (16,936,222)

This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal. Revenues increased with funding improvements in general and special education funding formulas. The significant increase in expenses reflects natural inflationary increases along with the change in the PERA and the TRA multi-employer defined benefit pension plans mentioned earlier.

Figure A shows further analysis of these revenue sources:

Figure A – Sources of Revenues for Fiscal Years 2017 and 2016



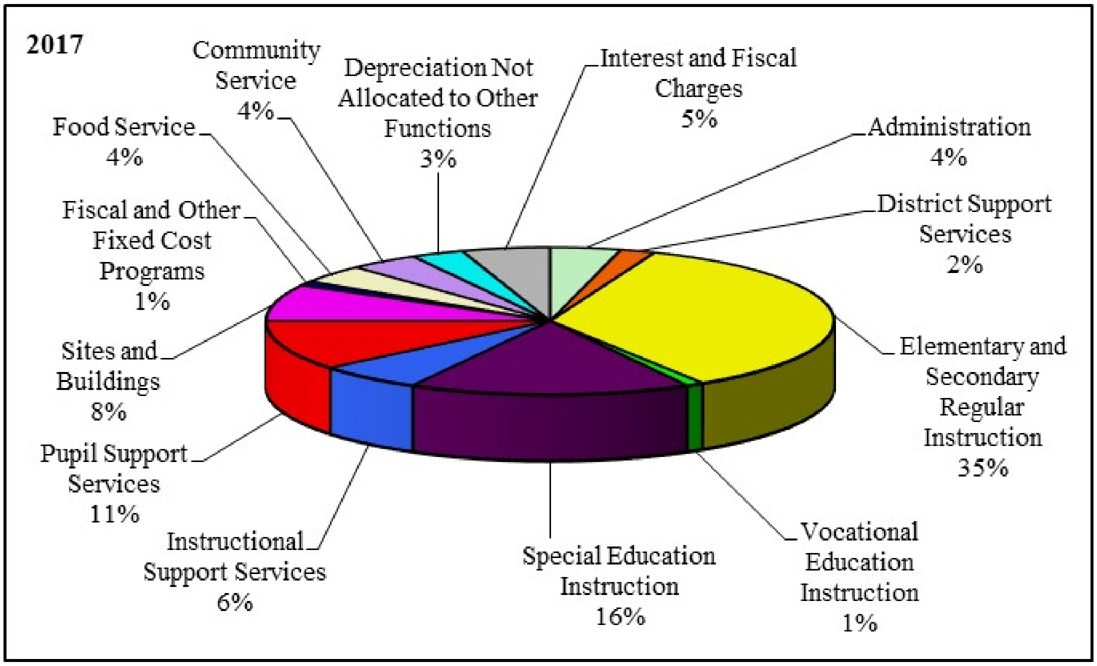


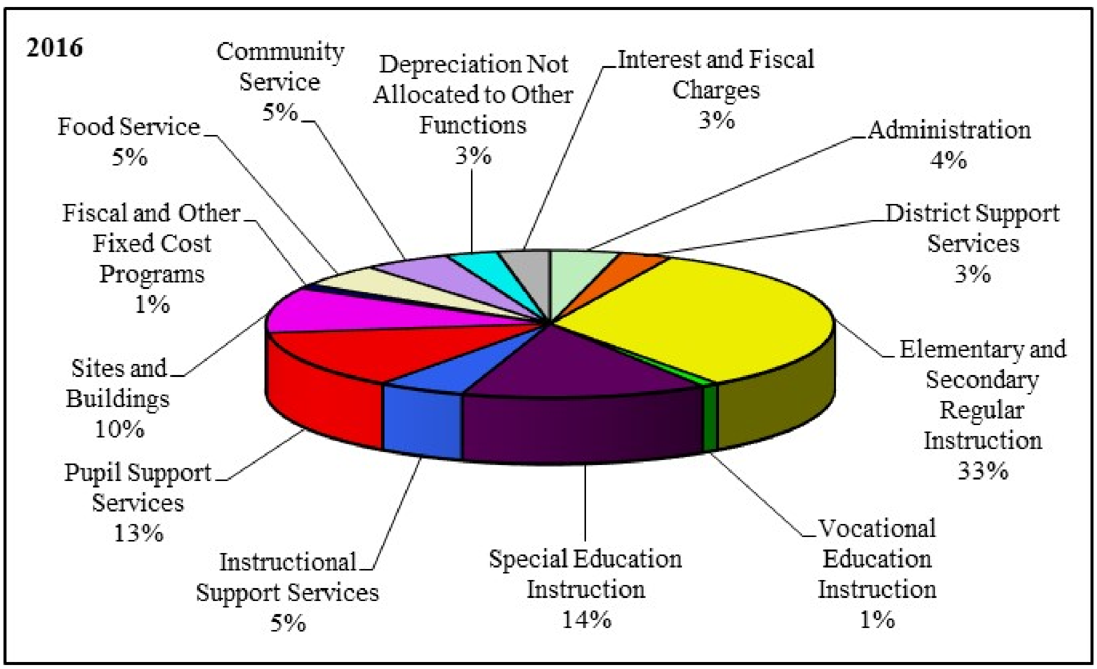
The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants.

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

Figure B shows further analysis of the expense functions:

Figure B – Expenses for Fiscal Years 2017 and 2016





The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

	2017	2016	Increase (Decrease)
Major funds			
General	$ 1,699,023	$ 2,444,268	$ (745,245)
Capital Projects – Building Construction	88,886,436	65,256,137	23,630,299
Debt Service	1,527,673	1,090,325	437,348
Nonmajor funds			
Food Service Special Revenue	–	(369,918)	369,918
Community Service Special Revenue	556,880	549,193	7,687
Total governmental funds	$ 92,670,012	$ 68,970,005	$ 23,700,007

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

At June 30, 2017, the District's governmental funds reported combined fund balances of $92,670,012, an increase of $23,700,007 in comparison with the prior year. Approximately 0.9 percent of this amount ($834,457) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form ($395,945), 2) restricted for particular purposes ($90,968,474), or 3) assigned for particular purposes ($471,136).

ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	$ 71,100,000	$ 70,850,000	$ (250,000)	(0.4) %
Expenditures	$ 71,075,102	$ 71,075,102	$ –	– %

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

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2017 Actual	Amount	Percent	Amount	Percent
Revenue and other financing sources	$ 73,693,236	$ 2,843,236	4.0%	$ 1,447,966	2.0%
Expenditures and other financing uses	74,438,481	$ 3,363,379	4.7%	$ 2,350,349	3.3%
Net change in fund balances	$ (745,245)				

The fund balance of the General Fund decreased $745,245, compared to a decrease of $225,102 approved in the budget.

The largest revenue variances to budget occurred in property taxes and state sources, which were $1,453,610 and $1,312,340 more than projected in the budget, respectively. The property tax variance was due to a change in the reporting of the new long-term facilities maintenance levy for the portion the District anticipated in the Capital Projects – Building Construction Fund. Conservative budgeting for special education, along with the pass-through of state funding for pensions, contributed to state sources exceeding budget.

The expenditure and other financing uses budget variance was spread across several programs and object categories. The District recognized more spending for employee benefits and purchased services compared to amounts anticipated in the budget. The final budget also did not include the required transfer to the Food Service Special Revenue Fund or the transfer to the Capital Projects – Building Construction Fund, as described with revenues. The increase from the prior year is due to contractual salary and benefit increases and the one-time transfers to other funds that did not occur last year.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities and as authorized by the District's long-term facilities maintenance program as approved by the Minnesota Department of Education and building bonds issued by the District. At June 30, 2017, the District had a total fund balance of $88,886,436, which reflects an increase of $23,630,299. During 2017, $67,070,000 of building bonds were issued as approved by taxpayers of the District. The District reported $44,807,958 in capital spending in this fund during the year, consistent with the approved budget.

Debt Service Fund

The Debt Service Fund revenues and other financing sources exceeded expenditures and other financing uses by $437,348 in the current year, compared to a $505,000 fund balance increase anticipated in the budget. The funding of the Debt Service Fund is largely controlled with each individual debt obligation's financing plan. The remaining fund balance of $1,527,673 at June 30, 2017 is available for meeting future debt service obligations.

The District issued refunding bonds in the current year that were used to reduce future debt service payments and related debt levies for taxpayers of the District.

Food Service Special Revenue Fund

The Food Service Special Revenue Fund ended the year with revenues and other financing sources exceeding expenditures, increasing equity by $369,918, compared to a planned fund balance increase of $998. The District made a required transfer of $184,263 from the General Fund to eliminate the fund balance deficit in the current year.

Community Service Special Revenue Fund

The Community Service Special Revenue Fund ended the year with revenues exceeding expenditures, increasing equity by $7,687, compared to a planned fund balance increase of $8,852.

Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis. The District currently maintains two internal service funds used to account for the District's self-insured health and dental insurance functions.

Operating revenues for the internal service funds for fiscal 2017 totaled $9,848,999. Operating expenses totaled $8,969,094 for self-insured health and dental benefit claims. The internal service funds also reported $10,484 in investment earnings in the current year.

The net position for internal service funds as of June 30, 2017 totaled $3,367,034, which represents an increase of $890,389 in net position from the prior year.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

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

Table 6
Capital Assets

	2017	2016	Change
Land	$ 1,885,726	$ 1,885,726	$ –
Construction in progress	39,972,672	5,909,030	34,063,642
Buildings	85,590,416	85,463,104	127,312
Building and land improvements	27,662,835	17,360,133	10,302,702
Furniture and equipment	14,856,767	21,149,699	(6,292,932)
Intangibles	1,895,000	1,895,000	–
Less accumulated depreciation	(73,392,511)	(76,875,533)	3,483,022
Total	$ 98,470,905	$ 56,787,159	$ 41,683,746
Depreciation expense	$ 3,024,700	$ 2,835,938	$ 188,762

By the end of fiscal year 2017, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

The changes presented in the table above reflect the ongoing activity of projects at district sites during fiscal year 2017, including the activity of the Capital Projects – Building Construction Fund.

The District defines capital assets as those with an initial, individual cost of $5,000 or more, which benefit more than one fiscal year.

Additional details about capital assets can be found in the notes to basic financial statements.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities with changes from the prior year:

Table 7
Outstanding Long-Term Liabilities

	2017	2016	Change
General obligation bonds payable	$ 154,825,000	$ 90,530,000	$ 64,295,000
Certificates of participation payable	2,655,000	2,770,000	(115,000)
Unamortized premium/discount	3,526,078	3,404,370	121,708
Capital lease payable	146,469	216,759	(70,290)
Net pension liability	157,428,767	49,606,160	107,822,607
Net OPEB liability	6,149,275	–	6,149,275
Severance benefits payable	2,101,610	2,305,655	(204,045)
Compensated absences payable	1,047,963	879,164	168,799
Total	$ 327,880,162	$ 149,712,108	$ 178,168,054

The increase in general obligation bonds payable and unamortized premium/discount in the table above is due to the issuance of $67,070,000 of building bonds, $5,365,000 of refunding bonds, and the related premium/discount on bonds issued. Scheduled debt and refunding payments partially offset the increase from new debt issued in the current year.

The decrease in certificates of participation and capital leases payable is due to the planned principal payments made in fiscal 2017.

The difference in the net pension liability reflects the change in the District's proportionate share of the state-wide pension obligations for the PERA and the TRA. The change in the net OPEB liability reflects the implementation of the new GASB standards for OPEB, as previously discussed.

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

Table 8
Limitations on Debt

District's market value	$ 4,672,890,900
Limit rate	15.0%
Legal debt limit	$ 700,933,635

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about these statements or need additional financial information, contact the Business Services Department at (651) 982-8125. The address is: Independent School District No. 831, 6100 North 210th Street, Forest Lake, Minnesota 55025.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Governmental Activities	
	2017	2016
Assets		
Cash and temporary investments	$ 123,514,241	$ 89,801,101
Receivables		
Current taxes	12,975,288	10,781,007
Delinquent taxes	412,899	416,566
Accounts and interest	411,422	220,865
Due from other governmental units	5,934,911	7,299,160
Due from fiduciary fund	340,848	998,193
Inventory	73,719	75,907
Prepaid items	328,958	202,510
Net OPEB asset	–	1,632,890
Capital assets		
Not depreciated	41,858,398	7,794,756
Depreciated, net of accumulated depreciation	56,612,507	48,992,403
Total capital assets, net of accumulated depreciation	98,470,905	56,787,159
Total assets	242,463,191	168,215,358
Deferred outflows of resources		
Bond refunding deferments	518,906	–
OPEB plan deferments	36,173	–
Pension plan deferments	96,759,357	10,353,130
Total deferred outflows of resources	97,314,436	10,353,130
Total assets and deferred outflows of resources	$ 339,777,627	$ 178,568,488
Liabilities		
Aid anticipation certificates payable	$ –	$ 2,947,355
Salaries payable	935,001	3,198,570
Accounts and contracts payable	21,112,836	10,322,440
Accrued interest payable	2,629,756	765,348
Due to other governmental units	299,169	223,357
Unearned revenue	1,890,940	1,883,191
Claims incurred, but not reported	688,484	626,189
Long-term liabilities		
Due within one year	5,109,542	4,493,287
Due in more than one year	322,770,620	145,218,821
Total long-term liabilities	327,880,162	149,712,108
Total liabilities	355,436,348	169,678,558
Deferred inflows of resources		
Bond refunding deferments	389,020	–
Pension plan deferments	4,313,678	7,048,013
Property taxes levied for subsequent year	22,722,039	18,778,139
Total deferred inflows of resources	27,424,737	25,826,152
Net position		
Net investment in capital assets	31,954,266	31,389,004
Restricted for		
Capital asset acquisition	–	80,523
Debt service	–	462,467
Community service	573,291	566,646
Other purposes (state funding restrictions)	–	16,636
Unrestricted	(75,611,015)	(49,451,498)
Total net position	(43,083,458)	(16,936,222)
Total liabilities, deferred inflows of resources, and net position	$ 339,777,627	$ 178,568,488

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017				2016
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 4,923,047	$ –	$ –	$ (4,923,047)	$ (3,754,876)
District support services	2,052,095	–	–	(2,052,095)	(2,322,473)
Elementary and secondary regular instruction	39,074,208	968,727	1,078,462	(37,027,019)	(26,580,711)
Vocational education instruction	1,727,610	7,385	25,228	(1,694,997)	(920,882)
Special education instruction	17,305,271	343,946	9,462,719	(7,498,606)	(3,246,461)
Instructional support services	6,333,778	–	19,117	(6,314,661)	(4,505,615)
Pupil support services	12,344,131	–	171,088	(12,173,043)	(10,861,634)
Sites and buildings	8,490,188	14,185	–	(8,476,003)	(8,741,455)
Fiscal and other fixed cost programs	574,212	–	–	(574,212)	(526,412)
Food service	3,957,910	2,315,731	1,665,566	23,387	(467,360)
Community service	4,990,631	2,787,201	771,995	(1,431,435)	(960,231)
Depreciation not allocated to other functions	2,835,218	–	–	(2,835,218)	(2,545,922)
Interest and fiscal charges	5,475,005	–	–	(5,475,005)	(2,243,227)
Total governmental activities	$ 110,083,304	$ 6,437,175	$ 13,194,175	(90,451,954)	(67,677,259)
General revenues					
Taxes					
Property taxes for general purposes				11,988,707	10,108,487
Property taxes for community service				982,243	911,107
Property taxes for building construction				–	1,400,000
Property taxes for debt service				6,460,016	4,637,920
General grants and aids				50,352,014	49,382,999
Other general revenues				1,011,353	566,358
Investment earnings				574,133	63,343
Total general revenues				71,368,466	67,070,214
Change in net position				(19,083,488)	(607,045)
Net position – beginning, as previously reported				(16,936,222)	(16,329,177)
Change in accounting principle				(7,063,748)	–
Net position – beginning, as restated				(23,999,970)	(16,329,177)
Net position – ending				$ (43,083,458)	$ (16,936,222)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 8,775,634	$ 102,066,978	$ 5,574,079
Receivables			
Current taxes	7,272,343	–	5,114,604
Delinquent taxes	265,472	–	125,563
Accounts and interest	60,928	298,193	–
Due from other governmental units	5,745,397	–	1,640
Due from other funds	340,848	–	–
Inventory	–	–	–
Prepaid items	307,516	–	–
Total assets	$ 22,768,138	$ 102,365,171	$ 10,815,886
Liabilities			
Aid anticipation certificates	$ –	$ –	$ –
Salaries payable	774,429	–	–
Accounts and contracts payable	7,325,908	13,478,081	–
Accrued interest payable	–	–	–
Due to other governmental units	289,887	654	–
Due to other funds	–	–	–
Unearned revenue	12,700	–	–
Total liabilities	8,402,924	13,478,735	–
Deferred inflows of resources			
Property taxes levied for subsequent year	12,466,619	–	9,197,425
Unavailable revenue – delinquent taxes	199,572	–	90,788
Total deferred inflows of resources	12,666,191	–	9,288,213
Fund balances (deficits)			
Nonspendable	307,516	–	–
Restricted	–	88,886,436	1,527,673
Assigned	471,136	–	–
Unassigned	920,371	–	–
Total fund balances	1,699,023	88,886,436	1,527,673
Total liabilities, deferred inflows of resources, and fund balances	$ 22,768,138	$ 102,365,171	$ 10,815,886

Nonmajor Funds	Total Governmental Funds 2017	Total Governmental Funds 2016
$ 1,148,160	$ 117,564,851	$ 84,683,100
588,341	12,975,288	10,781,007
21,864	412,899	416,566
27,962	387,083	186,704
187,874	5,934,911	7,299,160
–	340,848	1,323,500
73,719	73,719	75,907
14,710	322,226	202,510
$ 2,062,630	$ 138,011,825	$ 104,968,454
$ –	$ –	$ 2,947,355
160,572	935,001	3,198,570
144,057	20,948,046	10,048,618
–	–	46,673
8,628	299,169	223,357
–	–	325,307
118,087	130,787	107,685
431,344	22,313,003	16,897,565
1,057,995	22,722,039	18,778,139
16,411	306,771	322,745
1,074,406	23,028,810	19,100,884
88,429	395,945	278,417
554,365	90,968,474	67,970,285
–	471,136	416,348
(85,914)	834,457	304,955
556,880	92,670,012	68,970,005
$ 2,062,630	$ 138,011,825	$ 104,968,454

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

	2017	2016
Total fund balances – governmental funds	$ 92,670,012	$ 68,970,005
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	171,863,416	133,662,692
Accumulated depreciation	(73,392,511)	(76,875,533)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(154,825,000)	(90,530,000)
Certificates of participation payable	(2,655,000)	(2,770,000)
Unamortized premium/discount	(3,526,078)	(3,404,370)
Capital lease payable	(146,469)	(216,759)
Net pension liability	(157,428,767)	(49,606,160)
Net OPEB liability	(6,149,275)	1,632,890
Severance benefits payable	(2,101,610)	(2,305,655)
Compensated absences payable	(1,047,963)	(879,164)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(2,629,756)	(718,675)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	3,367,034	2,476,645
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – bond refunding deferments	518,906	–
Deferred outflows – OPEB plan deferments	36,173	–
Deferred outflows – pension plan deferments	96,759,357	10,353,130
Deferred inflows – bond refunding deferments	(389,020)	–
Deferred inflows – pension plan deferments	(4,313,678)	(7,048,013)
Deferred inflows – unavailable revenue – delinquent taxes	306,771	322,745
Total net position – governmental activities	$ (43,083,458)	$ (16,936,222)

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 12,003,610	$ –	$ 6,460,045
Investment earnings	29,677	525,502	6,271
Other	2,344,996	600	–
State sources	57,412,440	–	16,397
Federal sources	1,902,513	–	–
Total revenue	73,693,236	526,102	6,482,713
Expenditures			
Current			
Administration	3,706,541	–	–
District support services	1,981,718	–	–
Elementary and secondary regular instruction	27,796,600	–	–
Vocational education instruction	1,331,649	–	–
Special education instruction	13,191,811	–	–
Instructional support services	4,875,659	–	–
Pupil support services	11,214,282	–	–
Sites and buildings	8,252,564	–	–
Fiscal and other fixed cost programs	574,212	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	44,807,958	–
Debt service			
Principal	185,290	–	3,400,000
Interest and fiscal charges	139,876	–	4,049,402
Total expenditures	73,250,202	44,807,958	7,449,402
Excess (deficiency) of revenue over expenditures	443,034	(44,281,856)	(966,689)
Other financing sources (uses)			
Refunding bond debt issued	–	–	5,365,000
Building bond debt issued	–	66,908,139	161,861
Premium on debt issued	–	–	1,162,631
Discount on debt issued	–	–	(5,632)
Payments to refunded bond escrow agent	–	–	(5,279,823)
Sale of capital assets	–	–	–
Transfers in	–	1,004,016	–
Transfers (out)	(1,188,279)	–	–
Total other financing sources (uses)	(1,188,279)	67,912,155	1,404,037
Net change in fund balances	(745,245)	23,630,299	437,348
Fund balances			
Beginning of year	2,444,268	65,256,137	1,090,325
End of year	$ 1,699,023	$ 88,886,436	$ 1,527,673

See notes to basic financial statements

	Nonmajor Funds	Total Governmental Funds 2017	Total Governmental Funds 2016
	$ 983,285	$ 19,446,940	$ 17,108,004
	2,199	563,649	59,974
	5,102,932	7,448,528	7,413,887
	1,001,693	58,430,530	58,899,777
	1,435,868	3,338,381	3,155,604
	8,525,977	89,228,028	86,637,246
	–	3,706,541	3,654,157
	–	1,981,718	2,299,936
	–	27,796,600	28,929,355
	–	1,331,649	942,709
	–	13,191,811	12,427,639
	–	4,875,659	4,571,268
	–	11,214,282	11,113,359
	–	8,252,564	7,306,746
	–	574,212	526,412
	3,789,152	3,789,152	4,151,453
	4,506,514	4,506,514	4,487,966
	36,969	44,844,927	10,498,828
	–	3,585,290	3,793,377
	–	4,189,278	2,467,651
	8,332,635	133,840,197	97,170,856
	193,342	(44,612,169)	(10,533,610)
	–	5,365,000	10,285,000
	–	67,070,000	75,000,000
	–	1,162,631	2,976,525
	–	(5,632)	–
	–	(5,279,823)	(11,180,000)
	–	–	16,200
	184,263	1,188,279	–
	–	(1,188,279)	–
	184,263	68,312,176	77,097,725
	377,605	23,700,007	66,564,115
	179,275	68,970,005	2,405,890
	$ 556,880	$ 92,670,012	$ 68,970,005

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INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017	2016
Total net change in fund balances – governmental funds	$ 23,700,007	$ 66,564,115
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	44,744,864	9,502,780
Depreciation expense	(3,024,700)	(2,835,938)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(36,418)	(96,610)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.		
Refunding bonds payable	(5,365,000)	(10,285,000)
Building bonds payable	(67,070,000)	(75,000,000)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	8,140,000	14,795,000
Certificates of participation payable	115,000	110,000
Capital lease payable	70,290	68,377
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	(1,911,081)	(247,270)
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	(121,708)	(2,504,831)
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability	(107,822,607)	(7,362,179)
Net OPEB liability	(718,417)	(552,583)
Severance benefits payable	204,045	194,143
Compensated absences payable	(168,799)	(155,354)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.	890,389	(10,687)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – bond refunding deferments	518,906	–
Deferred outflows – OPEB plan deferments	36,173	–
Deferred outflows – pension plan deferments	86,406,227	1,546,210
Deferred inflows – bond refunding deferments	(389,020)	–
Deferred inflows – pension plan deferments	2,734,335	5,713,272
Deferred inflows – unavailable revenue – delinquent taxes	(15,974)	(50,490)
Change in net position – governmental activities	$ (19,083,488)	$ (607,045)

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INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 10,550,000	$ 10,550,000	$ 12,003,610	$ 1,453,610
Investment earnings	40,000	40,000	29,677	(10,323)
Other	2,159,900	2,159,900	2,344,996	185,096
State sources	56,350,100	56,100,100	57,412,440	1,312,340
Federal sources	2,000,000	2,000,000	1,902,513	(97,487)
Total revenue	71,100,000	70,850,000	73,693,236	2,843,236
Expenditures				
Current				
Administration	3,568,426	3,668,797	3,706,541	37,744
District support services	2,824,909	2,601,066	1,981,718	(619,348)
Elementary and secondary regular instruction	29,247,870	29,165,270	27,796,600	(1,368,670)
Vocational education instruction	1,015,767	1,017,567	1,331,649	314,082
Special education instruction	12,871,669	12,296,307	13,191,811	895,504
Instructional support services	3,351,083	3,403,768	4,875,659	1,471,891
Pupil support services	11,546,661	11,550,006	11,214,282	(335,724)
Sites and buildings	6,043,717	6,767,321	8,252,564	1,485,243
Fiscal and other fixed cost programs	370,000	370,000	574,212	204,212
Debt service				
Principal	120,000	120,000	185,290	65,290
Interest and fiscal charges	115,000	115,000	139,876	24,876
Total expenditures	71,075,102	71,075,102	73,250,202	2,175,100
Excess (deficiency) of revenue over expenditures	24,898	(225,102)	443,034	668,136
Other financing sources (uses)				
Transfers (out)	–	–	(1,188,279)	(1,188,279)
Net change in fund balances	$ 24,898	$ (225,102)	(745,245)	$ (520,143)
Fund balances				
Beginning of year			2,444,268	
End of year			$ 1,699,023	

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017	2016
Assets		
Current assets		
Cash and temporary investments	$ 5,949,390	$ 5,118,001
Receivables		
Accounts and interest	24,339	34,161
Prepaid items	6,732	–
Total current assets	5,980,461	5,152,162
Liabilities		
Current liabilities		
Accounts and contracts payable	164,790	273,822
Unearned revenue	1,760,153	1,775,506
Claims incurred, but not reported	688,484	626,189
Total current liabilities	2,613,427	2,675,517
Net position		
Unrestricted	$ 3,367,034	$ 2,476,645

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017	2016
Operating revenue		
Charges for services		
Contributions from governmental funds	$ 9,848,999	$ 9,872,629
Operating expenses		
Health benefit claims	8,425,939	9,349,731
Dental benefit claims	543,155	536,954
Total operating expenses	8,969,094	9,886,685
Operating income (loss)	879,905	(14,056)
Nonoperating revenue		
Investment earnings	10,484	3,369
Change in net position	890,389	(10,687)
Net position		
Beginning of year	2,476,645	2,487,332
End of year	$ 3,367,034	$ 2,476,645

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

	2017	2016
Cash flows from operating activities		
Contributions from governmental funds	$ 9,843,468	$ 10,084,758
Payment for health claims	(8,482,747)	(9,124,320)
Payment for dental claims	(539,816)	(538,676)
Net cash flows from operating activities	820,905	421,762
Cash flows from investing activities		
Investment income received	10,484	3,369
Net change in cash and cash equivalents	831,389	425,131
Cash and cash equivalents		
Beginning of year	5,118,001	4,692,870
End of year	$ 5,949,390	$ 5,118,001
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	$ 879,905	$ (14,056)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts and interest receivable	9,822	(5,809)
Prepaid items	(6,732)	–
Accounts and contracts payable	(109,032)	140,063
Unearned revenue	(15,353)	217,938
Claims incurred, but not reported	62,295	83,626
Net cash flows from operating activities	$ 820,905	$ 421,762

See notes to basic financial statements

Statement of Fiduciary Net Position
as of June 30, 2017

		Post-Employment Benefits Trust Fund
Assets		
Cash and temporary investments	$	816,085
Investments, at fair value		
Negotiable certificates of deposit		1,291,755
MNTrust Investment Shares Portfolio		603,012
Accounts and interest receivable		22,789
Total assets		2,733,641
Liabilities		
Due to other funds		340,848
Net position		
Held in trust for employee benefits	$	2,392,793

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

		Post-Employment Benefits Trust Fund
Additions		
Investment earnings	$	19,917
Deductions		
Benefits paid to plan members and administrative fees		341,098
Change in net position		(321,181)
Net position		
Beginning of year		2,713,974
End of year	$	2,392,793

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 831 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

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

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

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2017, the District paid TIES $415,528 for services provided.

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

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. Generally, the effect of material interfund activity has been removed from the government-wide financial statements. Transactions representing interfund services provided and used are not eliminated in the consolidation process to the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as "depreciation not allocated to other functions." Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fiduciary funds are presented in the fiduciary fund financial statements by type, for which the District has one Post-Employment Benefits Trust Fund. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

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

Description of Funds

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

Major Governmental Funds

General Fund – The General Fund is the government's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities and as authorized by the District's MDE-approved long-term facilities maintenance program.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the taxable OPEB bond issues.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used to record financial activities of the District's child nutrition program.

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

Proprietary Funds

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's internal service funds are used to account for dental and health insurance benefits offered by the District to its employees as a self-insured plan.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund

Post-Employment Benefits Trust Fund – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. Expenditures in the General, Food Service Special Revenue, Community Service Special Revenue, and Debt Service Funds exceeded budgeted appropriations by $2,175,100, $114,245, $235,139, and $1,519,402, respectively, during the year ended June 30, 2017. Revenues and other financing sources in excess of budget, along with available fund balance, financed these variances.

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to the fund.

In the Post-Employment Benefits Trust Fund, assets were contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Earnings from the investments of this trust are allocated directly to this fund.

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

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

H. Inventories

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

I. Prepaid Items

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

J. Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $460,471 of the property tax levy collectible in 2017 as revenue to the District in fiscal year 2016–2017. The remaining portion of the taxes collectible in 2017 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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

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

K. Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets are recorded in the government-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and building and land improvements, 5 to 15 years for furniture and equipment, and 10 to 20 years for intangible assets. Land and construction in progress are not depreciated.

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

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

M. Compensated Absences

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end due to employee termination or similar circumstances.

N. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year’s salary. Members of certain employee groups may also elect to receive district matching contributions paid into a tax-deferred matching contribution plan. The amount of any severance or retirement benefit due to an individual is reduced by the total matching contributions made by the District to such a plan over the course of that individual’s employment.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. State-Wide Pension Plans

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 the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

P. Other Post-Employment Benefits (OPEB) Plan

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

Q. Deferred Outflows/Inflows of Resources

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

The District reports deferred outflows and inflows of resources related to bond refunding deferments in the government-wide Statement of Net Position. A bond refunding deferment 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.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

R. Net Position

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

- **Net Investment in Capital Assets –** Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

S. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.

- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

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

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

T. Use of Estimates

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

U. Risk Management and Self-Insurance

1. **General Insurance** – 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 workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2017.

2. **Self-Insurance** – The District has established two internal service funds to account for and finance its self-insured risk of loss for respective employee dental and health insurance plans. Under these plans, the internal service funds provide coverage to participating employees and their dependents for various dental and healthcare costs as described in the plans.

   The District makes premium payments, that include both employer and employee contributions to the internal service funds on behalf of program participants based on rates determined by insurance company estimates of monthly claims paid for each coverage class, plus the stop-loss health insurance premium costs and administrative service charges.

   District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claim liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the balance of dental claim liabilities for the past two years were as follows:

	Balance – Beginning of Year	Charges and Changes in Estimates	Claim Payments	Balance – End of Year
2016	$ 8,765	$ 536,954	$ 537,174	$ 8,545
2017	$ 8,545	$ 543,155	$ 541,153	$ 10,547

Changes in the balance of health insurance claim liabilities for the past two years were as follows:

	Balance – Beginning of Year	Charges and Changes in Estimates	Claim Payments	Balance – End of Year
2016	$ 533,798	$ 9,349,731	$ 9,265,885	$ 617,644
2017	$ 617,644	$ 8,425,939	$ 8,365,646	$ 677,937

V. Prior Period Comparative Financial Information/Reclassification

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

W. Change in Accounting Principle

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

	Governmental Activities
Net position – beginning, as previously reported	$ (16,936,222)
Change in accounting principle	
Net OPEB asset, under previous reporting standards	(1,632,890)
Net OPEB liability, under current reporting standards	(5,430,858)
Total change in accounting principle	(7,063,748)
Net position – beginning, as restated	$ (23,999,970)

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$ 58,397,062
Investments	67,828,031
Total deposits and investments	$ 126,225,093

Cash and investments are included on the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	$ 123,514,241
Statement of Fiduciary Net Position	
Cash and temporary investments	816,085
Investments, at fair value	1,894,767
Total deposits and investments	$ 126,225,093

B. Deposits

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

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

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

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

At year-end, the carrying amount of the District's deposits was $58,397,062, while the balance on the bank records was $60,902,464. At June 30, 2017, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The District has the following investments at year-end:

Deposits/Investments	Credit Risk Rating	Credit Risk Agency	Fair Value Measurements Using	Interest Risk – Maturity Duration in Years: Less Than 1	1 to 5	5 to 10	10 to 15	Total
U.S. agency securities	AA	S&P	Level 2	$ 1,992,070	$ 6,006,880	$ –	$ –	$ 7,998,950
State and local bonds	AAA	S&P	Level 2	$ 249,670	$ 887,537	$ –	$ –	1,137,207
State and local bonds	AA	S&P	Level 2	$ 5,205,918	$ 4,587,205	$ –	$ 262,575	10,055,698
State and local bonds	A	S&P	Level 2	$ 376,200	$ 328,133	$ –	$ –	704,333
State and local bonds	Aa	Moody's	Level 2	$ 982,922	$ 1,959,734	$ –	$ –	2,942,656
Negotiable certificates of deposit	N/R	N/A	Level 1	$ 744,000	$ 248,000	$ –	$ –	992,000
Negotiable certificates of deposit	N/R	N/A	Level 2	$ 595,992	$ 943,145	$ –	$ –	1,539,137
Investment pools/mutual funds								
Minnesota School District Liquid Asset Fund	AAA	S&P	N/A	N/A	N/A	N/A	N/A	103,951
MNTrust Investment Shares Portfolio	AAA	S&P	N/A	N/A	N/A	N/A	N/A	4,191,015
MNTrust Term Series	AAA	S&P	N/A	$ 23,302,283	$ –	$ –	$ –	23,302,283
Wells Fargo Advantage Government	AAA	S&P	Level 1	N/A	N/A	N/A	N/A	14,860,801
Total investments								$ 67,828,031

N/R – Not Rated
N/A – Not Applicable

Investment pools purchased through the Minnesota School District Liquid Asset Fund (MSDLAF) or the MNTrust are external investment pools not registered with the Securities and Exchange Commission regulated by Minnesota Statutes. The District's investment in these investment pools are measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. For these investment pools, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice required except for the MSDLAF – Max Class, which requires a redemption notice of 14 days.

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

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

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk.

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year is as follows:

	Beginning Balance	Additions	Deletions	Completed Construction	Ending Balance
Capital assets, not depreciated					
Land	$ 1,885,726	$ –	$ –	$ –	$ 1,885,726
Construction in progress	5,909,030	43,728,566	–	(9,664,924)	39,972,672
Total capital assets, not depreciated	7,794,756	43,728,566	–	(9,664,924)	41,858,398
Capital assets, depreciated					
Buildings	85,463,104	127,312	–	–	85,590,416
Building and land improvements	17,360,133	637,778	–	9,664,924	27,662,835
Furniture and equipment	21,149,699	251,208	(6,544,140)	–	14,856,767
Intangibles	1,895,000	–	–	–	1,895,000
Total capital assets, depreciated	125,867,936	1,016,298	(6,544,140)	9,664,924	130,005,018
Less accumulated depreciation for					
Buildings	(50,944,330)	(1,733,451)	–	–	(52,677,781)
Building and land improvements	(6,368,496)	(889,201)	–	–	(7,257,697)
Furniture and equipment	(19,528,784)	(314,475)	6,507,722	–	(13,335,537)
Intangibles	(33,923)	(87,573)	–	–	(121,496)
Total accumulated depreciation	(76,875,533)	(3,024,700)	6,507,722	–	(73,392,511)
Net capital assets, depreciated	48,992,403	(2,008,402)	(36,418)	9,664,924	56,612,507
Total capital assets, net	$ 56,787,159	$ 41,720,164	$ (36,418)	$ –	$ 98,470,905

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the following governmental functions:

Administration	$ 352
District support services	1,765
Elementary and secondary regular instruction	11,006
Special education instruction	2,453
Instructional support services	4,515
Pupil support services	125,565
Community service	2,585
Food service	41,241
Depreciation not allocated to other functions	2,835,218
Total depreciation expense	$ 3,024,700

NOTE 4 – AID ANTICIPATION CERTIFICATES

Short-term borrowing for cash flow purposes is summarized as follows:

Issue Date	Maturity Date	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
09/03/2015	09/15/2016	2.00%	$ 2,947,355	$ –	$ 2,947,355	$ –

Interest and fiscal charges of $12,274 were charged to the General Fund during the year.

NOTE 5 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Taxable OPEB bonds	03/01/2009	3.50–6.00%	$ 6,450,000	02/01/2018	$ 260,000
Refunding bonds	10/08/2015	5.00%	$ 10,285,000	02/01/2019	7,130,000
School building bonds	05/05/2016	2.00–5.00%	$ 75,000,000	02/01/2046	75,000,000
School building bonds	12/15/2016	3.00–5.00%	$ 67,070,000	02/01/2046	67,070,000
Taxable OPEB refunding bonds	12/15/2016	1.25–3.35%	$ 5,365,000	02/01/2030	5,365,000
Total general obligation bonds payable					$ 154,825,000

These bonds were issued to finance acquisition, construction, and/or improvements of capital facilities; to finance the retirement (refunding) of prior bond issues; or to finance OPEB obligations. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

In December 2016, the District issued $5,365,000 of general obligation Taxable OPEB Refunding Bonds, Series 2016C. The proceeds of this issue and interest earned thereon will be used to refund, in advance of their stated maturities, the 2019–2030 maturities of the District's 2009A Taxable OPEB Bonds. The proceeds of the 2016C issue have been placed in an escrow account pending the February 1, 2019 call date of the refunded issue. On February 1, 2019, the escrow account will be used to call the remaining principal of the 2009A issue. This advance refunding has met the requirements of an in-substance defeasance and, therefore, the escrow cash and related debt paid by the escrow have been removed from these financial statements. At June 30, 2017, the District has $4,740,000 in defeased bonds outstanding from the 2009A Taxable OPEB issue. This advance refunding will reduce the District's total future debt service payments by $457,120 and will result in present value savings of $428,788.

B. Certificates of Participation Payable

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Certificates of participation	02/25/2014	1.20–5.35%	$ 3,000,000	02/01/2034	$ 2,655,000

On February 25, 2014, the District issued $3,000,000 of Certificates of Participation, Series 2014A. The proceeds were used to purchase the Forest Lake Area Athletic Association (FLAAA) Sports Center and Ice Arena. The District has a nominal ground lease agreement with the City of Forest Lake for the land where the FLAAA Sports Center and Ice Arena are located.

C. Capital Lease Payable

The District entered into a $355,257 capital lease agreement to finance the acquisition of telephone and communications technology equipment on December 15, 2014. This lease has an effective interest rate of 2.735 percent and calls for annual principal and interest payments of $76,288 through June 2019. The lease is being paid through the General Fund. The leased assets were recorded at $410,064, which includes the asset and labor costs (the present value of future minimum lease payments as of the inception date of the lease). Total accumulated depreciation on these assets at year-end was $123,019.

D. Other Long-Term Liabilities

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

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

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	$ 18,512,470	$ 7,228,812	$ 2,202,040	$ 2,112,639
TRA	138,916,297	89,530,545	2,111,638	22,100,880
Total	$ 157,428,767	$ 96,759,357	$ 4,313,678	$ 24,213,519

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

E. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds, certificates of participation, and the capital lease are as follows:

Year Ending	General Obligation Bonds		Certificates of Participation		Capital Lease	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 3,825,000	$ 5,732,449	$ 115,000	$ 119,650	$ 72,235	$ 4,053
2019	3,845,000	5,216,154	115,000	117,178	74,234	2,054
2020	3,345,000	5,030,459	120,000	114,360	–	–
2021	3,495,000	4,875,849	125,000	110,760	–	–
2022	3,645,000	4,728,899	125,000	106,573	–	–
2023–2027	20,555,000	21,319,478	720,000	450,615	–	–
2028–2032	24,170,000	17,679,414	905,000	261,958	–	–
2033–2037	28,150,000	13,654,919	430,000	34,755	–	–
2038–2042	33,065,000	8,736,844	–	–	–	–
2043–2046	30,730,000	2,717,268	–	–	–	–
	$ 154,825,000	$ 89,691,733	$ 2,655,000	$ 1,315,849	$ 146,469	$ 6,107

F. Changes in Long-Term Liabilities

	Beginning Balance	Change in Accounting Principle *	Additions	Retirements	Ending Balance	Due Within One Year
General obligation bonds payable	$ 90,530,000	$ –	$ 72,435,000	$ 8,140,000	$ 154,825,000	$ 3,825,000
Certificates of participation payable	2,770,000	–	–	115,000	2,655,000	115,000
Unamortized premium/discount	3,404,370	–	1,156,999	1,035,291	3,526,078	–
Total bonds and certificates payable	96,704,370	–	73,591,999	9,290,291	161,006,078	3,940,000
Capital lease payable	216,759	–	–	70,290	146,469	72,235
Net pension liability	49,606,160	–	114,395,522	6,572,915	157,428,767	–
Net OPEB liability	–	5,430,858	783,552	65,135	6,149,275	–
Severance benefits payable	2,305,655	–	164,969	369,014	2,101,610	471,136
Compensated absences payable	879,164	–	794,970	626,171	1,047,963	626,171
	$ 149,712,108	$ 5,430,858	$ 189,731,012	$ 16,993,816	$ 327,880,162	$ 5,109,542

* The amounts in this column reflect only a portion of the change in accounting principle described earlier in these notes.

NOTE 6 – FUND BALANCES

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

Classifications

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	$ –	$ –	$ –	$ 73,719	$ 73,719
Prepaid items	307,516	–	–	14,710	322,226
Total nonspendable	307,516	–	–	88,429	395,945
Restricted					
Capital projects	–	88,886,436	–	–	88,886,436
Debt service	–	–	1,527,673	–	1,527,673
Community education programs	–	–	–	16,928	16,928
Early childhood family education programs	–	–	–	211,417	211,417
School readiness	–	–	–	280,321	280,321
Adult basic education	–	–	–	3,815	3,815
Community service	–	–	–	41,884	41,884
Total restricted	–	88,886,436	1,527,673	554,365	90,968,474
Assigned					
Severance	471,136	–	–	–	471,136
Unassigned					
Long-term facilities maintenance restricted account deficit	(468,294)	–	–	–	(468,294)
Unassigned – food service restricted account deficit	–	–	–	(85,914)	(85,914)
Unassigned	1,388,665	–	–	–	1,388,665
Total unassigned	920,371	–	–	(85,914)	834,457
Total	$ 1,699,023	$ 88,886,436	$ 1,527,673	$ 556,880	$ 92,670,012

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

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

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

2. Teachers Retirement Association (TRA)

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

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

B. Benefits Provided

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

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

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

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

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

1. GERF Benefits

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

2. TRA Benefits

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

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

Tier I Benefits

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

With these provisions:

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

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

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

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

Tier II Benefits

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

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

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

C. Contributions

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2017; the District was required to contribute 7.5 percent for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2017 were $1,120,066. The District's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

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

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

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2017, were $2,389,614. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

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

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

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2017, the District reported a liability of $18,512,470 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of the PERA's participating employers. The District's proportionate share was 0.2280 percent at the end of the measurement period and 0.2348 percent for the beginning of the period.

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

District's proportionate share of net pension liability	$ 18,512,470
State's proportionate share of the net pension liability associated with the District	$ 241,803

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

For the year ended June 30, 2017, the District recognized pension expense of $2,040,540 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional $72,099 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $6 million to the GERF.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 56,424	$ 1,515,708
Changes in actuarial assumptions	4,003,666	–
Differences between projected and actual investment earnings	2,048,656	–
Changes in proportion	–	686,332
District's contributions to the GERF subsequent to the measurement date	1,120,066	–
Total	$ 7,228,812	$ 2,202,040

A total of $1,120,066 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	$ 982,700
2019	$ 547,368
2020	$ 1,707,936
2021	$ 668,702

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of $138,916,297 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.5824 percent at the end of the measurement period and 0.6052 percent for the beginning of the period.

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

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

District's proportionate share of net pension liability	$ 138,916,297
State's proportionate share of the net pension liability associated with the District	$ 13,944,490

For the year ended June 30, 2017, the District recognized pension expense of $20,153,762. It also recognized $1,947,118 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,541,578	$ 3,873
Changes in actuarial assumptions	79,189,818	–
Difference between projected and actual investment earnings	5,541,551	–
Changes in proportion	867,984	2,107,765
District's contributions to the TRA subsequent to the measurement date	2,389,614	–
Total	$ 89,530,545	$ 2,111,638

A total of $2,389,614 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	$ 16,861,604
2019	$ 16,861,604
2020	$ 19,078,010
2021	$ 17,057,646
2022	$ 15,170,429

E. Actuarial Assumptions

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

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

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

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

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

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

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

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

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

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

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

F. Discount Rate

1. GERF

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

2. TRA

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

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

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	$ 26,293,193	$ 18,512,470	$ 12,103,271
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	$ 178,958,911	$ 138,916,297	$ 106,302,892

H. Pension Plan Fiduciary Net Position

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

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

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

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

B. Benefits Provided

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

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

C. Contributions

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

D. Membership

Membership in the plan consisted of the following as of the most recent study:

Retirees and beneficiaries receiving benefits	90
Active plan members	792
Total members	882

E. Net OPEB Liability of the District

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

Total OPEB liability	$ 8,542,068
Plan fiduciary net position	(2,392,793)
District's net OPEB liability	$ 6,149,275
Plan fiduciary net position as a percentage of the total OPEB liability	28.0%

F. Actuarial Method and Assumptions

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

Discount rate	2.90%
Expected long-term investment return	2.40% (net of investment expenses)
20-year municipal bond yield	2.90%
Inflation rate	2.50%
Salary increases	3.00%
Medical trend rate	6.75% grading to 5.00% over 7 years
Dental trend rate	4.00%

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

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

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

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

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

G. Rate of Return

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 0.70 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

H. Discount Rate

The discount rate used to measure the total OPEB liability was 2.90 percent. The projection of cash flows used to determine the discount rate was determined by projecting forward the fiduciary net position (assets) as of the valuation date, increasing by the investment return assumption, and reducing by benefit payments in each period until assets are exhausted. Expected benefit payments by year were discounted using the expected asset return assumptions for the years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate. The contribution and benefit payment history, as well as the funding policy have also been taken into account. The District discount rate used in the prior measurement date was 3.00 percent.

I. Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a-b)
Beginning balance – July 1, 2016	$ 8,144,832	$ 2,713,974	$ 5,430,858
Changes for the year			
Service cost	492,508	–	492,508
Interest	245,576	–	245,576
Net investment income	–	19,917	(19,917)
Benefit payments – paid through trust	(340,848)	(340,848)	–
Administrative expenses	–	(250)	250
Total net changes	397,236	(321,181)	718,417
Ending balance – June 30, 2017	$ 8,542,068	$ 2,392,793	$ 6,149,275

Assumption changes since the prior measurement date include the following:

- The healthcare trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP-2000 Combined Healthy Table projected to 2014 with Scale BB to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and the retirement table for only employees eligible to retire with Rule of 90 also were updated.
- The discount rate was changed from 3.00 percent to 2.90 percent.
- The percentage of future retirees who are assumed to continue on the District's medical plan post-employment was changed from 90.00 percent to 80.00 percent for all employees (except Directors and the Superintendent) who are eligible for a subsidy.

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

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

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
OPEB discount rate	1.90%	2.90%	3.90%
Net OPEB liability	$ 6,726,564	$ 6,149,275	$ 5,602,600

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

	1% Decrease in Healthcare Trend Rate	Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
OPEB healthcare trend rate	5.75% decreasing to 4.00% over 7 years	6.75% decreasing to 5.00% over 7 years	7.75% decreasing to 6.00% over 7 years
OPEB dental trend rate	3.00%	4.00%	5.00%
Net OPEB liability	$ 5,404,112	$ 6,149,275	$ 7,028,262

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

For the current year ended, the District recognized OPEB expense of $682,244. As of year-end, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual investment earnings	$ 36,173	$ –

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

Year Ending June 30,	OPEB Expense Amount
2018	$ 9,044
2019	$ 9,044
2020	$ 9,044
2021	$ 9,041

NOTE 9 – FLEXIBLE BENEFIT PLAN

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

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pretax dollars to be contributed to the Plan during the year. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the Plan, whether or not such contributions have been made.

The Plan is administered by the District for child care, medical expense reimbursements, and health insurance premiums. The District withholds amounts from employee payroll checks equal to the amount of the health insurance premiums owing and makes the premium payments when due. These payments are recorded in the General Fund. The medical reimbursement and dependent care activity in the financial statements is accounted for in the General Fund.

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

NOTE 10 – HEALTHCARE REIMBURSEMENT PLAN

The District also maintains a healthcare reimbursement plan (the Healthcare Plan) under § 105 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Participants may use the funds contributed by the District to be reimbursed for uninsured health expenses paid, additional costs associated with health insurance coverage, or insurance premiums paid under a spouse or dependent plan.

All assets of the Healthcare Plan are held by the District. The Healthcare Plan is administered by an independent contract administrator and is included in the financial statements in the various district funds.

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

NOTE 11 – INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

The District's General Fund has an interfund receivable from the fiduciary Post-Employment Benefits Trust Fund relating to post-employment benefit costs of $340,848 to be reimbursed as of June 30, 2017.

B. Transfers

During fiscal 2017, the General Fund transferred $184,263 to the Food Service Special Revenue Fund to eliminate a year-end fund balance deficit. The General Fund also transferred $1,004,016 to the Capital Projects – Building Construction Fund related to the long-term facilities maintenance program. Such interfund transfers are reported in the fund financial statements, but are eliminated in the government-wide financial statements.

NOTE 12 – OPERATING LEASES

The District has operating bus leases for student transportation. The leases have monthly payments ranging from $2,651 to $34,088, and expire at various times through August 2020. Operating lease expenditures for the year ended June 30, 2017 were approximately $1,129,938.

The District is currently utilizing space under an operating lease agreement for the Step Program. The lease has monthly payments ranging from $12,553 to $13,931, and will expire in November 2024. Operating lease expenditures for the year ended June 30, 2017 were approximately $149,703.

Future commitments on these leases are as follows:

Year Ending June 30,	Bus Leases	Space Lease
2018	$ 2,690,865	$ 151,948
2019	2,395,183	154,227
2020	262,071	156,536
2021	219,085	158,889
2022	–	161,272
2023–2025	–	399,493
	$ 5,567,204	$ 1,182,365

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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

B. Legal Claims

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

C. Construction Contracts

At June 30, 2017, the District had commitments totaling $38,919,562 under various construction contracts for which the work was not yet completed.

D. Guaranteed Energy Savings Commitment

During fiscal year 2016, the District entered into a guaranteed energy savings agreement with APEX under Minnesota Statutes, Section 471.345, Subd. 13, not to exceed 20 years. This agreement is for the purpose of implementing comprehensive utility cost-saving measures to improve the energy efficiency of the school district facilities. As of June 30, 2017, the District has recorded $1,895,000 as an intangible asset related to this energy savings contract. Total accumulated depreciation on these intangible assets at year-end was $121,496. The District is also required to purchase the energy generated by the solar panels owned by the provider that are installed on various buildings of the District.

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REQUIRED SUPPLEMENTARY INFORMATION

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

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.2504%	$ 11,762,537	$ –	$ 11,762,537	$ 13,148,109	89.46%	78.70%
06/30/2016	06/30/2015	0.2348%	$ 12,168,555	$ –	$ 12,168,555	$ 13,777,131	88.32%	78.20%
06/30/2017	06/30/2016	0.2280%	$ 18,512,470	$ 241,803	$ 18,754,273	$ 14,132,795	130.99%	68.90%

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

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 1,018,736	$ 1,018,736	$ –	$ 13,777,131	7.39%
06/30/2016	$ 1,060,550	$ 1,060,550	$ –	$ 14,132,795	7.50%
06/30/2017	$ 1,120,066	$ 1,120,066	$ –	$ 14,933,242	7.50%

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 831

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

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.6615%	$ 30,481,444	$ 2,144,221	$ 32,625,665	$ 30,196,677	100.94%	81.50%
06/30/2016	06/30/2015	0.6052%	$ 37,437,605	$ 4,591,853	$ 42,029,458	$ 30,724,443	121.85%	76.80%
06/30/2017	06/30/2016	0.5824%	$138,916,297	$ 13,944,490	$152,860,787	$ 30,285,682	458.69%	44.88%

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

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 2,304,333	$ 2,304,333	$ –	$ 30,724,443	7.50%
06/30/2016	$ 2,271,426	$ 2,271,426	$ –	$ 30,285,682	7.50%
06/30/2017	$ 2,389,614	$ 2,389,614	$ –	$ 31,861,519	7.50%

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017
Total OPEB liability	
Service cost	$ 492,508
Interest	245,576
Benefit payments	(340,848)
Net change in total OPEB liability	397,236
Total OPEB liability – beginning of year	8,144,832
Total OPEB liability – end of year	8,542,068
Plan fiduciary net position	
Net investment income	19,917
Benefit payments – paid through trust	(340,848)
Administrative expenses	(250)
Net change in plan fiduciary net position	(321,181)
Plan fiduciary net position – beginning of year	2,713,974
Plan fiduciary net position – end of year	2,392,793
Net OPEB liability	$ 6,149,275
Fiduciary net position as a percentage of the total OPEB liability	28.0%
Covered-employee payroll	$ 39,738,394
Net OPEB liability as a percentage of covered-employee payroll	15.5%

Note 1: **Change of Assumptions** – The healthcare trend rates were changed to better anticipate short-term and long-term medical increases. The mortality table was updated from RP-2000 projected to 2014 with Scale BB to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale. The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated. The discount rate was changed from 3.00 percent to 2.90 percent. The percentage of future retirees who are assumed to continue on the District's medical plan post-employment was changed from 90 percent to 80 percent for all employees (except Directors and the Superintendent) who are eligible for a subsidy.

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

INDEPENDENT SCHOOL DISTRICT NO. 831

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

Year	Annual Money-Weighted Rate of Return Net of Investment Expense
2017	0.70%

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

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<u>SUPPLEMENTAL INFORMATION</u>

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 46,546	$ 1,101,614	$ 1,148,160
Receivables			
Current taxes	–	588,341	588,341
Delinquent taxes	–	21,864	21,864
Accounts and interest	429	27,533	27,962
Due from other governmental units	58,612	129,262	187,874
Inventory	73,719	–	73,719
Prepaid items	12,195	2,515	14,710
Total assets	$ 191,501	$ 1,871,129	$ 2,062,630
Liabilities			
Salaries payable	$ 35,835	$ 124,737	$ 160,572
Accounts and contracts payable	42,167	101,890	144,057
Due to other governmental units	3,827	4,801	8,628
Unearned revenue	109,672	8,415	118,087
Total liabilities	191,501	239,843	431,344
Deferred inflows of resources			
Property taxes levied for subsequent year	–	1,057,995	1,057,995
Unavailable revenue – delinquent taxes	–	16,411	16,411
Total deferred inflows of resources	–	1,074,406	1,074,406
Fund balances (deficits)			
Nonspendable	85,914	2,515	88,429
Restricted	–	554,365	554,365
Unassigned	(85,914)	–	(85,914)
Total fund balances (deficits)	–	556,880	556,880
Total liabilities, deferred inflows of resources, and fund balances	$ 191,501	$ 1,871,129	$ 2,062,630

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 983,285	$ 983,285
Investment earnings	–	2,199	2,199
Other	2,315,731	2,787,201	5,102,932
State sources	238,033	763,660	1,001,693
Federal sources	1,427,533	8,335	1,435,868
Total revenue	3,981,297	4,544,680	8,525,977
Expenditures			
Current			
Food service	3,789,152	–	3,789,152
Community service	–	4,506,514	4,506,514
Capital outlay	6,490	30,479	36,969
Total expenditures	3,795,642	4,536,993	8,332,635
Excess (deficiency) of revenue over expenditures	185,655	7,687	193,342
Other financing sources			
Transfers in	184,263	–	184,263
Net change in fund balances	369,918	7,687	377,605
Fund balances (deficits)			
Beginning of year	(369,918)	549,193	179,275
End of year	$ –	$ 556,880	$ 556,880

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Comparative Balance Sheet
as of June 30, 2017 and 2016

	2017	2016
Assets		
Cash and temporary investments	$ 8,775,634	$ 11,510,150
Receivables		
Current taxes	7,272,343	6,657,437
Delinquent taxes	265,472	277,279
Accounts and interest	60,928	81,863
Due from other governmental units	5,745,397	7,038,190
Due from other funds	340,848	1,323,500
Prepaid items	307,516	173,920
Total assets	$ 22,768,138	$ 27,062,339
Liabilities		
Aid anticipation certificates	$ –	$ 2,947,355
Salaries payable	774,429	2,788,807
Accounts and contracts payable	7,325,908	7,081,895
Accrued interest payable	–	46,673
Due to other governmental units	289,887	219,414
Unearned revenue	12,700	10,080
Total liabilities	8,402,924	13,094,224
Deferred inflows of resources		
Property taxes levied for subsequent year	12,466,619	11,309,372
Unavailable revenue – delinquent taxes	199,572	214,475
Total deferred inflows of resources	12,666,191	11,523,847
Fund balances (deficits)		
Nonspendable for prepaid items	307,516	173,920
Restricted for operating capital	–	80,523
Restricted for achievement and integration	–	16,636
Assigned for severance	471,136	416,348
Unassigned – deferred maintenance restricted account deficit	–	(354,554)
Unassigned – health and safety restricted account deficit	–	(1,279,168)
Unassigned – long-term facilities maintenance restricted account deficit	(468,294)	–
Unassigned	1,388,665	3,390,563
Total fund balances	1,699,023	2,444,268
Total liabilities, deferred inflows of resources, and fund balances	$ 22,768,138	$ 27,062,339

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 10,550,000	$ 12,003,610	$ 1,453,610	$ 10,143,433
Investment earnings	40,000	29,677	(10,323)	9,598
Other	2,159,900	2,344,996	185,096	2,246,203
State sources	56,100,100	57,412,440	1,312,340	57,995,977
Federal sources	2,000,000	1,902,513	(97,487)	1,833,859
Total revenue	70,850,000	73,693,236	2,843,236	72,229,070
Expenditures				
Current				
Administration				
Salaries	2,553,310	2,491,589	(61,721)	2,427,910
Employee benefits	996,785	1,058,957	62,172	1,046,004
Purchased services	58,700	86,434	27,734	111,909
Supplies and materials	10,773	5,531	(5,242)	13,078
Other expenditures	49,229	64,030	14,801	55,256
Total administration	3,668,797	3,706,541	37,744	3,654,157
District support services				
Salaries	1,071,919	883,623	(188,296)	944,975
Employee benefits	533,312	522,990	(10,322)	536,252
Purchased services	1,032,842	501,337	(531,505)	742,688
Supplies and materials	(47,807)	68,620	116,427	70,445
Other expenditures	10,800	5,148	(5,652)	5,576
Total district support services	2,601,066	1,981,718	(619,348)	2,299,936
Elementary and secondary regular instruction				
Salaries	19,834,974	18,437,124	(1,397,850)	19,425,764
Employee benefits	7,561,099	7,503,240	(57,859)	7,616,917
Purchased services	837,775	871,366	33,591	1,028,099
Supplies and materials	901,428	816,668	(84,760)	825,901
Capital expenditures	15,494	20,517	5,023	20,566
Other expenditures	14,500	147,685	133,185	12,108
Total elementary and secondary regular instruction	29,165,270	27,796,600	(1,368,670)	28,929,355

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	683,287	1,023,046	339,759	612,173
Employee benefits	278,780	240,240	(38,540)	284,517
Purchased services	22,200	22,790	590	22,420
Supplies and materials	33,300	31,183	(2,117)	22,999
Capital expenditures	–	9,721	9,721	600
Other expenditures	–	4,669	4,669	–
Total vocational education instruction	1,017,567	1,331,649	314,082	942,709
Special education instruction				
Salaries	9,173,270	9,118,082	(55,188)	8,517,784
Employee benefits	2,446,227	3,212,490	766,263	3,278,469
Purchased services	521,810	669,161	147,351	547,047
Supplies and materials	109,000	105,790	(3,210)	52,539
Capital expenditures	25,000	32,272	7,272	28,077
Other expenditures	21,000	54,016	33,016	3,723
Total special education instruction	12,296,307	13,191,811	895,504	12,427,639
Instructional support services				
Salaries	2,280,269	3,620,214	1,339,945	3,326,306
Employee benefits	874,517	978,689	104,172	979,109
Purchased services	80,900	120,640	39,740	120,262
Supplies and materials	129,832	126,441	(3,391)	113,160
Capital expenditures	25,000	613	(24,387)	21,227
Other expenditures	13,250	29,062	15,812	11,204
Total instructional support services	3,403,768	4,875,659	1,471,891	4,571,268
Pupil support services				
Salaries	5,503,881	5,267,930	(235,951)	5,015,253
Employee benefits	2,059,474	2,135,982	76,508	2,170,257
Purchased services	2,929,666	2,875,818	(53,848)	2,652,301
Supplies and materials	1,021,445	884,703	(136,742)	868,410
Capital expenditures	35,000	36,473	1,473	407,138
Other expenditures	540	13,376	12,836	–
Total pupil support services	11,550,006	11,214,282	(335,724)	11,113,359

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	2,115,628	2,335,364	219,736	1,871,873
Employee benefits	1,085,610	1,143,452	57,842	1,085,543
Purchased services	2,550,012	3,487,647	937,635	3,449,455
Supplies and materials	366,701	456,034	89,333	299,737
Capital expenditures	646,870	825,813	178,943	598,909
Other expenditures	2,500	4,254	1,754	1,229
Total sites and buildings	6,767,321	8,252,564	1,485,243	7,306,746
Fiscal and other fixed cost programs				
Purchased services	370,000	574,212	204,212	526,412
Debt service				
Principal	120,000	185,290	65,290	178,377
Interest and fiscal charges	115,000	139,876	24,876	138,174
Total debt service	235,000	325,166	90,166	316,551
Total expenditures	71,075,102	73,250,202	2,175,100	72,088,132
Excess (deficiency) of revenue over expenditures	(225,102)	443,034	668,136	140,938
Other financing sources (uses)				
Sale of capital assets	–	–	–	16,200
Transfers (out)	–	(1,188,279)	(1,188,279)	–
Total other financing sources (uses)	–	(1,188,279)	(1,188,279)	16,200
Net change in fund balances	$ (225,102)	(745,245)	$ (520,143)	157,138
Fund balances				
Beginning of year		2,444,268		2,287,130
End of year		$ 1,699,023		$ 2,444,268

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

	2017	2016
Assets		
Cash and temporary investments	$ 46,546	$ –
Receivables		
Accounts and interest	429	1,931
Due from other governmental units	58,612	61,271
Inventory	73,719	75,907
Prepaid items	12,195	2,045
Total assets	$ 191,501	$ 141,154
Liabilities		
Salaries payable	$ 35,835	$ 50,017
Accounts and contracts payable	42,167	42,538
Due to other governmental units	3,827	–
Due to other funds	–	325,307
Unearned revenue	109,672	93,210
Total liabilities	191,501	511,072
Fund balances (deficit)		
Nonspendable for inventory	73,719	75,907
Nonspendable for prepaid items	12,195	2,045
Unassigned	(85,914)	(447,870)
Total fund balances (deficit)	–	(369,918)
Total liabilities and fund balances	$ 191,501	$ 141,154

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ –	$ –	$ –	$ 82
Other – primarily meal sales	2,153,771	2,315,731	161,960	2,249,807
State sources	226,566	238,033	11,467	237,670
Federal sources	1,302,058	1,427,533	125,475	1,321,745
Total revenue	3,682,395	3,981,297	298,902	3,809,304
Expenditures				
Current				
Salaries	1,500,628	1,399,482	(101,146)	1,683,012
Employee benefits	402,208	408,982	6,774	460,806
Purchased services	134,734	151,559	16,825	165,061
Supplies and materials	1,599,912	1,826,874	226,962	1,841,085
Other expenditures	2,815	2,255	(560)	1,489
Capital outlay	41,100	6,490	(34,610)	28,969
Total expenditures	3,681,397	3,795,642	114,245	4,180,422
Excess (deficiency) of revenue over expenditures	998	185,655	184,657	(371,118)
Other financing sources				
Transfers in	–	184,263	184,263	–
Net change in fund balances	$ 998	369,918	$ 368,920	(371,118)
Fund balances (deficit)				
Beginning of year		(369,918)		1,200
End of year		$ –		$ (369,918)

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017	2016
Assets		
Cash and temporary investments	$ 1,101,614	$ 1,199,597
Receivables		
Current taxes	588,341	544,610
Delinquent taxes	21,864	22,541
Accounts and interest	27,533	37,195
Due from other governmental units	129,262	198,430
Prepaid items	2,515	1,604
Total assets	$ 1,871,129	$ 2,003,977
Liabilities		
Salaries payable	$ 124,737	$ 359,746
Accounts and contracts payable	101,890	82,828
Due to other governmental units	4,801	3,943
Unearned revenue	8,415	4,395
Total liabilities	239,843	450,912
Deferred inflows of resources		
Property taxes levied for subsequent year	1,057,995	986,419
Unavailable revenue – delinquent taxes	16,411	17,453
Total deferred inflows of resources	1,074,406	1,003,872
Fund balances		
Nonspendable for prepaid items	2,515	1,604
Restricted for community education programs	16,928	204,184
Restricted for early childhood family education programs	211,417	141,064
Restricted for school readiness	280,321	163,122
Restricted for adult basic education	3,815	–
Restricted for community service	41,884	39,219
Total fund balances	556,880	549,193
Total liabilities, deferred inflows of resources, and fund balances	$ 1,871,129	$ 2,003,977

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 969,780	$ 983,285	$ 13,505	$ 913,816
Investment earnings	900	2,199	1,299	1,224
Other – primarily tuition and fees	2,654,524	2,787,201	132,677	2,917,877
State sources	685,502	763,660	78,158	653,440
Federal sources	–	8,335	8,335	–
Total revenue	4,310,706	4,544,680	233,974	4,486,357
Expenditures				
Current				
Salaries	2,807,335	2,932,800	125,465	2,966,845
Employee benefits	872,327	962,357	90,030	923,100
Purchased services	420,690	474,233	53,543	381,945
Supplies and materials	168,837	127,820	(41,017)	212,706
Other expenditures	3,865	9,304	5,439	3,370
Capital outlay	28,800	30,479	1,679	7,263
Total expenditures	4,301,854	4,536,993	235,139	4,495,229
Net change in fund balances	$ 8,852	7,687	$ (1,165)	(8,872)
Fund balances				
Beginning of year		549,193		558,065
End of year		$ 556,880		$ 549,193

INDEPENDENT SCHOOL DISTRICT NO. 831

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2017 and 2016

	2017	2016
Assets		
Cash and temporary investments	$ 102,066,978	$ 68,006,838
Receivables		
Accounts and interest	298,193	65,715
Prepaid items	–	24,941
Total assets	$ 102,365,171	$ 68,097,494
Liabilities		
Accounts and contracts payable	$ 13,478,081	$ 2,841,357
Due to other governmental units	654	–
Total liabilities	13,478,735	2,841,357
Fund balances (deficit)		
Nonspendable for prepaid items	–	24,941
Restricted for capital projects	88,886,436	66,235,212
Unassigned – alternative facilities restricted account deficit	–	(1,004,016)
Total fund balances	88,886,436	65,256,137
Total liabilities and fund balances	$ 102,365,171	$ 68,097,494

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,400,000	$ –	$ (1,400,000)	$ 1,400,000
Investment earnings	600,000	525,502	(74,498)	44,435
Other	–	600	600	–
Total revenue	2,000,000	526,102	(1,473,898)	1,444,435
Expenditures				
Capital outlay				
Salaries	116,789	107,431	(9,358)	112,140
Employee benefits	48,211	48,444	233	1,650
Purchased services	12,585,000	9,217,326	(3,367,674)	6,460,132
Capital expenditures	47,250,000	35,434,757	(11,815,243)	3,888,674
Total expenditures	60,000,000	44,807,958	(15,192,042)	10,462,596
Excess (deficiency) of revenue over expenditures	(58,000,000)	(44,281,856)	13,718,144	(9,018,161)
Other financing sources				
Building bond debt issued	68,400,000	66,908,139	(1,491,861)	75,000,000
Premium on debt issued	–	–	–	690,442
Transfers in	–	1,004,016	1,004,016	–
Total other financing sources	68,400,000	67,912,155	(487,845)	75,690,442
Net change in fund balances	$ 10,400,000	23,630,299	$ 13,230,299	66,672,281
Fund balances (deficits)				
Beginning of year		65,256,137		(1,416,144)
End of year		$ 88,886,436		$ 65,256,137

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INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Regular Debt Service Account	OPEB Debt Service Account	Totals 2017	Totals 2016
Assets				
Cash and temporary investments	$ 5,098,969	$ 475,110	$ 5,574,079	$ 3,966,515
Receivables				
Current taxes	4,819,316	295,288	5,114,604	3,578,960
Delinquent taxes	113,187	12,376	125,563	116,746
Due from other governmental units	1,507	133	1,640	1,269
Total assets	$ 10,032,979	$ 782,907	$ 10,815,886	$ 7,663,490
Deferred inflows of resources				
Property taxes levied for subsequent year	$ 8,666,418	$ 531,007	$ 9,197,425	$ 6,482,348
Unavailable revenue – delinquent taxes	81,418	9,370	90,788	90,817
Total deferred inflows of resources	8,747,836	540,377	9,288,213	6,573,165
Fund balances				
Restricted for debt service	1,285,143	242,530	1,527,673	1,090,325
Total deferred inflows of resources and fund balances	$ 10,032,979	$ 782,907	$ 10,815,886	$ 7,663,490

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2017		
		Actual	
	Budget	Regular Debt Service Account	OPEB Debt Service Account
Revenue			
Local sources			
Property taxes	$ 6,435,000	$ 5,935,591	$ 524,454
Investment earnings	–	6,063	208
State sources	–	15,068	1,329
Total revenue	6,435,000	5,956,722	525,991
Expenditures			
Debt service			
Principal	3,430,000	3,155,000	245,000
Interest	2,465,000	2,488,983	153,708
Fiscal charges and other	35,000	1,333,246	73,465
Total expenditures	5,930,000	6,977,229	472,173
Excess (deficiency) of revenue over expenditures	505,000	(1,020,507)	53,818
Other financing sources (uses)			
Refunding bond debt issued	–	–	5,365,000
Building bond debt issued	–	161,861	–
Premium on debt issued	–	1,162,631	–
Discount on debt issued	–	–	(5,632)
Payments to refunded bond escrow agent	–	–	(5,279,823)
Total other financing sources (uses)	–	1,324,492	79,545
Net change in fund balances	$ 505,000	303,985	133,363
Fund balances			
Beginning of year		981,158	109,167
End of year		$ 1,285,143	$ 242,530

		2016
Total	Over (Under) Budget	Actual
$ 6,460,045	$ 25,045	$ 4,650,755
6,271	6,271	4,635
16,397	16,397	12,690
6,482,713	47,713	4,668,080
3,400,000	(30,000)	3,615,000
2,642,691	177,691	904,080
1,406,711	1,371,711	1,425,397
7,449,402	1,519,402	5,944,477
(966,689)	(1,471,689)	(1,276,397)
5,365,000	5,365,000	10,285,000
161,861	161,861	–
1,162,631	1,162,631	2,286,083
(5,632)	(5,632)	–
(5,279,823)	(5,279,823)	(11,180,000)
1,404,037	1,404,037	1,391,083
437,348	$ (67,652)	114,686
1,090,325		975,639
$ 1,527,673		$ 1,090,325

INDEPENDENT SCHOOL DISTRICT NO. 831

Internal Service Funds
Combining Statement of Net Position
as of June 30, 2017
(With Comparative Totals as of June 30, 2016)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2017	Totals 2016
Assets				
Current assets				
Cash and temporary investments	$ 5,566,766	$ 382,624	$ 5,949,390	$ 5,118,001
Receivables				
Accounts and interest	21,753	2,586	24,339	34,161
Prepaid items	6,732	–	6,732	–
Total current assets	5,595,251	385,210	5,980,461	5,152,162
Liabilities				
Current liabilities				
Accounts and contracts payable	149,736	15,054	164,790	273,822
Unearned revenue	1,669,661	90,492	1,760,153	1,775,506
Claims incurred, but not reported	677,937	10,547	688,484	626,189
Total current liabilities	2,497,334	116,093	2,613,427	2,675,517
Net position				
Unrestricted	$ 3,097,917	$ 269,117	$ 3,367,034	$ 2,476,645

INDEPENDENT SCHOOL DISTRICT NO. 831

Internal Service Funds
Combining Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2017	Totals 2016
Operating revenue				
Charges for services				
Contributions from governmental funds	$ 9,288,475	$ 560,524	$ 9,848,999	$ 9,872,629
Operating expenses				
Health benefit claims	8,425,939	–	8,425,939	9,349,731
Dental benefit claims	–	543,155	543,155	536,954
Total operating expenses	8,425,939	543,155	8,969,094	9,886,685
Operating income (loss)	862,536	17,369	879,905	(14,056)
Nonoperating revenue				
Investment earnings	8,534	1,950	10,484	3,369
Change in net position	871,070	19,319	890,389	(10,687)
Net position				
Beginning of year	2,226,847	249,798	2,476,645	2,487,332
End of year	$ 3,097,917	$ 269,117	$ 3,367,034	$ 2,476,645

INDEPENDENT SCHOOL DISTRICT NO. 831

Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2017	Totals 2016
Cash flows from operating activities				
Contributions from governmental funds	$ 9,288,866	$ 554,602	$ 9,843,468	$ 10,084,758
Payment for health claims	(8,482,747)	–	(8,482,747)	(9,124,320)
Payment for dental claims	–	(539,816)	(539,816)	(538,676)
Net cash flows from operating activities	806,119	14,786	820,905	421,762
Cash flows from investing activities				
Investment income received	8,534	1,950	10,484	3,369
Net change in cash and cash equivalents	814,653	16,736	831,389	425,131
Cash and cash equivalents				
Beginning of year	4,752,113	365,888	5,118,001	4,692,870
End of year	$ 5,566,766	$ 382,624	$ 5,949,390	$ 5,118,001
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	$ 862,536	$ 17,369	$ 879,905	$ (14,056)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Changes in assets and liabilities				
Accounts and interest receivable	10,228	(406)	9,822	(5,809)
Prepaid items	(6,732)	–	(6,732)	–
Accounts and contracts payable	(110,369)	1,337	(109,032)	140,063
Unearned revenue	(9,837)	(5,516)	(15,353)	217,938
Claims incurred, but not reported	60,293	2,002	62,295	83,626
Net cash flows from operating activities	$ 806,119	$ 14,786	$ 820,905	$ 421,762

OTHER DISTRICT INFORMATION

(UNAUDITED)

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INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Revenue by Type
Last Ten Fiscal Years

	Program Revenues		General Revenues			
Year Ended June 30,	Charges for Services	Operating Grants and Contributions	Property Taxes	General Grants and Aids	Investment Earnings and Other	Total
2008	$ 6,485,734	$ 9,185,900	$ 14,823,882	$ 46,666,381	$ 1,866,334	$ 79,028,231
	8%	12%	19%	59%	2%	100%
2009	6,317,834	8,948,473	15,746,200	46,440,215	809,674	78,262,396
	8%	12%	20%	59%	1%	100%
2010	6,157,018	9,452,410	14,997,282	43,413,186	622,628	74,642,524
	8%	13%	20%	58%	1%	100%
2011	6,370,292	10,511,839	20,845,675	38,446,379	645,610	76,819,795
	8%	14%	27%	50%	1%	100%
2012	6,148,601	11,485,954	15,230,036	44,173,101	591,559	77,629,251
	8%	14%	20%	57%	1%	100%
2013	6,115,186	11,490,994	16,176,424	43,429,388	553,293	77,765,285
	8%	14%	21%	56%	1%	100%
2014	5,954,935	12,220,938	11,742,462	50,084,696	855,420	80,858,451
	7%	15%	15%	62%	1%	100%
2015	6,423,354	11,968,641	17,571,864	49,259,872	1,193,682	86,417,413
	7%	14%	21%	57%	1%	100%
2016	6,847,529	12,672,382	17,057,514	49,382,999	629,701	86,590,125
	8%	14%	20%	57%	1%	100%
2017	6,437,175	13,194,175	19,430,966	50,352,014	1,585,486	90,999,816
	7%	15%	21%	55%	2%	100%

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

INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Expenses by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services
2008	$ 3,051,613	$ 2,245,112	$ 27,717,976	$ 1,094,090	$ 9,695,917	$ 5,448,310
	4%	3%	37%	1%	13%	7%
2009	3,225,772	1,739,222	26,371,372	965,967	9,693,826	5,610,049
	4%	2%	35%	1%	13%	8%
2010	3,147,946	1,702,804	28,492,182	956,606	9,584,548	2,331,929
	4%	2%	39%	1%	13%	3%
2011	3,111,531	2,164,587	30,673,422	920,206	10,368,127	1,598,026
	4%	3%	40%	1%	14%	2%
2012	3,100,536	2,197,394	25,576,188	810,798	10,620,873	2,077,860
	4%	3%	35%	1%	15%	3%
2013	3,201,925	2,254,471	27,594,183	781,880	10,918,573	2,369,743
	4%	3%	36%	1%	14%	3%
2014	3,323,552	2,417,192	29,596,211	758,648	11,736,976	3,541,782
	4%	3%	37%	1%	15%	4%
2015	3,226,706	3,072,069	29,472,957	863,577	12,018,150	5,120,151
	4%	4%	36%	1%	14%	6%
2016	3,796,645	2,322,473	29,008,857	954,911	12,558,342	4,610,217
	4%	3%	33%	1%	14%	5%
2017	4,923,047	2,052,095	39,074,208	1,727,610	17,305,271	6,333,778
	4%	2%	35%	1%	16%	6%

Pupil Support Services	Sites and Buildings	Fiscal and Other Fixed Cost Programs	Food Service	Community Service	Depreciation Not Allocated to Other Functions	Interest and Fiscal Charges	Total
$ 8,055,470	$ 7,000,987	$ 270,631	$ 3,843,780	$ 3,846,748	$ 2,201,117	$ 2,643,884	$ 77,115,635
10%	9%	–	5%	5%	3%	3%	100%
7,868,603	7,633,246	273,996	3,961,742	4,152,305	2,208,316	1,598,247	75,302,663
11%	10%	–	5%	6%	3%	2%	100%
7,668,210	7,705,210	264,920	3,932,226	3,965,024	2,178,622	1,659,947	73,590,174
11%	11%	–	5%	6%	3%	2%	100%
8,948,191	7,157,893	281,925	3,888,660	4,073,291	2,194,397	1,565,753	76,946,009
12%	9%	–	5%	5%	3%	2%	100%
9,731,943	6,538,037	296,349	4,037,265	4,085,559	2,126,662	1,428,442	72,627,906
13%	9%	–	6%	6%	3%	2%	100%
9,928,802	7,684,483	317,174	3,891,749	4,113,757	2,098,391	1,275,898	76,431,029
13%	10%	1%	5%	5%	3%	2%	100%
10,017,084	7,639,633	351,205	3,959,013	4,007,281	2,535,075	1,158,034	81,041,686
12%	9%	1%	5%	5%	3%	1%	100%
10,278,319	7,444,141	379,529	4,138,798	4,321,014	2,488,510	1,019,716	83,843,637
12%	9%	–	5%	5%	3%	1%	100%
11,046,015	8,776,019	526,412	4,276,582	4,531,548	2,545,922	2,243,227	87,197,170
13%	10%	1%	5%	5%	3%	3%	100%
12,344,131	8,490,188	574,212	3,957,910	4,990,631	2,835,218	5,475,005	110,083,304
11%	8%	1%	4%	4%	3%	5%	100%

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INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	State Revenue	Federal Revenue	Other Local and Miscellaneous	Total
2008	$ 10,066,599	$ 51,412,562	$ 2,657,533	$ 1,951,422	$ 66,088,116
	15%	78%	4%	3%	100%
2009	10,914,411	51,121,188	2,347,273	1,487,289	65,870,161
	17%	78%	3%	2%	100%
2010	10,431,320	43,539,037	7,374,372	1,668,808	63,013,537
	17%	69%	12%	2%	100%
2011	15,333,557	44,072,843	3,300,695	1,734,346	64,441,441
	24%	68%	5%	3%	100%
2012	10,361,414	50,606,450	2,975,539	1,531,090	65,474,493
	16%	77%	5%	2%	100%
2013	10,599,904	50,759,534	2,183,794	1,616,894	65,160,126
	16%	78%	4%	2%	100%
2014	5,017,095	57,937,865	1,944,413	2,032,995	66,932,368
	7%	87%	3%	3%	100%
2015	10,566,174	56,971,250	2,000,562	2,639,541	72,177,527
	14%	79%	3%	4%	100%
2016	10,143,433	57,995,977	1,833,859	2,255,801	72,229,070
	14%	80%	3%	3%	100%
2017	12,003,610	57,412,440	1,902,513	2,374,673	73,693,236
	16%	78%	3%	3%	100%

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

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Expenditures by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction
2008	$ 2,966,614	$ 2,243,347	$ 28,931,023	$ 1,091,720	$ 9,691,275
	4%	3%	43%	2%	14%
2009	3,613,965	1,949,761	31,798,935	1,077,914	9,691,245
	5%	3%	44%	2%	14%
2010	3,042,912	1,691,524	29,049,049	954,236	9,503,795
	5%	3%	46%	2%	15%
2011	3,051,637	2,147,647	29,779,750	917,836	10,293,896
	5%	3%	46%	1%	16%
2012	3,112,219	2,178,896	26,302,525	808,428	10,542,937
	5%	4%	42%	1%	17%
2013	3,159,778	2,232,860	27,755,921	779,510	10,809,283
	5%	3%	43%	1%	17%
2014	3,364,983	2,434,106	30,818,312	764,300	11,842,041
	5%	3%	43%	1%	16%
2015	3,298,590	3,085,780	29,877,813	872,825	12,139,538
	5%	4%	40%	1%	16%
2016	3,654,157	2,299,936	28,929,355	942,709	12,427,639
	5%	3%	41%	1%	18%
2017	3,706,541	1,981,718	27,796,600	1,331,649	13,191,811
	5%	3%	38%	2%	18%

Instructional Support Services	Pupil Support Services	Sites and Buildings	Other Programs	Total
$ 5,443,794	$ 8,422,890	$ 7,923,051	$ 336,721	$ 67,050,435
8%	13%	12%	1%	100%
5,877,717	8,454,240	8,937,592	340,086	71,741,455
8%	12%	12%	–	100%
2,300,442	7,410,014	8,335,957	334,789	62,622,718
4%	12%	13%	–	100%
1,581,361	8,661,991	8,023,299	342,586	64,800,003
2%	14%	12%	1%	100%
2,058,433	9,481,775	7,526,899	355,588	62,367,700
3%	15%	12%	1%	100%
2,345,242	9,699,810	8,058,856	394,099	65,235,359
3%	15%	12%	1%	100%
3,560,499	9,949,597	8,718,984	412,317	71,865,139
5%	14%	12%	1%	100%
5,312,438	10,214,856	8,657,555	692,148	74,151,543
7%	14%	12%	1%	100%
4,571,268	11,113,359	7,306,746	842,963	72,088,132
6%	15%	10%	1%	100%
4,875,659	11,214,282	8,252,564	899,378	73,250,202
7%	15%	11%	1%	100%

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School Tax Levies and Tax Rates by Fund
Last Ten Fiscal Years

	Year Collectible	General Fund	Community Service Special Revenue Fund	Debt Service Fund	Total All Funds
Levies					
	2008	$ 11,427,166	$ 646,625	$ 4,300,748	$ 16,374,539
	2009	11,003,562	811,642	3,863,851	15,679,055
	2010	9,614,370	786,219	4,535,664	14,936,253
	2011	10,432,345	877,092	4,315,521	15,624,958
	2012	9,886,190	903,832	4,750,683	15,540,705
	2013	11,377,392	882,776	4,755,527	17,015,695
	2014	11,573,258	927,114	4,637,561	17,137,933
	2015	11,337,029	915,154	4,658,652	16,910,835
	2016	11,996,073	986,419	6,482,348	19,464,840
	2017	12,927,090	1,057,994	9,197,425	23,182,509
Tax rates					
Tax capacity rates					
	2008	6.560	1.121	7.456	15.137
	2009	5.730	1.341	6.384	13.455
	2010	3.745	1.352	7.798	12.895
	2011	5.497	1.676	8.238	15.411
	2012	5.458	1.901	9.972	17.331
	2013	8.949	2.050	11.020	22.019
	2014	11.328	2.097	10.471	23.896
	2015	9.898	1.849	9.398	21.145
	2016	10.145	1.952	12.806	24.903
	2017	11.781	2.005	17.427	31.213
Market value rates					
	2008	0.13758	–	–	0.13758
	2009	0.13385	–	–	0.13385
	2010	0.13710	–	–	0.13710
	2011	0.15293	–	–	0.15293
	2012	0.15390	–	–	0.15390
	2013	0.17389	–	–	0.17389
	2014	0.14626	–	–	0.14626
	2015	0.13351	–	–	0.13351
	2016	0.13979	–	–	0.13979
	2017	0.12865	–	–	0.12865

Note: A tax rate based on market value is used primarily for the District’s referendum, equity, and transition levies.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Tax Capacities and Market Values
Last Ten Fiscal Years

For Taxes Collectible	Net Tax Capacities				
				Fiscal Disparities	
	Agricultural	Nonagricultural	Tax Increment	Contribution	Distribution
2008	$ 2,874,655	$ 56,154,555	$ (1,469,991)	$ (3,228,204)	$ 4,124,028
2009	2,922,594	57,485,174	(1,680,233)	(3,385,987)	4,606,475
2010	1,925,510	56,734,951	(1,567,241)	(3,907,347)	4,960,891
2011	1,892,928	51,378,555	(1,383,497)	(3,871,485)	4,938,071
2012	1,739,170	46,408,764	(1,294,513)	(3,580,022)	4,830,499
2013	1,741,624	42,273,461	(1,232,190)	(3,176,279)	4,443,326
2014	1,798,181	42,261,513	(858,721)	(3,136,170)	4,528,567
2015	1,947,446	46,296,615	(828,748)	(3,089,582)	4,621,327
2016	1,958,007	48,029,784	(197,609)	(3,149,763)	4,689,654
2017	2,010,419	50,174,007	(316,163)	(3,216,864)	5,264,712

Note: Market value is used primarily for extension of the District's referendum levy.

Source: State of Minnesota School Tax Report

Total Taxable	Market Value
$ 58,455,043	$ 5,127,128,875
59,948,023	5,186,459,175
58,146,764	4,988,746,100
52,954,572	4,505,366,200
48,103,898	4,290,135,700
44,049,942	3,939,600,600
44,593,370	3,956,177,800
48,947,058	4,328,284,000
51,330,073	4,484,223,100
53,916,111	4,672,890,900

INDEPENDENT SCHOOL DISTRICT NO. 831

Property Tax Levies and Receivables
Last Ten Fiscal Years

For Taxes Collectible	Original Levy			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2008	$ 14,935,081	$ 1,087,795	$ 351,663	$ 16,374,539
2009	14,061,436	1,295,342	322,277	15,679,055
2010	13,330,800	1,289,782	315,671	14,936,253
2011	13,968,510	1,265,177	391,271	15,624,958
2012	14,095,828	1,444,877	–	15,540,705
2013	15,567,747	1,447,948	–	17,015,695
2014	15,357,515	1,780,418	–	17,137,933
2015	15,139,104	1,771,731	–	16,910,835
2016	17,861,854	1,602,986	–	19,464,840
2017	21,163,913	2,018,596	–	23,182,509

Note 1: A portion of the total spread levy is paid through various property tax credits, which are paid through state aids. Legislative changes beginning with taxes collectible in 2012 significantly changed the calculation of tax credits applied and paid through state aids.

Note 2: Delinquent taxes are written off after seven years.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2017			
Delinquent		Current	
Amount	Percent	Amount	Percent
$ –	– %	$ –	– %
–	–	–	–
–	–	–	–
57,739	0.37	–	–
34,837	0.22	–	–
44,538	0.26	–	–
39,142	0.23	–	–
48,830	0.29	–	–
187,813	0.96	–	–
–	–	12,975,288	55.97
$ 412,899		$ 12,975,288	

INDEPENDENT SCHOOL DISTRICT NO. 831

Student Enrollment
Last Ten Fiscal Years

Year Ended June 30,	Adjusted Average Daily Membership (ADM) Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	Total Pupil Units
2008	98.84	419.61	3,043.15	3,551.31	7,112.91	8,292.99
2009	96.13	461.43	3,035.87	3,405.05	6,998.48	8,118.90
2010	94.90	417.96	2,981.31	3,279.96	6,774.13	7,870.97
2011	94.25	467.22	2,980.06	3,209.66	6,751.19	7,808.82
2012	95.96	401.75	2,980.94	3,214.68	6,693.33	7,779.21
2013	102.14	394.47	2,962.30	3,202.66	6,661.57	7,741.35
2014	107.06	429.29	2,969.74	3,102.01	6,608.10	7,642.50
2015	116.37	384.90	2,960.46	3,164.73	6,626.46	7,259.42
2016	111.89	351.77	2,814.95	3,173.63	6,452.24	7,086.98
2017	109.78	389.39	2,701.60	3,091.89	6,292.66	6,911.03

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

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

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

Source: Minnesota Department of Education student reporting system

<u>SINGLE AUDIT AND OTHER REQUIRED REPORTS</u>

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INDEPENDENT SCHOOL DISTRICT NO. 831

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures		Noncash Assistance
U.S. Department of Agriculture				
Passed through Minnesota Department of Education				
Child nutrition cluster				
School Breakfast Program	10.553	$ 184,760		
National School Lunch Program	10.555	1,245,492		$ 269,623
Total child nutrition cluster			$ 1,430,252	
U.S. Department of Education				
Direct				
Indian Education Grants to Local Educational Agencies	84.060		19,117	
Passed through Education Cooperative Service Unit of the Metropolitan Twin Cities				
Special education cluster				
Special Education – Grants to States	84.027	3,902		
Passed through Minnesota Department of Education				
Special education cluster				
Special Education – Grants to States	84.027	1,220,339		
Total CFDA No. 84.027		1,224,241		
Special Education – Preschool Grants	84.173	36,898		
Total special education cluster			1,261,139	
Passed through Minnesota Department of Education				
Title I Grants to Local Educational Agencies	84.010		409,924	
Special Education – Grants for Infants and Families	84.181		30,592	
Supporting Effective Instruction State Grants	84.367		157,513	
Passed through Northeast Metropolitan Intermediate School District No. 916				
Career and Technical Education – Basic Grants to States	84.048		25,228	
Passed through Independent School District No. 622				
Adult Education – Basic Grants to States	84.002		8,335	
Total federal awards			$ 3,342,100	

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: 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: The District did not elect to use the 10 percent de minimis indirect cost rate.

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INDEPENDENT AUDITOR'S 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

To the School Board and Management of
Independent School District No. 831
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 13, 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

(continued)

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COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota
December 13, 2017

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the School Board and Management of
Independent School District No. 831
Forest Lake, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 831's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

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 for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

(continued)

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OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page 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 on the previous page. 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.

PURPOSE OF THIS REPORT

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.

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

Minneapolis, Minnesota
December 13, 2017

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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 831
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 13, 2017.

MINNESOTA LEGAL COMPLIANCE

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, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. 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.

PURPOSE OF THIS REPORT

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 report is not suitable for any other purpose.

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

Minneapolis, Minnesota
December 13, 2017

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued?		X Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Internal control over financial reporting:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X None reported
Noncompliance material to the financial statements noted?	___ Yes	X No

Federal Awards

Internal controls over major federal award programs:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	___ Yes	X None reported
Type of auditor's report issued on compliance for major programs?		X Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ Yes	X No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education special education cluster consisting of:	
– Special Education – Grants to States	84.027
– Special Education – Preschool Grants	84.173

Threshold for distinguishing between type A and B programs.	$ 750,000	
Does the auditee qualify as a low-risk auditee?	X Yes	___ No

B. FINANCIAL STATEMENT FINDINGS

None.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

None.

INDEPENDENT SCHOOL DISTRICT NO. 831

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2017

			Audit		UFARS		Audit – UFARS
General Fund							
Total revenue		$	73,693,236	$	73,693,236	$	–
Total expenditures		$	73,250,202	$	73,250,202	$	–
Nonspendable							
460	Nonspendable fund balance	$	307,516	$	307,516	$	–
Restricted							
403	Staff development	$	–	$	–	$	–
406	Health and safety	$	–	$	–	$	–
407	Capital projects levy	$	–	$	–	$	–
408	Cooperative revenue	$	–	$	–	$	–
413	Project funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
424	Operating capital	$	–	$	–	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
440	Teacher development and evaluation	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
445	Career and technical programs	$	–	$	–	$	–
448	Achievement and integration	$	–	$	–	$	–
449	Safe schools levy	$	–	$	–	$	–
450	Pre-Kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
467	Long-term facilities maintenance	$	(468,294)	$	(468,294)	$	–
472	Medical Assistance	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	471,136	$	471,136	$	–
Unassigned							
422	Unassigned fund balance	$	1,388,665	$	1,388,665	$	–
Food Service							
Total revenue		$	3,981,297	$	3,981,296	$	1
Total expenditures		$	3,795,642	$	3,795,642	$	–
Nonspendable							
460	Nonspendable fund balance	$	85,914	$	85,914	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	(85,914)	$	(85,914)	$	–
Community Service							
Total revenue		$	4,544,680	$	4,544,680	$	–
Total expenditures		$	4,536,993	$	4,536,993	$	–
Nonspendable							
460	Nonspendable fund balance	$	2,515	$	2,515	$	–
Restricted							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	16,928	$	16,928	$	–
432	ECFE	$	211,417	$	211,417	$	–
440	Teacher development and evaluation	$	–	$	–	$	–
444	School readiness	$	280,321	$	280,321	$	–
447	Adult basic education	$	3,815	$	3,815	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	41,884	$	41,884	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2017

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ 526,102	$ 526,102	$ –
Total expenditures		$ 44,807,958	$ 44,807,958	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
407	Capital projects levy	$ –	$ –	$ –
413	Project funded by COP	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ 88,886,436	$ 88,886,436	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ 5,956,722	$ 5,956,722	$ –
Total expenditures		$ 6,977,229	$ 6,977,229	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
464	Restricted fund balance	$ 1,285,143	$ 1,285,143	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Internal Service				
Total revenue		$ 9,859,483	$ 9,859,483	$ –
Total expenditures		$ 8,969,094	$ 8,969,093	$ 1
422	Net position	$ 3,367,034	$ 3,367,034	$ –
OPEB Revocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ 19,917	$ 19,917	$ –
Total expenditures		$ 341,098	$ 341,098	$ –
422	Net position	$ 2,392,793	$ 2,392,793	$ –
OPEB Debt Service Fund				
Total revenue		$ 525,991	$ 525,992	$ (1)
Total expenditures		$ 472,173	$ 472,173	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ 242,530	$ 242,530	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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