

INTERMEDIATE SCHOOL DISTRICT NO. 917
ROSEMOUNT, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2017

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INTERMEDIATE SCHOOL DISTRICT NO. 917

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INDEPENDENT SCHOOL DISTRICT NO. 917

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INTRODUCTORY SECTION

INTERMEDIATE SCHOOL DISTRICT NO. 917

School Board and Administration
as of June 30, 2017

SCHOOL BOARD

<u>Board of Directors</u>	<u>Member District</u>	<u>Position on Board</u>
Jill Lewis	ISD No. 199	Chairperson
Bob Erickson	ISD No. 194	Vice Chairperson
Melissa Sauser	ISD No. 192	Treasurer
Vanda Pressnall	ISD No. 195	Clerk
Dick Bergstrom	ISD No. 271	Director
Dee Dee Currier	ISD No. 191	Director
Wendy Felton	SSD No. 6	Director
Russ Rohloff	ISD No. 200	Director
Byron Schwab	ISD No. 197	Director

ADMINISTRATION

John Christiansen	Superintendent
Melissa Schaller	Director of Special Education
Eric Van Brocklin	Secondary Education Principal
Nicolle Roush	Business Manager

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Intermediate School District No. 917
Rosemount, 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 Intermediate School District No. 917 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

OPINIONS

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

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 Governmental Accounting Standards Board, 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 information section, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The 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.

The supplemental information 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 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.

(continued)

Prior Year Comparative Information

We have previously audited the District's 2016 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated November 29, 2016. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
November 29, 2017

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INTERMEDIATE SCHOOL DISTRICT NO. 917

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

This section of Intermediate School District No. 917'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 financial statements.

FINANCIAL HIGHLIGHTS

- The District's assets and deferred outflows of resources were lower than liabilities and deferred inflows of resources at June 30, 2017 by \$14,534,171 (net position). The District's total net position decreased by \$6,140,030 during the fiscal year ended June 30, 2017.
- The District's total General Fund balance at June 30, 2017 is \$6,957,878.
- The District's governmental funds Balance Sheet reflects a \$5,922,746 unassigned fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the 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
- Combining and individual fund statements and schedules, which are presented as supplemental information.

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. 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 non-financial factors such as the condition of school buildings and other facilities.

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

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) that do not meet the threshold to be classified as major funds are called "nonmajor funds." Detailed financial information for nonmajor funds can be found in the supplemental information section.

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

The District maintains the following kinds of funds:

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

Proprietary Funds – Internal service fund services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. These services have been included with governmental activities in the government-wide financial statements. The District currently has three internal service funds, including funds for accounting for post-employment severance and other post-employment benefits (OPEB), medical self-insurance, and the dental self-insurance plans.

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	\$ 13,287,467	\$ 12,853,148
Capital assets, net of accumulated depreciation	9,327,146	6,944,495
Total assets	\$ 22,614,613	\$ 19,797,643
Deferred outflows of resources		
Pension plan deferments	\$ 35,135,153	\$ 3,183,346
Bond refunding deferments	381,232	—
Total deferred outflows of resources	\$ 35,516,385	\$ 3,183,346
Liabilities		
Current and other liabilities	\$ 4,326,139	\$ 3,748,161
Long-term liabilities, including due within one year	67,565,532	25,740,747
Total liabilities	\$ 71,891,671	\$ 29,488,908
Deferred inflows of resources		
Pension plan deferments	\$ 773,498	\$ 1,886,222
Net position		
Net investment in capital assets	\$ 1,989,252	\$ 712,743
Restricted for capital projects	76	751,269
Restricted for other purposes	252,615	98,510
Unrestricted	(16,776,114)	(9,956,663)
Total net position	\$ (14,534,171)	\$ (8,394,141)

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 total net position at June 30, 2017 was \$6,140,030 less than in the prior year, mainly due to increases in net pension plan liabilities. An increase in the District's share of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans 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:

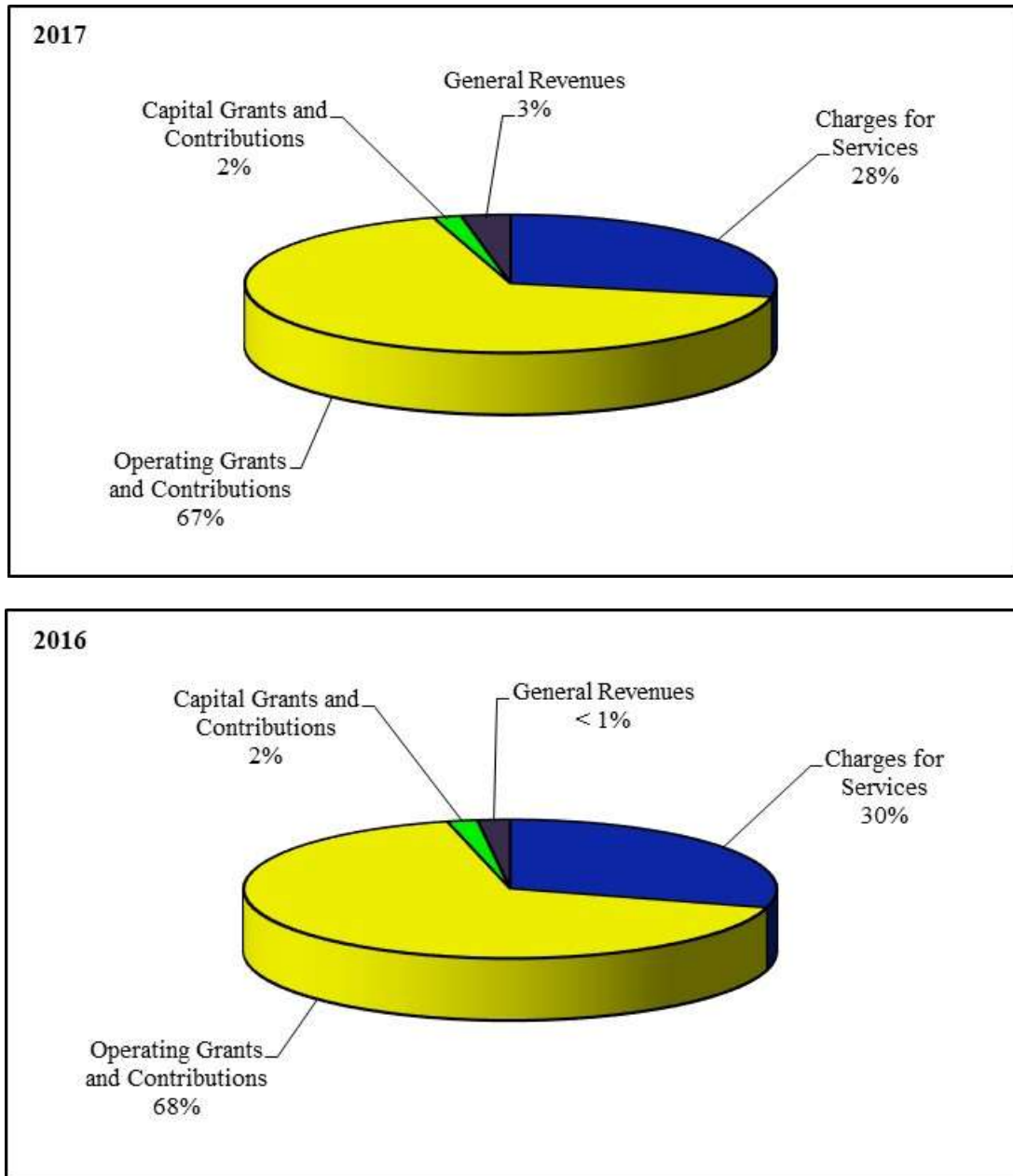
Table 2 Summary Statement of Activities for the Years Ended June 30, 2017 and 2016		
	2017	2016
Revenues		
Program revenues		
Charges for services	\$ 8,910,685	\$ 8,765,738
Operating grants and contributions	21,223,814	20,327,694
Capital grants and contributions	539,240	554,908
General revenues		
Other	779,287	91,146
Investment earnings	66,190	48,649
Total revenues	<u>31,519,216</u>	<u>29,788,135</u>
Expenses		
Administrative and support services	3,088,390	1,886,824
Secondary vocational/DCALS	3,590,904	2,993,362
Special education programs	30,535,125	22,764,328
Food service	143,390	131,729
Interest and fiscal charges on debt	301,437	307,246
Total expenses	<u>37,659,246</u>	<u>28,083,489</u>
Change in net position	(6,140,030)	1,704,646
Net position – beginning	<u>(8,394,141)</u>	<u>(10,098,787)</u>
Net position – ending	<u>\$ (14,534,171)</u>	<u>\$ (8,394,141)</u>

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.

The total cost of all programs and services was \$37,659,246. The District's expenses are predominantly related to educating students. In fiscal 2016–2017, 92 percent of the District's expenses were devoted to this purpose. The administrative and support services activity of the District accounted for 8 percent of total expenses for the year. It should be noted that the District allocated \$1,527,224 in administrative and support services expenses to the secondary vocational/Dakota County Area Learning School (DCALS) and special education programs in fiscal 2017. 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.

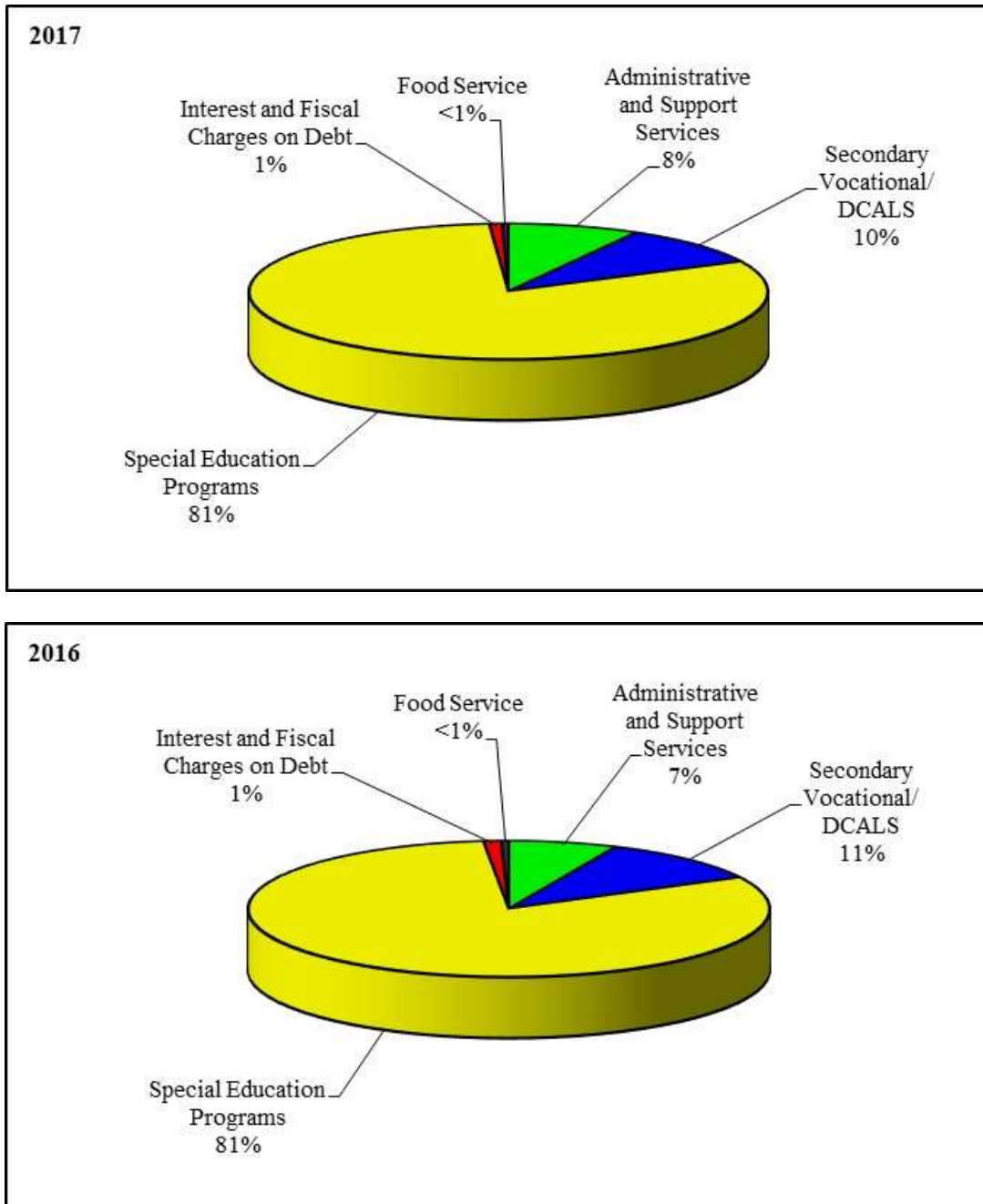
Figures A and B show further analysis of these revenue sources and expense functions:

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



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

Figure B – Expenses for Fiscal Years 2017 and 2016



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

Table 3
Net Cost of Governmental Activities
for the Years Ending June 30, 2017 and 2016

	2017		2016	
	Total Cost of Services	Net (Expense) Revenue From Services	Total Cost of Services	Net (Expense) Revenue From Services
Governmental activities				
Administrative and support services	\$ 3,088,390	\$ (1,103,934)	\$ 1,886,824	\$ 11,658
Secondary vocational/DCALS	3,590,904	(63,834)	2,993,362	685,258
Special education programs	30,535,125	(5,477,392)	22,764,328	1,217,026
Food service	143,390	(38,910)	131,729	(41,845)
Interest and fiscal charges	301,437	(301,437)	307,246	(307,246)
Total	<u>\$ 37,659,246</u>	<u>\$ (6,985,507)</u>	<u>\$ 28,083,489</u>	<u>\$ 1,564,851</u>

The overall net (expense) revenue from service was \$8,550,358 less than fiscal 2016, due to the increase in pension plan liabilities.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Table 4 shows the change in total fund balances of each of the District's governmental funds:

Table 4
Governmental Fund Balances
as of June 30, 2017 and 2016

	2017	2016	Increase (Decrease)	Total Percent Change
Major funds				
General	\$ 6,957,878	\$ 7,338,004	\$ (380,126)	(5.2%)
Capital Projects – Building Construction	–	67,051	(67,051)	(100.0%)
Food Service Special Revenue	–	–	–	–
Total governmental funds	<u>\$ 6,957,878</u>	<u>\$ 7,405,055</u>	<u>\$ (447,177)</u>	(6.0%)

As previously discussed, 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 position. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's School Board.

ENROLLMENT

Table 5
Average Daily Membership (ADM) Served
Last Five Fiscal Years

	<u>2012–2013</u>	<u>2013–2014</u>	<u>2014–2015</u>	<u>2015–2016</u>	<u>2016–2017</u>
Secondary vocational resource programs	117.37	109.00	100.67	108.41	92.80
DCALS programs	203.78	209.84	190.43	216.20	214.84
Special education resource programs	361.66	395.92	414.54	419.44	478.42

Funding for Minnesota school districts is largely driven by enrollment. In the current economic environment, member districts are striving to keep their students at their sites whenever possible. Overall, enrollment has been declining in secondary vocational resource programs, due to some member districts offering vocational opportunities to their students at their home districts, DCALS programs are fairly stable, with only a slight decrease from the previous fiscal year. Special education programs are experiencing significant growth in the Youth Transition, Options, and Students with Unique Needs (SUN) Programs. Stable enrollment to maintain and fund programs will continue to be especially challenging in the Alternative Learning and Secondary Vocational Programs.

GENERAL FUND

The General Fund is used by the District to record the primary operations of providing education services to students enrolled in intermediate school district programs. Capital and major maintenance projects are also included in the General Fund.

Table 6
Financial Position – General Fund
Last Five Fiscal Years

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Unassigned fund balance	\$ 4,082,678	\$ 4,642,898	\$ 4,807,307	\$ 5,730,521	\$ 5,922,746
Percent increase (decrease)	(14.7%)	13.7%	3.5%	19.2%	3.4%
Expenditures	\$ 24,282,947	\$ 24,895,504	\$ 26,283,967	\$ 28,598,875	\$ 33,366,968
Percent increase	4.3%	2.5%	5.6%	8.8%	16.7%
Unassigned fund balance as a percentage of expenditures	16.8%	18.6%	18.3%	20.0%	17.8%

The District ended the year with a \$380,126 decrease in the General Fund balance. This decrease is \$5,598,842 less than the \$5,218,716 increase anticipated in the revised budget. The reason for the significant budget variance is due to the District budgeting the new bond issue as a crossover refunding bond. The final bond issue was completed as an advanced refunding bond. The accounting treatment of these two types of bond issues vary significantly. In a crossover refunding bond, the refunded bonds are reported as outstanding obligations until the crossover date while in an advanced refunding bond, they are considered fully defeased and no longer reported as debt by the District.

The Special Education Account Fund balance increased by \$830,350 more than anticipated, due to better than anticipated final fiscal year 2016, and estimated fiscal year 2017 state aid revenues. Conservative practices in revenue projections were incorporated when developing the revenue budgets, due to a new tuition billing structure established by new legislation and the Minnesota Department of Education for fiscal 2015–2016 and beyond.

Table 7 presents a summary of General Fund revenue:

	<u>2017</u>	<u>2016</u>	<u>Amount of Increase (Decrease)</u>
Local sources			
Tuition	\$ 8,898,680	\$ 8,662,123	\$ 236,557
Investment earnings	58,896	44,556	14,340
Other	593,514	737,405	(143,891)
State sources	21,090,031	20,091,649	998,382
Federal sources	<u>139,698</u>	<u>161,193</u>	<u>(21,495)</u>
Total General Fund revenues	<u>\$ 30,780,819</u>	<u>\$ 29,696,926</u>	<u>\$ 1,083,893</u>

Total General Fund revenues increased \$1,083,893, or 3.6 percent, in fiscal 2017 as compared to the previous year. Overall, the changes in revenues can be attributed to an increase in enrollment of 42 additional ADMs in combination with increased expenditures, resulting in an increase in state revenue sources through tuition billing and for direct tuition revenue to local school districts for services outside of the state tuition billing system.

The District experienced a significant shift in the programming needs for more staff intensive programs, resulting in the need to hire additional related staffing complements such as: school psychologists, physical health disabilities, nursing, and lead teachers. In addition, we had several programs growing, especially in the Youth Transition Program, Options, and SUN Programs. This resulted in an increase in licensed and nonlicensed support staff, resulting in an increase in state revenue sources through tuition billing.

Table 8 presents a summary of General Fund expenditures:

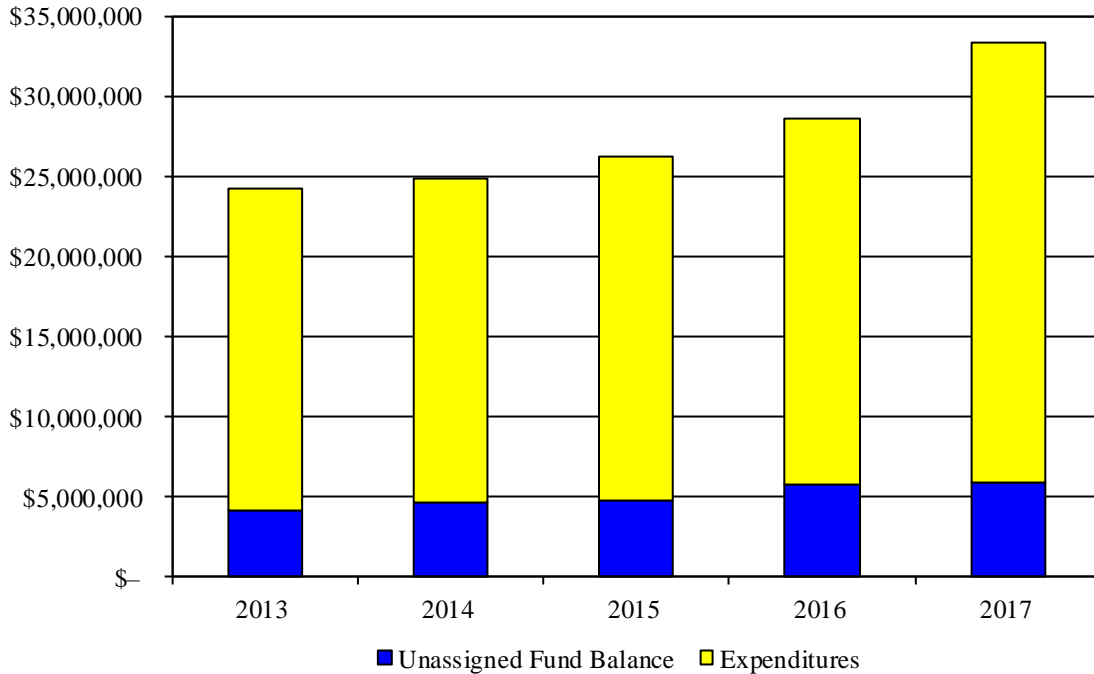
Table 8 General Fund Expenditures for the Years Ended June 30, 2017 and 2016			
	2017	2016	Amount of Increase (Decrease)
Salaries	\$ 18,414,214	\$ 17,199,017	\$ 1,215,197
Employee benefits	6,088,584	6,082,823	5,761
Purchased services	3,512,686	3,374,797	137,889
Supplies and materials	742,100	759,859	(17,759)
Other expenditures	110,457	27,180	83,277
Capital expenditures	3,240,678	600,291	2,640,387
Debt service	1,258,249	554,908	703,341
Total General Fund expenditures	<u>\$ 33,366,968</u>	<u>\$ 28,598,875</u>	<u>\$ 4,768,093</u>

Total General Fund expenditures increased \$4,768,093, or 16.7 percent, from the previous year. Overall, the changes in expenditures can be attributed to an increase in overall salaries and an increase in employees. Also, capital expenditures increased \$2,640,387 as a result of the increased construction activity related to the Alliance Education Center addition.

In summary, 2016–2017 General Fund expenditures and other financing uses exceeded General Fund revenues and other financing sources by \$380,126. As a result, total fund balance decreased to \$6,957,878 at June 30, 2017. After deducting nonspendable, restricted, and assigned funds, the unassigned fund balance increased from \$5,730,521 at June 30, 2016, to \$5,922,746 at June 30, 2017.

The following shows the General Fund unassigned fund balance as compared to expenditures:

Figure C
General Fund
Unassigned Fund Balance as Compared to Expenditures
Last Five Fiscal Years



The graph above is the single best measure of overall financial health. The unassigned fund balance of \$5.9 million at June 30, 2017 represents 17.8 percent of annual expenditures, or over two months of school year operations. The fund balances of an intermediate school district are key to its financial success as the cash flow advance options available to intermediate school districts are more restrictive to access as an independent school district. The continued maintenance of fund balance is essential for the District to minimize the impact that cash flow borrowing would have to member districts that would have to back any cash flow debt incurred by the District. With a metering system and limited cash flow borrowing options available, the District believes it is necessary to maintain a minimum fund balance of 15.0 percent of annual budget to assure financial stability. The District continues to monitor its fund balances closely.

General Fund Budgetary Highlights

Table 9 summarizes the General Fund budget to actual comparison:

Table 9 General Fund Budget Year Ended June 30, 2017				
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
Revenue and other financing sources	<u>\$ 31,687,144</u>	<u>\$ 39,974,831</u>	<u>\$ 39,139,953</u>	<u>\$ (834,878)</u>
Expenditures and other financing uses	<u>\$ 31,868,589</u>	<u>\$ 34,756,115</u>	<u>\$ 39,520,079</u>	<u>\$ 4,763,964</u>

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 might amend that budget for known changes in circumstances such as enrollment levels, grant funding, and employee contract settlements.

The District made revisions to the budget during the budget process in January. The District derives the majority of its revenue from tuition fees to member districts and state sources from the special education tuition billing system.

The District's revenues and other financing sources were less than budgeted amounts by 2.1 percent due to several factors. The District's anticipated revenues are determined by actual expenditures incurred, which came in under budget by \$1,357,162. In 2016 and 2017, the District experienced special education tuition revenues exceeding special education expenditures.

The District's expenditures and other financing uses were more than budgeted amounts by 13.7 percent due to several factors. Overall, the District came under budget by \$1.24 million in the areas of salary and benefit expenditures, including additional staffing complements in special education programs to accommodate any increased student participation. In addition, the District was faced with the challenge of filling or maintaining special education positions. The District budgeted conservatively in several areas, including substitutes, maintenance and repair services, leases, utilities, mileage, and overhead expenditures incurred through shared space with Dakota County Technical College. The District also came in over budget by \$6.1 million, as a result of the treatment of the refunding of the 2007 capital lease payable. The District's budget reflected this refunding as a crossover refunding with the debt payment being expended at its call date on August 1, 2018. However, the refunding was treated as an advanced refunding in the 2017 financial statements, which led to the \$6.1 million debt payment being recorded as an other financing use during the year ended June 30, 2017.

CAPITAL PROJECTS – BUILDING CONSTRUCTION FUND

Expenditures were \$67,051 for the year, due to allocated construction fees occurring in the fiscal year 2016–2017 for the addition at the Alliance Education Center. The fund balance in this fund was depleted to a zero balance as of June 30, 2017.

FOOD SERVICE SPECIAL REVENUE FUND

Expenditures exceeded revenues by \$35,240 for the year. In order to eliminate the potential deficit in the Food Service Special Revenue Fund, the School Board approved a transfer of \$35,240 from the General Fund.

INTERNAL SERVICE FUNDS

The internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District has three internal service funds. The District's internal service funds include financing for post-employment severance benefits and OPEB, and self-insurance of the employee medical and dental insurance programs.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 10 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 10			
Capital Assets			
Years Ended June 30, 2017 and 2016			
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Land	\$ 655,000	\$ 682,011	\$ (27,011)
Construction in process	2,607,447	–	2,607,447
Buildings	8,413,048	8,492,082	(79,034)
Furniture and equipment	2,106,891	4,234,042	(2,127,151)
Less accumulated depreciation	<u>(4,455,240)</u>	<u>(6,463,640)</u>	<u>2,008,400</u>
Total	<u>\$ 9,327,146</u>	<u>\$ 6,944,495</u>	<u>\$ 2,382,651</u>
Depreciation expense	<u>\$ 272,348</u>	<u>\$ 289,489</u>	<u>\$ (17,141)</u>

Long-Term Liabilities

Table 11 illustrates the components of the District's long-term liabilities, together with changes from the prior year:

Table 11			
Outstanding Long-Term Liabilities			
Years Ended June 30, 2017 and 2016			
	<u>2017</u>	<u>2016</u>	<u>Change</u>
Capital leases payable	\$ —	\$ 6,820,000	\$ (6,820,000)
Certificates of participation payable	8,085,000	—	8,085,000
Unamortized premium (discount)	261,958	(116,350)	378,308
Net pension liability	57,107,244	17,041,912	40,065,332
Severance benefits payable	449,832	470,984	(21,152)
Compensated absences payable	275,623	309,678	(34,055)
Net OPEB obligation	<u>1,385,875</u>	<u>1,214,523</u>	<u>171,352</u>
Total	<u>\$ 67,565,532</u>	<u>\$ 25,740,747</u>	<u>\$ 41,824,785</u>

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District is charged by Minnesota Statutes to provide low incidence special education and secondary vocational technical education services to its member districts. In addition, the statutes indicate that intermediate districts should also provide its members with such other services that they require.

The District is continually reviewing additional areas of service to provide its members, area school districts, and other area agencies.

Current examples of support services include:

- Partnering with Independent School District (ISD) No. 197 to operate the DCALS North in West St. Paul.
- Providing the needed secondary alternative learning option to qualify a targeted services program for ISD Nos. 192, 197, 199, 200, and 271.
- Organize and facilitate regional networking meetings for administrator and support staff groups.
- Convening regional planning groups to initiate collaborations with counties, nonprofit organizations, businesses, higher education, etc., to enhance services for students, families, and staff.
- Collaborate with other intermediate districts and the Association of Metropolitan School Districts to advocate for legislation action to assist district services.

The District is also aware of a number of existing circumstances that could significantly affect its financial health in the future:

- The inability of Congress to agree on educational funding or the reauthorization of the Elementary and Secondary Education Act creates an uncertain revenue picture going forward for federal education revenue.
- The state of Minnesota has an improving fiscal forecast, but the funding increases for education are still less than inflation. Since educational funding makes up a significant portion of the state budget, schools can expect the fiscal climate for the near future to remain modest with little recovery from the pressures of inflation.
- 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 2.0 percent, and \$124, or 2.0 percent, per pupil to the formula for fiscal years 2018 and 2019, respectively. The ongoing demands on limited resources continue to present challenges in funding education for Minnesota schools.
- The District has appropriate fund balances to provide adequate opportunity to adapt to uncontrolled changes in revenue sources for the short term (two or three years). The recent changes to the special education funding system, beginning with the 2015–2016 fiscal year will not be fully known until the system has been utilized for two to three years.

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 Office, Intermediate School District No. 917, 1300 – 145th Street East, Rosemount, Minnesota 55068-2999.

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BASIC FINANCIAL STATEMENTS

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INTERMEDIATE SCHOOL DISTRICT NO. 917

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	\$ 3,249,221	\$ 8,738,241
Receivables		
Accounts and interest	9,351	15,921
Due from other governmental units	9,246,419	3,455,676
Inventory	925	695
Prepaid items	153,719	47,709
Restricted assets – temporarily restricted		
Cash and investments held by trustee	627,832	594,906
Capital assets		
Not depreciated	3,262,447	682,011
Depreciated, net of accumulated depreciation	6,064,699	6,262,484
Total capital assets, net of accumulated depreciation	9,327,146	6,944,495
Total assets	22,614,613	19,797,643
Deferred outflows of resources		
Pension plan deferments	35,135,153	3,183,346
Bond refunding deferments	381,232	—
Total deferred outflows of resources	35,516,385	3,183,346
Total assets and deferred outflows of resources	\$ 58,130,998	\$ 22,980,989
Liabilities		
Salaries and compensated absences payable	\$ 3,012,174	\$ 2,740,655
Accounts and contracts payable	683,734	184,950
Accrued interest payable	140,343	123,008
Due to other governmental units	428,222	578,476
Unearned revenue	61,666	121,072
Long-term liabilities		
Due within one year	503,811	316,894
Due in more than one year	67,061,721	25,423,853
Total long-term liabilities	67,565,532	25,740,747
Total liabilities	71,891,671	29,488,908
Deferred inflows of resources		
Pension plan deferments	773,498	1,886,222
Net position		
Net investment in capital assets	1,989,252	712,743
Restricted for capital purposes	76	751,269
Restricted for basic skills	252,615	98,510
Unrestricted	(16,776,114)	(9,956,663)
Total net position	(14,534,171)	(8,394,141)
Total liabilities, deferred inflows of resources, and net position	\$ 58,130,998	\$ 22,980,989

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

2017				
Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues	
			Charges for Services	Operating Grants and Contributions
Governmental activities				
Administrative and support services	\$ 3,088,390	\$ (1,527,224)	\$ 432,832	\$ —
Secondary vocational/DCALS	3,590,904	270,734	3,079,627	203,337
Special education programs	30,535,125	1,256,490	5,377,016	20,937,207
Food service	143,390	—	21,210	83,270
Interest and fiscal charges on debt	301,437	—	—	—
Total governmental activities	<u>\$ 37,659,246</u>	<u>\$ —</u>	<u>\$ 8,910,685</u>	<u>\$ 21,223,814</u>
General revenues				
Other general revenues				
Investment earnings				
Total general revenues				
Change in net position				
Net position – beginning				
Net position – ending				

		2016
	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Capital Grants and Contributions	Governmental Activities	Governmental Activities
\$ 24,400	\$ (1,103,934)	\$ 11,658
514,840	(63,834)	685,258
—	(5,477,392)	1,217,026
—	(38,910)	(41,845)
—	(301,437)	(307,246)
<u>\$ 539,240</u>	(6,985,507)	1,564,851
	779,287	91,146
	66,190	48,649
	<u>845,477</u>	<u>139,795</u>
	(6,140,030)	1,704,646
	<u>(8,394,141)</u>	<u>(10,098,787)</u>
	<u>\$ (14,534,171)</u>	<u>\$ (8,394,141)</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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	Nonmajor Fund – Food Service Special Revenue Fund	Total Governmental Funds	
				2017	2016
Assets					
Cash and temporary investments	\$ 818,971	\$ –	\$ 673	\$ 819,644	\$ 6,776,641
Cash and investments held by trustee	627,832	–	–	627,832	594,906
Receivables					
Accounts and interest	9,351	–	–	9,351	15,921
Due from other governmental units	9,246,419	–	–	9,246,419	3,455,676
Inventory	925	–	–	925	695
Prepaid items	153,684	–	–	153,684	47,709
Total assets	\$10,857,182	\$ –	\$ 673	\$10,857,855	\$10,891,548
Liabilities					
Salaries and compensated absences payable	\$ 3,012,174	\$ –	\$ –	\$ 3,012,174	\$ 2,740,655
Accounts and contracts payable	397,242	–	673	397,915	46,290
Due to other governmental units	428,222	–	–	428,222	578,476
Unearned revenue	61,666	–	–	61,666	121,072
Total liabilities	3,899,304	–	673	3,899,977	3,486,493
Fund balances					
Nonspendable	154,609	–	–	154,609	48,404
Restricted	880,523	–	–	880,523	1,444,685
Assigned	–	–	–	–	181,445
Unassigned	5,922,746	–	–	5,922,746	5,730,521
Total fund balances	6,957,878	–	–	6,957,878	7,405,055
Total liabilities and fund balances	\$10,857,182	\$ –	\$ 673	\$10,857,855	\$10,891,548

INTERMEDIATE SCHOOL DISTRICT NO. 917

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)

	<u>2017</u>	<u>2016</u>
Total fund balances – governmental funds	\$ 6,957,878	\$ 7,405,055
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	13,782,386	13,408,135
Accumulated depreciation	(4,455,240)	(6,463,640)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Capital lease payable	–	(6,820,000)
Certificates of participation payable	(8,085,000)	–
Compensated absences payable	(275,623)	(309,678)
Net pension liability	(57,107,244)	(17,041,912)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.		
	(140,343)	(123,008)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plan deferments	35,135,153	3,183,346
Deferred inflows – pension plan deferments	(773,498)	(1,886,222)
Deferred outflows – bond refunding deferments	381,232	–
Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
	(261,958)	116,350
The 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.		
	<u>308,086</u>	<u>137,433</u>
Total net position – governmental activities	<u>\$ (14,534,171)</u>	<u>\$ (8,394,141)</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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	Nonmajor Fund – Food Service Special Revenue Fund	Total Governmental Funds	
				2017	2016
Revenue					
Local sources					
Tuition	\$ 8,898,680	\$ –	\$ –	\$ 8,898,680	\$ 8,662,123
Investment earnings	58,896	–	–	58,896	44,760
Other	593,514	–	21,210	614,724	759,722
State sources	21,090,031	–	6,163	21,096,194	20,096,766
Federal sources	139,698	–	77,107	216,805	223,644
Total revenue	30,780,819	–	104,480	30,885,299	29,787,015
Expenditures					
Current					
Administrative and support services	468,671	–	–	468,671	463,923
Secondary vocational/DCALS	3,467,488	–	–	3,467,488	3,361,023
Special education programs	25,476,435	–	–	25,476,435	24,219,021
Food service	–	–	139,720	139,720	128,059
Capital outlay	2,696,126	67,051	–	2,763,177	44,425
Debt service					
Principal	967,011	–	–	967,011	250,000
Interest and fiscal charges	291,237	–	–	291,237	304,908
Total expenditures	33,366,968	67,051	139,720	33,573,739	28,771,359
Excess (deficiency) of revenue over expenditures	(2,586,149)	(67,051)	(35,240)	(2,688,440)	1,015,656
Other financing sources (uses)					
Debt issued	2,185,000	–	–	2,185,000	–
Refunding debt issued	5,900,000	–	–	5,900,000	–
Premium on debt issued	269,093	–	–	269,093	–
Refunding payment on debt	(6,117,871)	–	–	(6,117,871)	–
Proceeds from sale of assets	5,041	–	–	5,041	1,120
Transfers in	–	–	35,240	35,240	38,174
Transfers out	(35,240)	–	–	(35,240)	(38,174)
Total other financing sources (uses)	2,206,023	–	35,240	2,241,263	1,120
Net change in fund balances	(380,126)	(67,051)	–	(447,177)	1,016,776
Fund balances					
Beginning of year	7,338,004	67,051	–	7,405,055	6,388,279
End of year	\$ 6,957,878	\$ –	\$ –	\$ 6,957,878	\$ 7,405,055

See notes to basic financial statements

INTERMEDIATE SCHOOL DISTRICT NO. 917

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
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	\$ (447,177)	\$ 1,016,776
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	2,777,454	241,512
Depreciation expense	(272,348)	(289,489)
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.		
	(8,085,000)	–
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
	6,820,000	250,000
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.		
	(17,335)	4,037
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.		
	(378,308)	(6,375)
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	(40,065,332)	(3,121,759)
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.		
	(122,455)	(5,713)
The 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.		
	170,653	521,901
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.		
Compensated absences payable	34,055	(23,126)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – pension plan deferments	31,951,807	686,354
Deferred inflows – pension plan deferments	1,112,724	2,430,528
Deferred outflows – bond refunding deferments	381,232	–
Change in net position – governmental activities	<u>\$ (6,140,030)</u>	<u>\$ 1,704,646</u>

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INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Tuition	\$ 9,028,813	\$ 8,983,551	\$ 8,898,680	\$ (84,871)
Investment earnings	27,550	47,050	58,896	11,846
Other	840,420	778,786	593,514	(185,272)
State sources	21,634,296	21,686,938	21,090,031	(596,907)
Federal sources	156,065	161,945	139,698	(22,247)
Total revenue	31,687,144	31,658,270	30,780,819	(877,451)
Expenditures				
Current				
Administrative and support services	478,932	495,121	468,671	(26,450)
Secondary vocational/DCALS	3,451,000	3,678,037	3,467,488	(210,549)
Special education programs	27,073,299	27,168,505	25,476,435	(1,692,070)
Capital outlay	278,153	2,827,247	2,696,126	(131,121)
Debt service				
Principal	260,000	260,000	967,011	707,011
Interest and fiscal charges	295,220	295,220	291,237	(3,983)
Total expenditures	31,836,604	34,724,130	33,366,968	(1,357,162)
Excess of revenue over expenditures	(149,460)	(3,065,860)	(2,586,149)	479,711
Other financing sources (uses)				
Debt issued	—	2,185,000	2,185,000	—
Refunding debt issued	—	5,900,000	5,900,000	—
Premium on debt issued	—	228,668	269,093	40,425
Refunding payment on debt	—	—	(6,117,871)	(6,117,871)
Proceeds from sale of assets	—	2,893	5,041	2,148
Transfers out	(31,985)	(31,985)	(35,240)	(3,255)
Total other financing sources (uses)	(31,985)	8,284,576	2,206,023	(6,078,553)
Net change in fund balances	\$ (181,445)	\$ 5,218,716	(380,126)	\$ (5,598,842)
Fund balances				
Beginning of year			7,338,004	
End of year			\$ 6,957,878	

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and temporary investments	\$ 2,429,577	\$ 1,961,600
Prepaid items	35	—
Total assets	<u>2,429,612</u>	<u>1,961,600</u>
Liabilities		
Current liabilities		
Accounts and contracts payable	285,819	138,660
Severance benefits payable	<u>22,731</u>	<u>13,139</u>
Total current liabilities	308,550	151,799
Long-term liabilities		
Net OPEB obligation	1,385,875	1,214,523
Severance benefits payable	<u>427,101</u>	<u>457,845</u>
Total long-term liabilities	<u>1,812,976</u>	<u>1,672,368</u>
Total liabilities	<u>2,121,526</u>	<u>1,824,167</u>
Net position		
Unrestricted	<u>\$ 308,086</u>	<u>\$ 137,433</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	<u>2017</u>	<u>2016</u>
Operating revenue		
Charges for services		
Contributions from governmental funds	\$ 3,418,685	\$ 2,145,912
Operating expenses		
Post-employment severance and health benefits	157,797	231,293
Dental benefit claims	368,904	347,660
Medical benefit claims	<u>2,728,625</u>	<u>1,048,947</u>
Total operating expenses	<u>3,255,326</u>	<u>1,627,900</u>
Operating income	163,359	518,012
Nonoperating revenue		
Investment earnings	<u>7,294</u>	<u>3,889</u>
Change in net position	170,653	521,901
Net position (deficit)		
Beginning of year	<u>137,433</u>	<u>(384,468)</u>
End of year	<u><u>\$ 308,086</u></u>	<u><u>\$ 137,433</u></u>

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INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Contributions from governmental funds	\$ 3,418,685	\$ 2,145,912
Post-employment severance and health benefit payments	(7,632)	(30,449)
Payments for medical claims	(2,583,244)	(952,519)
Payments for dental claims	(367,126)	(352,279)
Net cash flows from operating activities	<u>460,683</u>	<u>810,665</u>
Cash flows from investing activities		
Investment income received	<u>7,294</u>	<u>3,889</u>
Net increase in cash and cash equivalents	467,977	814,554
Cash and temporary investments		
Beginning of year	<u>1,961,600</u>	<u>1,147,046</u>
End of year	<u><u>\$ 2,429,577</u></u>	<u><u>\$ 1,961,600</u></u>
Reconciliation of operating income to net cash flows		
from operating activities		
Operating income	\$ 163,359	\$ 518,012
Adjustments to reconcile operating income to net cash		
flows from operating activities		
Changes in assets and liabilities		
Severance benefits payable	(21,152)	(8,126)
Net OPEB obligation	171,352	214,470
Prepaid items	(35)	—
Accounts payable	<u>147,159</u>	<u>86,309</u>
Net cash flows from operating activities	<u><u>\$ 460,683</u></u>	<u><u>\$ 810,665</u></u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	<u>Private-Purpose Trust Fund</u>
Assets	
Cash and temporary investments	\$ 2,001
Net position	
Held in trust for scholarships	\$ 2,001

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

	<u>Private-Purpose Trust Fund</u>
Additions	
Gifts and bequests	\$ 108
Deductions	
Scholarships	73
Change in net position	35
Net position	
Beginning of year	1,966
End of year	\$ 2,001

INTERMEDIATE SCHOOL DISTRICT NO. 917

Notes to Basic Financial Statements June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Intermediate School District No. 917 (the District) is an instrumentality of the state of Minnesota established to provide participating school districts with vocational, technical, and special education services. The District is governed by a joint School Board composed of appointed members from each participating school 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 District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

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.

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 these financial statements.

C. Minnesota State Colleges and Universities

On July 1, 1995, Minnesota technical colleges, community colleges, and state universities were merged under the control of Minnesota State Colleges and Universities (MnSCU). Therefore, the funds and assets of the District associated with Dakota County Technical College's (DCTC) operations were remanded to the state system. The District continues to serve secondary, vocational, and kindergarten through Grade 12 special education students. Under terms of an agreement with DCTC, the District has access to certain facilities and equipment of DCTC. The District pays DCTC its share of building maintenance and costs of other services based on space, usage, personnel, and budget percentages. The District provides business office services to DCTC, and is reimbursed for related actual costs based on personnel, usage, and budget percentages.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. 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. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues and an allocation of indirect administrative and support service expenses. 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. Other internally directed revenues are reported 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. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

E. 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. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, private-purpose trust, and agency. 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.

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

Propriety 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 for service. Operating expenses for the internal service funds include the cost of providing benefits. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The District's only propriety funds are the internal service funds, which provide services to the governmental funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. 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. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days. 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 long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds. In the General Fund, capital expenditures are included within the applicable functional areas.

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

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. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The District maintains separate accounts within the General Fund for secondary education, secondary resale activities, special education, special education resale activities, district support services, capital expenditures, and costs to be reimbursed by others.

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.

Nonmajor Governmental Funds

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

Proprietary Funds

Internal Service Funds – The internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The District has three internal service funds. The District’s internal service funds include financing for post-employment severance benefits and other post-employment benefits (OPEB), and self-insurance for the employee health and dental insurance programs.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Funds

Private-Purpose Trust Fund – The Private-Purpose Trust Fund is used to account for resources held in trust to be used by various third parties to award scholarships to former students.

F. Budgetary Information

Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds. The budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Expenditures exceeded budgeted amounts in the Food Service Special Revenue Fund by \$10,460.

G. 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.

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the General Fund, the capital lease escrow account is used to hold assets held for future debt payments. Interest earned on these investments was allocated directly to those accounts.

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

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

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

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

H. 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. No allowances have been recorded.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Inventories

Inventories are valued at the lower of cost (first-in, first-out method) or market. Inventories are recorded as expenses/expenditures when items are used or sold.

J. Prepaid Items

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

K. Capital Assets

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The District maintains a threshold level of \$1,250 or more for capitalizing capital assets. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset lives is not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer 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 5 to 20 years for furniture and equipment. Land and construction in progress are not depreciated.

The District does not possess any 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. Debt premiums and discounts are deferred and amortized over the life of the debt using the straight-line method.

In the fund financial statements, governmental fund types recognize debt premiums and discounts, as well as debt issuance costs, 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Compensated Absences

Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Vacation pay is accrued when incurred in the government-wide financial statements. Unused vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Sick Pay

Substantially all district employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of early retirement incentive payments for some employees upon termination.

O. Severance Benefits

The District provides lump sum severance pay to eligible employees in accordance with provisions in certain collectively bargained contracts. Members of certain of the District's employee groups may become eligible to receive lump sum severance pay benefits. Eligibility for these benefits is based on years of service and/or minimum age requirements. The amount of the severance or retirement 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.

Severance payable and the District's share of related benefits are recorded as a liability in the government-wide financial statements as it is earned and it becomes probable that it will vest at some point in the future. Severance pay is accrued in the applicable internal service fund as it is earned and it becomes probable it will vest at some point in the future.

P. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Risk Management

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 the current year.
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 plan.

The District makes premium payments to the internal service funds on behalf of program participants based on provisional 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.

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

<u>Fiscal Year Ended June 30,</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Charges and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2016	\$ 8,959	\$ 352,733	\$ 352,279	\$ 9,413
2017	\$ 9,413	\$ 366,362	\$ 367,126	\$ 8,649

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

<u>Fiscal Year Ended June 30,</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Charges and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance at Fiscal Year-End</u>
2016	\$ –	\$ 1,047,519	\$ 952,519	\$ 95,000
2017	\$ 95,000	\$ 2,730,053	\$ 2,583,244	\$ 241,809

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Deferred Outflows/Inflows of Resources

In addition to assets, statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. The first item is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, change in proportion, the difference between projected and actual earnings on pension 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 standards. The second item is the deferred outflow of resources related to long term debt obligations reported in the government-wide Statement of Net Position. This deferred outflow 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.

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has one item that qualifies for reporting in this category.

Deferred inflows of resources related to pensions are reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, change in proportion, and the difference between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

S. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from 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.

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 during the reporting period. Actual results could differ from those estimates.

U. Restricted Assets

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements. In the governmental funds, cash and investments that are restricted are reported as cash and investments held by trustee.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. 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 their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

W. Fund Balance Classifications

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

X. Prior Period Comparative Financial Information/Reclassification

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. 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 \$979,950, while the balance on the bank records was \$920,026. At June 30, 2017, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

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

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

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, the District considers such things as interest rates and cash flow needs when purchasing investments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Summary

The following table presents the District's deposit and investment balances at June 30, 2017, and information relating to potential investment risks:

Investment Type	Credit Risk		Fair Value Measurements	Interest Risk – Maturity Duration in Years				Total
	Rating	Agency		Less Than 1	1 to 5	5 to 10	More Than 10	
Investment pools/mutual funds								
Minnesota School District Liquid Asset Fund	AAA	S&P	N/A	N/A	N/A	N/A	N/A	\$ 2,271,272
First American Treasury Obligations Fund Class D	AAA	S&P	Level 1	N/A	N/A	N/A	N/A	627,832
								2,899,104
Deposits								979,950
Total cash and investments								<u>\$ 3,879,054</u>

N/A – Not Applicable

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

Cash and temporary investments – Statement of Net Position	\$ 3,249,221
Cash and temporary investments held by trustee – Statement of Net Position	627,832
Cash and temporary investments – Statement of Fiduciary Net Position – Private-Purpose Trust Fund	2,001
Total cash and investments	<u>\$ 3,879,054</u>

The Minnesota School District Liquid Asset Fund (MSDLAF) is regulated by Minnesota Statutes and is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The District's investment in the MSDLAF is measured at the value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

For MSDLAF investments, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid Class; the redemption notice period is 14 days for the MAX Class.

NOTE 3 – CAPITAL ASSETS

Capital assets and accumulated depreciation activity for the year ended June 30, 2017 is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	\$ 682,011	\$ –	\$ 27,011	\$ 655,000
Construction in progress	–	2,607,447	–	2,607,447
Total capital assets, not depreciated	682,011	2,607,447	27,011	3,262,447
Capital assets, depreciated				
Buildings	8,492,082	–	79,034	8,413,048
Furniture and equipment	4,234,042	170,007	2,297,158	2,106,891
Total capital assets, depreciated	12,726,124	170,007	2,376,192	10,519,939
Less accumulated depreciation for				
Buildings	(2,893,306)	(129,922)	(66,909)	(2,956,319)
Furniture and equipment	(3,570,334)	(142,426)	(2,213,839)	(1,498,921)
Total accumulated depreciation	(6,463,640)	(272,348)	(2,280,748)	(4,455,240)
Net capital assets, depreciated	6,262,484	(102,341)	95,444	6,064,699
Total capital assets, net	\$ 6,944,495	\$ 2,505,106	\$ 122,455	\$ 9,327,146

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

Administrative and support services	\$ 21,651
Secondary vocational/DCALS	15,930
Special education instruction	231,097
Food service	3,670
Total depreciation expense	\$ 272,348

NOTE 4 – LONG-TERM LIABILITIES

A. Components and Changes in Long-Term Liabilities

The following table describes the changes in long-term liabilities, including amounts due within one year:

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
Capital leases payable	\$ 6,820,000	\$ –	\$ 6,820,000	\$ –	\$ –
Certificates of participation	–	8,085,000	–	8,085,000	255,000
Unamortized premium/discount	(116,350)	269,093	(109,215)	261,958	–
Severance benefits payable	470,984	13,520	7,632	476,872	22,731
Compensated absences payable	309,678	192,025	226,080	275,623	226,080
Net OPEB obligation	1,214,523	225,080	53,728	1,385,875	–
Net pension liability	17,041,912	41,950,539	1,885,207	57,107,244	–
	<u>\$ 25,740,747</u>	<u>\$ 50,735,257</u>	<u>\$ 8,883,432</u>	<u>\$ 67,592,572</u>	<u>\$ 503,811</u>

B. Description of Long-Term Liabilities

- Capital Leases Payable** – In September 2007, the District entered into a capital lease agreement with the Dakota County Community Development Agency (DCCDA) to finance building construction. The DCCDA issued \$8,480,000 of lease revenue bonds to pay for these costs. The revenue bonds bore interest rates that ranged from 3.875 percent to 4.500 percent and had a final maturity of February 2034. In November 2016, the District issued \$8,085,000 of certificates of participation, a portion of which were used to refund, in advance of their stated maturities, the 2017 through 2034 maturities of the District's 2007 capital lease payable. This refunding resulted in a cash flow savings of \$1,372,585 and a present value savings of approximately \$967,937.
- Certificates of Participation Payable** – In November 2016, the District sold \$8,085,000 of certificates of participation to finance the construction of additions to the Alliance Center special education facility and to refund the previously-mentioned capital lease. These certificates have interest rates that range from 2.0 percent to 3.0 percent, with a final maturity of February 2039. Annual principal and interest payments on these certificates will be paid by the General Fund. Tuition revenue in the General Fund Capital Expenditure Account from member districts specifically for this debt obligation for the duration of the debt obligation are pledged for the payment of principal and interest on these certificates of participation payable.

On August 1, 2017, the proceeds that were placed in escrow were used to call the remaining principal on the previously-mentioned capital lease payable. This advanced 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 \$5,852,989 in defeased debt outstanding.

- Severance Benefits Payable** – Severance benefits are paid by the applicable internal service fund. Annual payments to retire severance benefit liabilities have not been determined and will depend on actual employee turnover.
- Compensated Absences Payable** – Compensated absences payable represent accrued vacation payable at year-end. Compensated absences are paid by the General Fund. These benefits are not funded until the year of payment. Annual payments to retire compensated absences payable will depend on employee turnover and actual employee absences.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

- **Other Long-Term Liabilities** – The District offers a number of benefits to its employees, including pensions and OPEB. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund.

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	\$ 7,875,919	\$ 3,126,200	\$ 683,352	\$ 1,025,341
TRA	49,231,325	32,008,953	90,146	8,033,393
Total	<u>\$ 57,107,244</u>	<u>\$ 35,135,153</u>	<u>\$ 773,498</u>	<u>\$ 9,058,734</u>

C. Minimum Debt Payments

Minimum annual principal and interest payments required to retire certificates of participation payable are as follows:

Year Ending June 30,	Principal	Interest
2018	\$ 255,000	\$ 279,692
2019	290,000	233,500
2020	295,000	227,700
2021	305,000	221,800
2022	310,000	215,700
2023–2027	1,660,000	964,925
2028–2032	1,920,000	700,550
2033–2037	2,140,000	342,300
2038–2039	910,000	41,100
	<u>\$ 8,085,000</u>	<u>\$ 3,227,267</u>

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds, which are defined earlier in the report.

A. Classifications

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

	General Fund	Capital Projects – Building Construction Fund	Food Service Special Revenue Fund	Total
Nonspendable				
Prepaid items	\$ 153,684	\$ –	\$ –	\$ 153,684
Inventory	925	–	–	925
Total nonspendable	<u>154,609</u>	<u>–</u>	<u>–</u>	<u>154,609</u>
Restricted for				
Basic skills	252,615	–	–	252,615
Debt service	627,832	–	–	627,832
Capital purposes	76	–	–	76
Total restricted	<u>880,523</u>	<u>–</u>	<u>–</u>	<u>880,523</u>
Unassigned	<u>5,922,746</u>	<u>–</u>	<u>–</u>	<u>5,922,746</u>
Total	<u>\$ 6,957,878</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 6,957,878</u>

B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding maintaining a minimum unassigned fund balance for the General Fund. The policy states the District will strive to maintain a minimum unassigned General Fund balance of 15.0 percent of the annual budget. At June 30, 2017, the unassigned fund balance of the General Fund was 17.8 percent of fiscal 2017 expenditures.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

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 MnSCU may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan administered by MnSCU.

B. Benefits Provided

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

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.
- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually.

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

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

1. GERF Benefits

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

2. TRA Benefits

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

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

Tier I Benefits

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

With these provisions:

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

NOTE 6 – 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 GERP for the year ended June 30, 2017 were \$469,399. 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 year ended June 30, 2017, were \$867,629. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

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

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

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. GERS Pension Costs

At June 30, 2017, the District reported a liability of \$7,875,919 for its proportionate share of the GERS'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 0.0970 percent at the end of the measurement period and 0.0956 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	\$ 7,875,919
State's proportionate share of the net pension liability associated with the District	\$ 102,897

For the year ended June 30, 2017, the District recognized pension expense of \$994,660 for its proportionate share of the GERS's pension expense. In addition, the District recognized an additional \$30,681 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$6 million to the GERS.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 22,973	\$ 637,363
Changes in actuarial assumptions	1,696,386	—
Differences between expected and actual economic experience	883,026	—
Changes in proportion	54,416	45,989
District's contributions to the GERF subsequent to the measurement date	469,399	—
Total	<u>\$ 3,126,200</u>	<u>\$ 683,352</u>

A total of \$469,399 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	\$ 544,614
2019	\$ 367,366
2020	\$ 776,977
2021	\$ 284,492

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$49,231,325 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 0.2064 percent at the end of the measurement period and 0.1954 percent for the beginning of the period.

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

District's proportionate share of net pension liability	\$ 49,231,325
State's proportionate share of the net pension liability associated with the District	\$ 4,941,167

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

For the year ended June 30, 2017, the District recognized pension expense of \$7,343,441. It also recognized \$689,952 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	\$ 473,274	\$ 1,373
Changes in actuarial assumptions	27,996,473	–
Difference between projected and actual investment earnings	2,104,528	–
Changes in proportion	567,049	88,773
District's contributions to the TRA subsequent to the measurement date	867,629	–
Total	<u>\$ 32,008,953</u>	<u>\$ 90,146</u>

A total of \$867,629 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	\$ 6,176,715
2019	\$ 6,176,715
2020	\$ 6,882,828
2021	\$ 6,241,871
2022	\$ 5,573,049

E. Actuarial Assumptions

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

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

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

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

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

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

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

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

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

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

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

F. Discount Rate

1. GERF

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

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

2. TRA

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

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 11,186,139	\$ 7,875,919	\$ 5,149,198
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	\$ 63,422,251	\$ 49,231,325	\$ 37,673,278

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 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the District's OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. As of July 1, 2016, the plan had 403 active participants and 3 retired participants. 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 plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. Under the terms of certain collectively bargained employment contracts, the District is required to pay health and dental insurance premiums for eligible retirees until they reach age 65 or 70 as specified in their contract. Employees must meet certain age and/or length of service requirements to be eligible. The monthly district contribution per retiree for post-employment health and dental insurance is equal to the premiums covered for current employees in the retiree's bargaining group. 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, 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.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. There are no invested plan assets accumulated for payment of future benefits. The District has established an Internal Service Fund to finance these obligations, but the resources are not considered funded for plan purposes since they are not in an irrevocable trust fund.

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

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	\$ 249,699
Interest on net OPEB obligation	36,436
Adjustment to ARC	(61,055)
Annual OPEB cost	<u>225,080</u>
Contributions made	<u>53,728</u>
Increase in net OPEB obligation	171,352
Net OPEB obligation – beginning of year	<u>1,214,523</u>
Net OPEB obligation – end of year	<u><u>\$ 1,385,875</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 248,433	\$ 80,413	32.4%	\$ 1,000,053
June 30, 2016	\$ 281,648	\$ 67,178	23.9%	\$ 1,214,523
June 30, 2017	\$ 225,080	\$ 53,728	23.9%	\$ 1,385,875

D. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the plan was zero percent funded. The actuarial accrued liability for benefits was \$1,422,429, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,422,429. The covered payroll (annual payroll of active employees covered by the plan) was \$16,798,018, and the ratio of the UAAL to the covered payroll was 8.5 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.0 percent investment rate of return (net of administrative expenses) based on the District's own investments; an annual healthcare cost trend rate of 6.75 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 7 years, and a dental cost trend rate of 4.0 percent. All rates include a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period on July 1, 2016 for the various amortization layers ranged from 22 to 30 years.

NOTE 8 – FLEXIBLE BENEFIT PLAN

The District offers its employees a flexible benefit plan, a cafeteria plan (the Plan) created in accordance with the IRC § 125. 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 pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits.

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

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

Amounts withheld for medical reimbursement and dependent care are held in the District's cash account. Payments are made by a third party administrator to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the employee. The medical reimbursement and dependent care activity is accounted for in the financial statements in the General Fund.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the Plan are equal to those of general creditors of the District in an amount equal to eligible healthcare 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 9 – COMMITMENTS AND CONTINGENCIES

A. Operating Leases

The District is leasing buildings and space in several locations. The District incurred expenditures of \$822,673 for operating leases during the year ended June 30, 2017. These leases are scheduled to expire on various dates through 2031. The following is a summary of minimum lease payments for all operating leases:

Year Ending June 30,	Amount
2018	\$ 464,720
2019	471,869
2020	479,077
2021	486,344
2022	493,672
2023–2027	1,444,927
2028–2031	945,990
	<u>\$ 4,786,599</u>

B. Federal and State Revenues

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

C. Legal Contingencies

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

NOTE 10 – INTERFUND TRANSFERS

The General Fund made an interfund transfer of \$35,240 to the Food Service Special Revenue Fund to eliminate a fund balance deficit at year-end.

Such interfund transfers reported in the fund financial statements are eliminated in the government-wide financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

INTERMEDIATE SCHOOL DISTRICT NO. 917

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	0.0973%	\$ 4,570,667	\$ —	\$ 4,570,667	\$ 5,105,448	89.53%	78.70%
06/30/2016	06/30/2015	0.0956%	\$ 4,954,489	\$ —	\$ 4,954,489	\$ 5,613,356	88.26%	78.20%
06/30/2017	06/30/2016	0.0970%	\$ 7,875,919	\$ 102,897	\$ 7,978,816	\$ 6,015,751	132.63%	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	\$ 414,341	\$ 414,341	\$ —	\$ 5,613,356	7.38%
06/30/2016	\$ 451,532	\$ 451,532	\$ —	\$ 6,015,751	7.51%
06/30/2017	\$ 469,399	\$ 469,399	\$ —	\$ 6,251,084	7.51%

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.

INTERMEDIATE SCHOOL DISTRICT NO. 917

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	0.2029%	\$ 9,349,486	\$ 657,803	\$ 10,007,289	\$ 9,262,291	100.94%	81.50%
06/30/2016	06/30/2015	0.1954%	\$ 12,087,423	\$ 1,482,856	\$ 13,570,279	\$ 9,915,820	121.90%	76.80%
06/30/2017	06/30/2016	0.2064%	\$ 49,231,325	\$ 4,941,167	\$ 54,172,492	\$ 10,745,627	458.15%	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	\$ 743,688	\$ 743,688	\$ —	\$ 9,915,820	7.50%
06/30/2016	\$ 805,427	\$ 805,427	\$ —	\$ 10,745,627	7.50%
06/30/2017	\$ 867,629	\$ 867,629	\$ —	\$ 11,700,275	7.42%

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

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

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

INTERMEDIATE SCHOOL DISTRICT NO. 917

Other Post-Employment Benefits Plan
Schedule of Funding Progress
Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2012	\$ 1,500,479	\$ —	\$ 1,500,479	— %	\$ 13,212,704	11.4 %
July 1, 2014	\$ 1,510,508	\$ —	\$ 1,510,508	— %	\$ 15,074,274	10.0 %
July 1, 2016	\$ 1,422,429	\$ —	\$ 1,422,429	— %	\$ 16,798,018	8.5 %

SUPPLEMENTAL INFORMATION

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	2017	2016
Assets		
Cash and temporary investments	\$ 818,971	\$ 6,709,235
Cash and investments held by trustee	627,832	594,906
Receivables		
Accounts and interest	9,351	15,921
Due from other school districts	2,288,118	2,168,713
Due from Minnesota Department of Education	6,721,226	1,248,051
Due from other governmental units	237,075	38,912
Inventory	925	695
Prepaid items	153,684	47,709
Total assets	<u>\$ 10,857,182</u>	<u>\$ 10,824,142</u>
Liabilities		
Salaries and compensated absences payable	\$ 3,012,174	\$ 2,740,655
Accounts and contracts payable	397,242	46,100
Due to other school districts	234,672	401,802
Due to other governmental units	193,550	176,674
Unearned revenue	61,666	120,907
Total liabilities	<u>3,899,304</u>	<u>3,486,138</u>
Fund balances		
Nonspendable for prepaid items	153,684	47,709
Nonspendable for inventory	925	695
Restricted for debt service	627,832	594,906
Restricted for basic skills	252,615	98,510
Restricted for capital purposes	76	684,218
Assigned for subsequent year's budgeted deficit	—	181,445
Unassigned	5,922,746	5,730,521
Total fund balances	<u>6,957,878</u>	<u>7,338,004</u>
Total liabilities and fund balances	<u>\$ 10,857,182</u>	<u>\$ 10,824,142</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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				
Tuition	\$ 8,983,551	\$ 8,898,680	\$ (84,871)	\$ 8,662,123
Investment earnings	47,050	58,896	11,846	44,556
Other	778,786	593,514	(185,272)	737,405
State sources	21,686,938	21,090,031	(596,907)	20,091,649
Federal sources	161,945	139,698	(22,247)	161,193
Total revenue	<u>31,658,270</u>	<u>30,780,819</u>	<u>(877,451)</u>	<u>29,696,926</u>
Expenditures				
Current				
Administrative and support services	495,121	468,671	(26,450)	441,123
Secondary vocational/DCALS	3,678,037	3,467,488	(210,549)	3,361,023
Special education programs	27,168,505	25,476,435	(1,692,070)	24,219,021
Capital outlay	2,827,247	2,696,126	(131,121)	22,800
Debt service				
Principal	260,000	967,011	707,011	250,000
Interest and fiscal charges	295,220	291,237	(3,983)	304,908
Total expenditures	<u>34,724,130</u>	<u>33,366,968</u>	<u>(1,357,162)</u>	<u>28,598,875</u>
Excess (deficiency) of revenue over expenditures	(3,065,860)	(2,586,149)	479,711	1,098,051
Other financing sources (uses)				
Debt issued	2,185,000	2,185,000	—	—
Refunding debt issued	5,900,000	5,900,000	—	—
Premium on debt issued	228,668	269,093	40,425	—
Refunding payment on debt	—	(6,117,871)	(6,117,871)	—
Proceeds from sale of assets	2,893	5,041	2,148	1,120
Transfers out	(31,985)	(35,240)	(3,255)	(38,174)
Total other financing sources (uses)	<u>8,284,576</u>	<u>2,206,023</u>	<u>(6,078,553)</u>	<u>(37,054)</u>
Net change in fund balances	<u>\$ 5,218,716</u>	<u>(380,126)</u>	<u>\$ (5,598,842)</u>	<u>1,060,997</u>
Fund balances				
Beginning of year		<u>7,338,004</u>		<u>6,277,007</u>
End of year		<u>\$ 6,957,878</u>		<u>\$ 7,338,004</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

General Fund
Combining Balance Sheet by Account
as of June 30, 2017

	Secondary Education	Special Education	Services Allocation
Assets			
Cash and temporary investments (deficit)	\$ 1,275,675	\$ (355,483)	\$ 36,612
Cash and investments held by trustee	—	—	—
Receivables			
Accounts and interest	—	532	5,977
Due from other school districts	971,530	1,292,046	24,424
Due from Minnesota Department of Education	93,033	6,628,193	—
Due from other governmental units	30,226	206,654	—
Inventory	—	—	—
Prepaid items	29,256	116,707	7,721
Total assets	<u>\$ 2,399,720</u>	<u>\$ 7,888,649</u>	<u>\$ 74,734</u>
Liabilities			
Salaries and compensated absences payable	\$ 316,136	\$ 2,642,326	\$ 53,712
Accounts and contracts payable	9,798	28,514	6,857
Due to other school districts	35,935	198,737	—
Due to other governmental units	119,077	73,887	205
Unearned revenue	—	47,706	13,960
Total liabilities	<u>480,946</u>	<u>2,991,170</u>	<u>74,734</u>
Fund balances (deficit)			
Nonspendable for prepaid items	29,256	116,707	7,721
Nonspendable for inventory	—	—	—
Restricted for debt service	—	—	—
Restricted for basic skills programs	9,401	243,214	—
Restricted for capital purposes	—	—	—
Unassigned	1,880,117	4,537,558	(7,721)
Total fund balances	<u>1,918,774</u>	<u>4,897,479</u>	<u>—</u>
Total liabilities and fund balances	<u>\$ 2,399,720</u>	<u>\$ 7,888,649</u>	<u>\$ 74,734</u>

District Support Services	Capital Expenditure	Secondary Resale	Special Education Resale	Total
\$ 671	\$ (155,720)	\$ 6,985	\$ 10,231	\$ 818,971
—	627,832	—	—	627,832
—	—	2,750	92	9,351
—	—	118	—	2,288,118
—	—	—	—	6,721,226
—	—	195	—	237,075
—	—	567	358	925
—	—	—	—	153,684
<u>\$ 671</u>	<u>\$ 472,112</u>	<u>\$ 10,615</u>	<u>\$ 10,681</u>	<u>\$ 10,857,182</u>
\$ —	\$ —	\$ —	\$ —	\$ 3,012,174
—	351,316	294	463	397,242
—	—	—	—	234,672
—	—	347	34	193,550
—	—	—	—	61,666
—	351,316	641	497	3,899,304
—	—	—	—	153,684
—	—	567	358	925
—	627,832	—	—	627,832
—	—	—	—	252,615
—	76	—	—	76
671	(507,112)	9,407	9,826	5,922,746
<u>671</u>	<u>120,796</u>	<u>9,974</u>	<u>10,184</u>	<u>6,957,878</u>
<u>\$ 671</u>	<u>\$ 472,112</u>	<u>\$ 10,615</u>	<u>\$ 10,681</u>	<u>\$ 10,857,182</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

General Fund

Combining Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
Year Ended June 30, 2017

	Secondary Education	Special Education	Services Allocation
Revenue			
Local sources			
Tuition	\$ 3,052,790	\$ 4,857,838	\$ 432,832
Investment earnings	4,528	8,952	—
Other	1,408	548,626	5,462
State sources	185,739	20,873,915	30,377
Federal sources	139,698	—	—
Total revenue	<u>3,384,163</u>	<u>26,289,331</u>	<u>468,671</u>
Expenditures			
Current			
Administrative and support services	—	—	468,671
Secondary vocational/DCALS	3,401,719	—	—
Special education programs	—	25,463,707	—
Capital outlay	—	—	—
Debt service			
Principal	—	—	—
Interest and fiscal charges	—	—	—
Total expenditures	<u>3,401,719</u>	<u>25,463,707</u>	<u>468,671</u>
Excess (deficiency) of revenue over expenditures	(17,556)	825,624	—
Other financing sources (uses)			
Debt issued	—	—	—
Refunding debt issued	—	—	—
Premium on debt issued	—	—	—
Refunding payment on debt	—	—	—
Proceeds from sale of assets	—	5,041	—
Transfers out	—	(35,240)	—
Total other financing sources (uses)	<u>—</u>	<u>(30,199)</u>	<u>—</u>
Net change in fund balances	(17,556)	795,425	—
Fund balances			
Beginning of year	<u>1,936,330</u>	<u>4,102,054</u>	<u>—</u>
End of year	<u>\$ 1,918,774</u>	<u>\$ 4,897,479</u>	<u>\$ —</u>

District Support Services	Capital Expenditure	Secondary Resale	Special Education Resale	Total
\$ —	\$ 555,220	\$ —	\$ —	\$ 8,898,680
—	45,416	—	—	58,896
—	—	27,382	10,636	593,514
—	—	—	—	21,090,031
—	—	—	—	139,698
—	600,636	27,382	10,636	30,780,819
—	—	—	—	468,671
—	40,812	24,957	—	3,467,488
—	—	—	12,728	25,476,435
—	2,696,126	—	—	2,696,126
—	967,011	—	—	967,011
—	291,237	—	—	291,237
—	3,995,186	24,957	12,728	33,366,968
—	(3,394,550)	2,425	(2,092)	(2,586,149)
—	2,185,000	—	—	2,185,000
—	5,900,000	—	—	5,900,000
—	269,093	—	—	269,093
—	(6,117,871)	—	—	(6,117,871)
—	—	—	—	5,041
—	—	—	—	(35,240)
—	2,236,222	—	—	2,206,023
—	(1,158,328)	2,425	(2,092)	(380,126)
671	1,279,124	7,549	12,276	7,338,004
\$ 671	\$ 120,796	\$ 9,974	\$ 10,184	\$ 6,957,878

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INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Tuition	\$ 3,031,381	\$ 3,052,790	\$ 21,409	\$ 3,110,396
Investment earnings	4,550	4,528	(22)	3,872
Other	1,150	1,408	258	1,638
State sources	168,731	185,739	17,008	175,196
Federal sources	161,945	139,698	(22,247)	161,193
Total revenue	<u>3,367,757</u>	<u>3,384,163</u>	<u>16,406</u>	<u>3,452,295</u>
Expenditures				
Current				
Secondary vocational/DCALS				
Salaries	1,893,123	1,849,994	(43,129)	1,766,552
Employee benefits	641,920	629,643	(12,277)	613,991
Purchased services	472,916	413,106	(59,810)	466,365
Supplies and materials	198,886	189,610	(9,276)	73,283
Other expenditures	1,046	16,175	15,129	1,133
Capital expenditures	37,771	32,457	(5,314)	28,273
Allocated overhead	276,878	270,734	(6,144)	296,790
Total expenditures	<u>3,522,540</u>	<u>3,401,719</u>	<u>(120,821)</u>	<u>3,246,387</u>
Net change in fund balances	<u>\$ (154,783)</u>	<u>(17,556)</u>	<u>\$ 137,227</u>	<u>205,908</u>
Fund balances				
Beginning of year		<u>1,936,330</u>		<u>1,730,422</u>
End of year		<u>\$ 1,918,774</u>		<u>\$ 1,936,330</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Tuition	\$ 4,964,118	\$ 4,857,838	\$ (106,280)	\$ 4,579,099
Investment earnings	11,000	8,952	(2,048)	8,973
Other	698,647	548,626	(150,021)	644,251
State sources	21,478,807	20,873,915	(604,892)	19,900,805
Total revenue	27,152,572	26,289,331	(863,241)	25,133,128
Expenditures				
Current				
Special education programs				
Salaries	16,239,278	15,576,866	(662,412)	14,518,245
Employee benefits	5,707,518	5,191,320	(516,198)	5,231,164
Purchased services	2,513,454	2,382,990	(130,464)	2,201,135
Supplies and materials	760,696	480,814	(279,882)	565,465
Other expenditures	12,958	77,238	64,280	10,435
Capital expenditures	674,029	497,988	(176,041)	497,210
Allocated overhead	1,250,472	1,256,491	6,019	1,183,974
Total expenditures	27,158,405	25,463,707	(1,694,698)	24,207,628
Excess (deficiency) of revenue over expenditures	(5,833)	825,624	831,457	925,500
Other financing sources (uses)				
Proceeds from sale of assets	2,893	5,041	2,148	140
Transfers out	(31,985)	(35,240)	(3,255)	(38,174)
Total other financing sources (uses)	(29,092)	(30,199)	(1,107)	(38,034)
Net change in fund balances	\$ (34,925)	795,425	\$ 830,350	887,466
Fund balances				
Beginning of year		4,102,054		3,214,588
End of year		\$ 4,897,479		\$ 4,102,054

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Tuition	\$ 432,832	\$ 432,832	\$ –	\$ 417,720
Other	22,889	5,462	(17,427)	7,755
State sources	39,400	30,377	(9,023)	15,648
Total revenue	495,121	468,671	(26,450)	441,123
Expenditures				
Current				
Administrative and support services				
Salaries	990,069	987,354	(2,715)	914,218
Employee benefits	266,932	267,621	689	237,668
Purchased services	719,406	673,348	(46,058)	674,770
Supplies and materials	45,945	36,421	(9,524)	29,699
Other expenditures	17,329	17,044	(285)	15,258
Capital expenditures	17,228	14,107	(3,121)	50,272
Allocated overhead	(1,561,788)	(1,527,224)	34,564	(1,480,762)
Total expenditures	495,121	468,671	(26,450)	441,123
Net change in fund balances	\$ –	–	\$ –	–
Fund balances				
Beginning of year		–		–
End of year		\$ –		\$ –

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Other	\$ —	\$ —	\$ —	\$ —
Expenditures				
Current				
Administrative and support services				
Purchased services	—	—	—	—
Net change in fund balances	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>
Fund balances				
Beginning of year		<u>671</u>		<u>671</u>
End of year		<u>\$ 671</u>		<u>\$ 671</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Tuition	\$ 555,220	\$ 555,220	\$ –	\$ 554,908
Investment earnings	31,500	45,416	13,916	31,711
Total revenue	<u>586,720</u>	<u>600,636</u>	<u>13,916</u>	<u>586,619</u>
Expenditures				
Current				
Secondary vocational/DCALS				
Purchased services	115,002	40,812	(74,190)	25,950
Capital outlay	2,827,247	2,696,126	(131,121)	22,800
Debt service				
Principal	260,000	967,011	707,011	250,000
Interest and fiscal charges	295,220	291,237	(3,983)	304,908
Total expenditures	<u>3,497,469</u>	<u>3,995,186</u>	<u>497,717</u>	<u>603,658</u>
Excess (deficiency) of revenue over expenditures	(2,910,749)	(3,394,550)	(483,801)	(17,039)
Other financing sources (uses)				
Debt issued	2,185,000	2,185,000	–	–
Refunding debt issued	5,900,000	5,900,000	–	–
Premium on debt issued	228,668	269,093	40,425	–
Refunding payment on debt	–	(6,117,871)	(6,117,871)	–
Total other financing sources (uses)	<u>8,313,668</u>	<u>2,236,222</u>	<u>(6,077,446)</u>	<u>–</u>
Net change in fund balances	<u>\$ 5,402,919</u>	<u>(1,158,328)</u>	<u>\$ (6,561,247)</u>	<u>(17,039)</u>
Fund balances				
Beginning of year		<u>1,279,124</u>		<u>1,296,163</u>
End of year		<u>\$ 120,796</u>		<u>\$ 1,279,124</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Other	\$ 44,000	\$ 27,382	\$ (16,618)	\$ 72,784
Expenditures				
Current				
Secondary vocational/DCALS				
Purchased services	–	2,430	2,430	5,642
Supplies and materials	40,495	22,527	(17,968)	80,954
Capital expenditures	–	–	–	1,736
Other expenditures	–	–	–	354
Total expenditures	<u>40,495</u>	<u>24,957</u>	<u>(15,538)</u>	<u>88,686</u>
Excess (deficiency) of revenue over expenditures	3,505	2,425	(1,080)	(15,902)
Other financing sources				
Proceeds from sale of assets	<u>–</u>	<u>–</u>	<u>–</u>	<u>980</u>
Net change in fund balances	<u>\$ 3,505</u>	<u>2,425</u>	<u>\$ (1,080)</u>	<u>(14,922)</u>
Fund balances				
Beginning of year		<u>7,549</u>		<u>22,471</u>
End of year		<u>\$ 9,974</u>		<u>\$ 7,549</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	2017			2016
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Other	\$ 12,100	\$ 10,636	\$ (1,464)	\$ 10,977
Expenditures				
Current				
Special education programs				
Purchased services	—	—	—	935
Supplies and materials	10,100	12,728	2,628	10,458
Total expenditures	10,100	12,728	2,628	11,393
Net change in fund balances	\$ 2,000	(2,092)	\$ (4,092)	(416)
Fund balances				
Beginning of year		12,276		12,692
End of year		\$ 10,184		\$ 12,276

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	<u>\$ –</u>	<u>\$ 67,051</u>
Fund balances		
Restricted for capital purposes	<u>\$ –</u>	<u>\$ 67,051</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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				
Investment earnings	\$ —	\$ —	\$ —	\$ 204
Expenditures				
Capital outlay	67,051	67,051	—	44,425
Net change in fund balances	<u>\$ (67,051)</u>	<u>(67,051)</u>	<u>\$ —</u>	<u>(44,221)</u>
Fund balances				
Beginning of year		67,051		111,272
End of year		<u>\$ —</u>		<u>\$ 67,051</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	<u>2017</u>	<u>2016</u>
Assets		
Cash and temporary investments	<u>\$ 673</u>	<u>\$ 355</u>
Liabilities		
Accounts and contracts payable	\$ 673	\$ 190
Unearned revenue	<u> —</u>	<u> 165</u>
Total liabilities	<u>\$ 673</u>	<u>\$ 355</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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				
Other – primarily meal sales	\$ 30,100	\$ 21,210	\$ (8,890)	\$ 22,317
State sources	5,175	6,163	988	5,117
Federal sources	60,000	77,107	17,107	62,451
Total revenue	<u>95,275</u>	<u>104,480</u>	<u>9,205</u>	<u>89,885</u>
Expenditures				
Purchased services	9,385	9,875	490	8,307
Supplies and materials	<u>119,875</u>	<u>129,845</u>	<u>9,970</u>	<u>119,752</u>
Total expenditures	<u>129,260</u>	<u>139,720</u>	<u>10,460</u>	<u>128,059</u>
Excess (deficiency) of revenue over expenditures	(33,985)	(35,240)	(1,255)	(38,174)
Other financing sources				
Transfers in	<u>33,985</u>	<u>35,240</u>	<u>1,255</u>	<u>38,174</u>
Net change in fund balances	<u>\$ —</u>	<u>—</u>	<u>\$ —</u>	<u>—</u>
Fund balances				
Beginning of year		<u>—</u>		<u>—</u>
End of year		<u>\$ —</u>		<u>\$ —</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

Internal Service Funds
Combining Statement of Net Position
as of June 30, 2017

(With Comparative Totals as of June 30, 2016)

	Dental Self-Insurance	Medical Self-Insurance	Post-Employment Employee Benefits	Totals	
				2017	2016
Assets					
Cash and temporary investments	\$ 348,290	\$ 1,014,006	\$ 1,067,281	\$ 2,429,577	\$ 1,961,600
Prepaid items	—	—	35	35	—
Total assets	348,290	1,014,006	1,067,316	2,429,612	1,961,600
Liabilities					
Current liabilities					
Accounts and contracts payable	44,010	241,809	—	285,819	138,660
Severance benefits payable	—	—	22,731	22,731	13,139
Total current liabilities	44,010	241,809	22,731	308,550	151,799
Long-term liabilities					
Net other post-employment benefit obligations	—	—	1,385,875	1,385,875	1,214,523
Severance benefits payable	—	—	427,101	427,101	457,845
Total long-term liabilities	—	—	1,812,976	1,812,976	1,672,368
Total liabilities	44,010	241,809	1,835,707	2,121,526	1,824,167
Net position (deficit)					
Unrestricted	\$ 304,280	\$ 772,197	\$ (768,391)	\$ 308,086	\$ 137,433

INTERMEDIATE SCHOOL DISTRICT NO. 917

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)

	Dental Self-Insurance	Medical Self-Insurance	Post-Employment Employee Benefits	Totals	
				2017	2016
Operating revenue					
Charges for services					
Contributions from governmental funds	\$ 385,391	\$ 2,929,566	\$ 103,728	\$ 3,418,685	\$ 2,145,912
Operating expenses					
Post-employment severance and health benefits	—	—	157,797	157,797	231,293
Medical benefit claims	—	2,728,625	—	2,728,625	1,048,947
Dental benefit claims	368,904	—	—	368,904	347,660
Total operating expenses	<u>368,904</u>	<u>2,728,625</u>	<u>157,797</u>	<u>3,255,326</u>	<u>1,627,900</u>
Operating income (loss)	16,487	200,941	(54,069)	163,359	518,012
Nonoperating revenue					
Investment earnings	<u>1,121</u>	<u>2,739</u>	<u>3,434</u>	<u>7,294</u>	<u>3,889</u>
Change in net position	17,608	203,680	(50,635)	170,653	521,901
Net position (deficit)					
Beginning of year	<u>286,672</u>	<u>568,517</u>	<u>(717,756)</u>	<u>137,433</u>	<u>(384,468)</u>
End of year	<u>\$ 304,280</u>	<u>\$ 772,197</u>	<u>\$ (768,391)</u>	<u>\$ 308,086</u>	<u>\$ 137,433</u>

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

	Dental Self-Insurance	Medical Self-Insurance	Post-Employment Employee Benefits	Totals	
				2017	2016
Cash flows from operating activities					
Contributions from governmental funds	\$ 385,391	\$ 2,929,566	\$ 103,728	\$ 3,418,685	\$ 2,145,912
Post-employment severance and health benefit payments	—	—	(7,632)	(7,632)	(30,449)
Payments for medical claims	—	(2,583,244)	—	(2,583,244)	(952,519)
Payments for dental claims	(367,126)	—	—	(367,126)	(352,279)
Net cash flows from operating activities	18,265	346,322	96,096	460,683	810,665
Cash flows from investing activities					
Investment income received	1,121	2,739	3,434	7,294	3,889
Net change in cash and cash equivalents	19,386	349,061	99,530	467,977	814,554
Cash and temporary investments					
Beginning of year	328,904	664,945	967,751	1,961,600	1,147,046
End of year	\$ 348,290	\$ 1,014,006	\$ 1,067,281	\$ 2,429,577	\$ 1,961,600
Reconciliation of operating income (loss) to net cash flows from operating activities					
Operating income (loss)	\$ 16,487	\$ 200,941	\$ (54,069)	\$ 163,359	\$ 518,012
Adjustments to reconcile operating income (loss) to net cash flows from operating activities					
Changes in assets and liabilities					
Post-employment severance benefits payable	—	—	(21,152)	(21,152)	(8,126)
Net other post-employment benefit obligation	—	—	171,352	171,352	214,470
Prepaid items	—	—	(35)	(35)	—
Accounts payable	1,778	145,381	—	147,159	86,309
Net cash flows from operating activities	\$ 18,265	\$ 346,322	\$ 96,096	\$ 460,683	\$ 810,665

OTHER INFORMATION

INTERMEDIATE SCHOOL DISTRICT NO. 917

Government-Wide Revenue by Type
Last Ten Fiscal Years

Year Ended June 30,	Program Revenues			General Revenues	Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Investment Earnings and Other	
2008	\$ 18,090,478 94%	\$ 884,092 5%	\$ 23,469 —	\$ 281,238 1%	\$ 19,279,277 100%
2009	6,592,339 33%	12,759,841 63%	734,740 3%	133,252 1%	20,220,172 100%
2010	7,782,625 33%	14,567,950 62%	617,930 3%	599,235 2%	23,567,740 100%
2011	7,484,976 32%	15,265,005 65%	567,175 2%	224,526 1%	23,541,682 100%
2012	7,848,114 34%	14,720,483 63%	498,613 2%	136,147 1%	23,203,357 100%
2013	7,839,060 33%	15,177,273 64%	580,348 2%	126,115 1%	23,722,796 100%
2014	7,619,433 30%	17,064,879 67%	581,454 3%	97,720 —	25,363,486 100%
2015	7,876,725 30%	18,073,067 68%	559,401 2%	125,715 —	26,634,908 100%
2016	8,765,738 30%	20,327,694 68%	554,908 2%	139,795 —	29,788,135 100%
2017	8,910,685 28%	21,223,814 67%	539,240 2%	845,477 3%	31,519,216 100%

Note: In fiscal 2009, the state of Minnesota converted special education to a state-wide system. This caused the charges for services to be converted to operating grants and contributions.

INTERMEDIATE SCHOOL DISTRICT NO. 917

Government-Wide Expenses by Program
Last Ten Fiscal Years

Year Ended June 30,	Administrative and Support Services	Secondary Vocational/ DCALS	Special Education Programs	Food Service	Interest and Fiscal Charges on Debt	Total
2008	\$ 1,143,629 5%	\$ 3,629,059 19%	\$ 14,148,809 74%	\$ — —	\$ 223,767 1%	\$ 19,145,264 100%
2009	1,484,759 7%	3,698,703 18%	15,126,240 73%	— —	410,161 2%	20,719,863 100%
2010	1,279,128 6%	3,778,602 17%	16,753,538 75%	71,375 —	361,888 2%	22,244,531 100%
2011	1,614,185 7%	3,855,919 17%	16,699,413 74%	74,423 —	353,553 2%	22,597,493 100%
2012	1,765,768 8%	3,875,566 17%	17,292,500 74%	101,616 —	344,925 1%	23,380,375 100%
2013	1,998,969 8%	3,962,647 17%	18,097,103 74%	85,779 —	335,885 1%	24,480,383 100%
2014	1,892,695 7%	3,483,868 14%	19,239,348 77%	108,123 —	326,431 1%	25,050,465 100%
2015	1,867,491 8%	3,182,362 12%	20,634,460 79%	116,426 —	316,820 1%	26,117,559 100%
2016	1,886,824 7%	2,993,362 11%	22,764,328 81%	131,729 —	307,246 1%	28,083,489 100%
2017	3,088,390 8%	3,590,904 10%	30,535,125 81%	143,390 —	301,437 1%	37,659,246 100%

Note: The Food Service Special Revenue Fund was established in fiscal year 2010.

INTERMEDIATE SCHOOL DISTRICT NO. 917

General Fund Revenue by Source
Last Ten Fiscal Years

	Year Ended June 30,	Tuition Revenue	Investment Earnings (Charges)	Other Revenue	State Revenue	Federal Revenue	Total
Secondary education	2008	\$ 3,534,488	\$ 60,762	\$ 25,461	\$ —	\$ 341,820	\$ 3,962,531
	2009	3,349,713	11,583	26,599	—	186,813	3,574,708
	2010	3,715,685	2,663	13,587	10,195	150,108	3,892,238
	2011	3,656,422	927	8,787	49,708	172,435	3,888,279
	2012	3,938,532	920	21,437	61,110	197,689	4,219,688
	2013	3,587,494	855	8,645	75,408	150,577	3,822,979
	2014	3,113,264	1,301	3,335	118,957	154,147	3,391,004
	2015	3,013,776	553	7,604	105,919	151,510	3,279,362
	2016	3,110,396	3,872	1,638	175,196	161,193	3,452,295
	2017	3,052,790	4,528	1,408	185,739	139,698	3,384,163
Special education	2008	14,331,589	(4,875)	177,538	—	455,666	14,959,918
	2009	3,004,086	4,242	202,077	12,035,354	464,375	15,710,134
	2010	3,332,630	221	603,186	13,721,390	561,110	18,218,537
	2011	3,087,411	(392)	390,143	14,210,549	735,457	18,423,168
	2012	2,962,399	(341)	529,239	14,199,467	172,752	17,863,516
	2013	3,202,954	44	546,076	14,861,033	5,000	18,615,107
	2014	3,396,148	1,119	568,794	16,689,111	5,000	20,660,172
	2015	3,652,478	400	629,749	17,783,764	5,000	22,071,391
	2016	4,579,099	8,973	644,251	19,900,805	—	25,133,128
	2017	4,857,838	8,952	548,626	20,873,915	—	26,289,331
Services allocation	2008	—	—	—	53,764	—	53,764
	2009	—	—	—	190,765	—	190,765
	2010	—	—	—	38,155	—	38,155
	2011	305,475	—	1,559	56,381	—	363,415
	2012	352,800	—	8,402	43,416	—	404,618
	2013	449,954	—	8,474	34,896	—	493,324
	2014	432,465	—	5,654	36,921	—	475,040
	2015	468,174	—	7,116	32,284	—	507,574
	2016	417,720	—	7,755	15,648	—	441,123
	2017	432,832	—	5,462	30,377	—	468,671
District support services	2008	—	—	155,710	—	—	155,710
	2009	—	—	64,729	—	—	64,729
	2010	44,033	—	51,691	—	—	95,724
	2011	39,670	—	31,831	—	—	71,501
	2012	24,600	—	26,485	—	—	51,085
	2013	—	—	44,058	—	—	44,058
	2014	—	—	31,060	—	—	31,060
	2015	—	—	2,240	—	—	2,240
	2016	—	—	—	—	—	—
	2017	—	—	—	—	—	—

(continued)

INTERMEDIATE SCHOOL DISTRICT NO. 917

General Fund Revenue by Source (continued)
Last Ten Fiscal Years

	Year Ended June 30,	Tuition Revenue	Investment Earnings (Charges)	Other Revenue	State Revenue	Federal Revenue	Total
Capital expenditure	2008	—	452	—	—	—	452
	2009	565,508	17,854	—	—	—	583,362
	2010	562,451	2,517	253,572	—	—	818,540
	2011	552,201	28,941	1,707	—	—	582,849
	2012	477,245	28,827	—	—	—	506,072
	2013	558,376	28,560	—	—	—	586,936
	2014	559,095	28,959	—	—	—	588,054
	2015	559,401	28,344	—	—	—	587,745
	2016	554,908	31,711	—	—	—	586,619
	2017	555,220	45,416	—	—	—	600,636
Secondary resale	2008	—	—	117,092	—	—	117,092
	2009	—	—	67,919	—	—	67,919
	2010	—	—	167,075	—	—	167,075
	2011	—	—	137,627	—	—	137,627
	2012	—	—	60,687	—	—	60,687
	2013	—	—	70,329	—	—	70,329
	2014	—	—	119,308	—	—	119,308
	2015	—	—	62,472	—	—	62,472
	2016	—	—	72,784	—	—	72,784
	2017	—	—	27,382	—	—	27,382
Special education resale	2008	—	—	19,349	—	—	19,349
	2009	—	—	22,886	—	—	22,886
	2010	—	—	22,620	—	—	22,620
	2011	—	—	21,279	—	—	21,279
	2012	—	—	19,406	—	—	19,406
	2013	—	—	17,856	—	—	17,856
	2014	—	—	16,693	—	—	16,693
	2015	—	—	13,514	—	—	13,514
	2016	—	—	10,977	—	—	10,977
	2017	—	—	10,636	—	—	10,636

INTERMEDIATE SCHOOL DISTRICT NO. 917

General Fund Expenditures by Object
Last Ten Fiscal Years

	Year Ended June 30,	Salary Expenditures	Employee Benefits Expenditures	Purchased Services Expenditures	Other Expenditures	Allocated Overhead	Total
Secondary education	2008	\$ 2,009,066	\$ 607,325	\$ 727,957	\$ 149,561	\$ 201,426	\$ 3,695,335
	2009	2,063,886	655,558	552,483	115,595	197,555	3,585,077
	2010	2,268,974	679,673	533,333	105,992	219,410	3,807,382
	2011	2,253,662	680,947	563,196	164,868	209,572	3,872,245
	2012	2,365,115	732,814	515,206	133,740	220,927	3,967,802
	2013	2,449,860	795,235	535,087	120,327	234,507	4,135,016
	2014	1,894,098	702,336	521,496	92,923	260,228	3,471,081
	2015	1,818,549	684,389	506,510	91,810	280,631	3,381,889
	2016	1,766,552	613,991	466,365	102,689	296,790	3,246,387
	2017	1,849,994	629,643	413,106	238,242	270,734	3,401,719
Special education	2008	9,194,539	2,804,869	1,561,057	475,149	864,291	14,899,905
	2009	9,656,932	3,149,781	1,629,135	353,336	920,575	15,709,759
	2010	10,298,835	3,538,306	1,787,311	691,957	937,527	17,253,936
	2011	10,405,760	3,800,881	1,914,616	553,662	998,333	17,673,252
	2012	10,813,236	4,049,078	1,277,070	968,086	1,021,841	17,673,252
	2013	11,308,037	4,313,213	1,516,683	678,276	1,060,534	18,876,743
	2014	12,056,948	4,645,254	1,660,968	640,865	1,056,905	20,060,940
	2015	13,075,819	4,966,320	1,763,028	803,025	1,118,880	21,727,072
	2016	14,518,245	5,231,164	2,201,135	1,073,110	1,183,974	24,207,628
	2017	15,576,866	5,191,320	2,382,990	1,056,040	1,256,491	25,463,707
Services allocation	2008	711,026	185,819	147,102	75,534	(1,065,717)	53,764
	2009	733,346	194,078	318,981	62,490	(1,118,130)	190,765
	2010	749,966	204,226	179,556	61,344	(1,156,937)	38,155
	2011	786,795	214,980	490,893	78,652	(1,207,905)	363,415
	2012	786,232	237,644	569,416	54,094	(1,242,768)	404,618
	2013	789,620	253,125	707,647	37,971	(1,295,039)	363,415
	2014	799,495	259,349	676,557	56,770	(1,317,131)	475,040
	2015	863,256	250,344	732,924	60,561	(1,399,511)	507,574
	2016	914,218	237,668	674,770	95,229	(1,480,762)	441,123
	2017	987,354	267,621	673,348	67,572	(1,527,224)	468,671
District support services	2008	—	—	135,085	—	—	135,085
	2009	3,518	451	67,754	—	—	71,723
	2010	17,851	2,310	59,937	6,575	—	86,673
	2011	18,715	2,419	34,564	20,043	—	75,741
	2012	14,916	3,696	26,936	6,594	—	52,142
	2013	—	—	44,060	—	—	75,741
	2014	—	—	31,087	18,351	—	49,438
	2015	—	—	2,240	—	—	2,240
	2016	—	—	—	—	—	—
	2017	—	—	—	—	—	—

(continued)

INTERMEDIATE SCHOOL DISTRICT NO. 917

General Fund Expenditures by Object (continued)
Last Ten Fiscal Years

	Year Ended June 30,	Salary Expenditures	Employee Benefits Expenditures	Purchased Services Expenditures	Other Expenditures	Allocated Overhead	Total
Capital expenditure	2008	—	—	—	6,802,482	—	6,802,482
	2009	2,802	238	210,640	558,208	—	771,888
	2010	—	—	15,512	578,439	—	593,951
	2011	—	—	70,060	557,978	—	628,038
	2012	—	—	73,093	574,847	—	647,940
	2013	—	—	26,673	622,286	—	628,038
	2014	—	—	137,765	559,095	—	696,860
	2015	—	—	19,362	559,401	—	578,763
	2016	—	—	25,950	577,708	—	603,658
	2017	—	—	40,812	3,954,374	—	3,995,186
Secondary resale	2008	16,588	2,687	24,423	50,785	—	94,483
	2009	18,063	2,914	23,520	18,036	—	62,533
	2010	17,225	2,863	32,560	104,851	—	157,499
	2011	18,760	3,133	29,480	75,164	—	126,537
	2012	—	—	12,293	47,733	—	60,026
	2013	—	—	13,099	52,500	—	65,599
	2014	—	—	20,863	101,682	—	122,545
	2015	—	—	35,614	38,986	—	74,600
	2016	—	—	5,642	83,044	—	88,686
	2017	—	—	2,430	22,527	—	24,957
Special education resale	2008	—	—	—	18,316	—	18,316
	2009	—	—	705	18,754	—	19,459
	2010	—	—	—	20,729	—	20,729
	2011	—	—	—	20,009	—	20,009
	2012	—	—	60	17,319	—	17,379
	2013	—	—	—	19,246	—	19,246
	2014	—	—	1,262	18,338	—	19,600
	2015	—	—	—	11,829	—	11,829
	2016	—	—	935	10,458	—	11,393
	2017	—	—	—	12,728	—	12,728

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OTHER REQUIRED REPORTS

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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
Intermediate School District No. 917
Rosemount, 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 Intermediate School District No. 917 (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 November 29, 2017.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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)

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
November 29, 2017

INDEPENDENT AUDITOR'S REPORT
ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Intermediate School District No. 917
Rosemount, 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 Intermediate School District No. 917 (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 November 29, 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
November 29, 2017

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		\$ 30,780,819	\$ 30,780,819	\$ –
Total expenditures		\$ 33,366,968	\$ 33,366,969	\$ (1)
Nonspendable				
460	Nonspendable fund balance	\$ 154,609	\$ 154,610	\$ (1)
Restricted				
403	Staff development	\$ –	\$ –	\$ –
406	Health and safety	\$ –	\$ –	\$ –
407	Capital projects levy	\$ –	\$ –	\$ –
408	Cooperative revenue	\$ –	\$ –	\$ –
413	Projects 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	\$ –	\$ –	\$ –
441	Basic skills programs	\$ 252,615	\$ 252,615	\$ –
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	LTFM	\$ –	\$ –	\$ –
472	Medical Assistance	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ 627,908	\$ 627,907	\$ 1
Committed				
418	Committed for separation	\$ –	\$ –	\$ –
461	Committed fund balance	\$ –	\$ –	\$ –
Assigned				
462	Assigned fund balance	\$ –	\$ –	\$ –
Unassigned				
422	Unassigned fund balance	\$ 5,922,746	\$ 5,922,745	\$ 1
Food Service				
Total revenue		\$ 104,480	\$ 104,480	\$ –
Total expenditures		\$ 139,720	\$ 139,720	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Community Service				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
426	\$25 taconite	\$ –	\$ –	\$ –
431	Community education	\$ –	\$ –	\$ –
432	ECFE	\$ –	\$ –	\$ –
444	School readiness	\$ –	\$ –	\$ –
447	Adult basic education	\$ –	\$ –	\$ –
452	OPEB liability not in trust	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –

INTERMEDIATE SCHOOL DISTRICT NO. 917

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

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ 67,051	\$ 67,051	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
407	Capital projects levy	\$ –	\$ –	\$ –
413	Project funded by COP	\$ –	\$ –	\$ –
467	LTFM	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Debt Service				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
451	QZAB payments	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
Unassigned				
463	Unassigned fund balance	\$ –	\$ –	\$ –
Trust				
Total revenue		\$ 108	\$ 108	\$ –
Total expenditures		\$ 73	\$ 74	\$ (1)
422	Net position	\$ 2,001	\$ 2,001	\$ –
Internal Service				
Total revenue		\$ 3,425,979	\$ 3,425,978	\$ 1
Total expenditures		\$ 3,255,326	\$ 3,255,325	\$ 1
422	Net position	\$ 308,086	\$ 308,086	\$ –
OPEB Revocable Trust Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
OPEB Irrevocable Trust Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
422	Net position	\$ –	\$ –	\$ –
OPEB Debt Service Fund				
Total revenue		\$ –	\$ –	\$ –
Total expenditures		\$ –	\$ –	\$ –
Nonspendable				
460	Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted				
425	Bond refundings	\$ –	\$ –	\$ –
464	Restricted fund balance	\$ –	\$ –	\$ –
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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