Financial Statements
June 30, 2017

Pelican Rapids Area Public Schools
Independent School District No. 548

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Additional Reports

Name	Position	Term Expires
School Board		
Charlie Blixt	Chair	12/31/18
Dena Johnson	Vice Chairperson	12/31/18
Michael Forsgren	Clerk	12/31/20
Kathryn Ouren	Treasurer	12/31/18
Jon Karger	Director	12/31/20
Anne Peterson	Director	12/31/20
Administration		
Deborah Wanek	Superintendent (through 6/30/17)	
Randi Anderson	Superintendent (beginning 7/1/17)	
CJ Holl	Business Manager	

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Independent Auditor's Report

The School Board of
Independent School District No. 548
Pelican Rapids Area Public Schools
Pelican Rapids, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 548, Pelican Rapids Area Public Schools, 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 an opinion on these financial statements based on our audits. We conducted our audits 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Opinions

In our opinion, the financial statements referred to above 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 the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 and 14 to the financial statements, the District has adopted the provisions of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2016. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's net OPEB liability and related ratios, schedule of District OPEB contributions, schedule of employer's share of net pension liability and schedule of employer's contributions 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, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The school board and administration, combining and individual fund schedules, and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund schedules, and uniform accounting and reporting standards 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 financial statements taken as a whole. In addition, in our opinion, the schedule of changes in student activity cash balances presents fairly the changes in the cash balances of the student activity funds for the year ended June 30, 2017.

The School Board and Administration has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express an opinion or provide any assurance on it.

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 our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the District's 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.

Eide Bailly LLP

Fargo, North Dakota
November 29, 2017

This section of Pelican Rapids Independent School District No. 548s' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017.

Financial Highlights

Key financial highlights for the 2017 fiscal year

- General fund revenues were approximately $10,685,000 while expenditures totaled approximately $10,648,000.
- The General fund unassigned fund balance changed from approximately $1,281,000 to approximately $1,233,000 for a decrease of $48,000.
- The Capital Projects fund balance decreased by approximately $4,542,000 which resulted in a total fund balance at the end of the year of approximately $897,000.
- The Debt Service fund balance increased by approximately $97,000 which resulted in a total fund balance at the end of the year of approximately $2,004,000.
- The Food Service fund balance decreased by approximately $4,000 which resulted in a total fund balance at the end of the year of approximately $111,000.
- The Community Service fund balance increased by approximately $49,000 which resulted in a total fund balance at the end of the year of approximately $195,000.
- The OPEB Debt Service fund balance decreased by approximately $6,000 which resulted in a total fund balance at the end of the year of approximately $12,000.

Overview of the Financial Statements

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

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

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

A. Management's Discussion and Analysis
B. Basic Financial Statements
   1. District-Wide Financial Statements
   2. Fund Financial Statements

Footnote 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, 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 district-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources, and 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 is an indicator of whether its financial position is improving or deteriorating, respectively.

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

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

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- Governmental funds – All of 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 funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others. 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. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Financial Analysis of The District as a Whole

Net position: The District's combined net deficit was approximately $2,050,000 on June 30, 2017.

Statement of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets	$ 9,827,645	$ 15,158,816
Capital assets	33,375,915	29,691,675
Total assets	43,203,560	44,850,491
Deferred Outflows of Resources	14,167,127	1,900,176
Liabilities		
Other liabilities	2,024,075	2,404,927
Long-term liabilities	53,467,895	38,238,731
Total liabilities	55,491,970	40,643,658
Deferred Inflows of Resources	3,929,032	4,896,521
Net Position		
Net investment in capital assets	3,644,585	(1,289,520)
Restricted for specific purposes	3,362,370	7,689,823
Unrestricted	(9,057,270)	(5,189,815)
Total net position	$ (2,050,315)	$ 1,210,488

Due to the implementation of GASB Statement No. 75 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Statement of Activities
Years Ended June 30, 2017 and 2016

	2017	2016
Revenues		
Program revenues		
Charges for service	$ 299,484	$ 331,063
Operating grants and contributions	1,128,538	1,050,152
General		
Property taxes	3,529,403	3,425,322
Aids and payments from state and other	8,448,429	7,780,332
Unrestricted investment earnings	58,369	77,981
Miscellaneous revenues	283,108	434,940
Total revenues	13,747,331	13,099,790
Expenses		
Administration	699,973	675,690
District support services	108,067	108,249
Regular instruction	9,207,704	5,489,249
Vocational educational instruction	274,571	262,424
Special education instruction	1,248,716	1,212,027
Community education and services	229,057	264,404
Instructional support services	101,365	110,672
Pupil support services	1,233,219	1,217,596
Sites and buildings	1,947,108	1,165,114
Fiscal and other fixed-cost programs	967,594	1,082,530
Total expenses	16,017,374	11,587,955
Change in Net Position	(2,270,043)	1,511,835
Net Position - Beginning, as restated for 2017 (Note 14)	219,728	(301,347)
Net Position - End	$ (2,050,315)	$ 1,210,488

Due to the implementation of GASB Statement No. 75 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Changes in Net Position. The District's total revenues were approximately $13,747,000 for the year ended June 30, 2017. Property taxes and state formula aid accounted for 87% of total revenue for the year. The other 13% came from other general revenues combined with investment earnings and the remainder from program revenues.

The total cost of all programs and services was approximately $16,017,000. The District's expenses are predominantly related to educating and caring for students. The purely administrative activities of the District accounted for just 4% of total costs.

Total expenses surpassed revenues, decreasing net position by approximately $2,270,000.

Financial Analysis of the District's Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of approximately $4,598,000. This combined fund balance includes Fund 06 which is comprised of the bond purchase and associated expenses for both renovation bonds that took place starting in FY14 and FY16, the fund balance amount in Fund 06 is approximately $897,000. The projects are projected to be completed in FY18; the associated fund balance will be zeroed out upon the projects completions. Revenues for the District's governmental funds were approximately $13,707,000, while total expenditures were approximately $18,076,000. The deficit was forecasted based upon building bond spend-down. Individual fund balances must be spent in accordance with state guidelines; money cannot be transferred from fund to fund to support operating expenditures.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-k/Special Education through grade 12 including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2017	2016		
Local property taxes	$ 1,348,734	$ 1,301,944	$ 46,790	3.6%
Other local sources	455,516	503,635	(48,119)	-9.6%
State sources	8,434,094	7,759,583	674,511	8.7%
Federal sources	412,739	341,453	71,286	20.9%
Other	34,241	140,558	(106,317)	-75.6%
Total General Fund revenues	$ 10,685,324	$ 10,047,173	$ 638,151	6.4%

Total General Fund revenues increased by approximately $638,000 or 6.4% from the previous year; the majority of this increase is a result of enrollment totals maintaining from the prior year, increases in state and federal aid, along with insurance proceeds received from flooding of the band room. Basic general education revenue is determined by a state per student funding formula and consists of a mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2017	Year Ended June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries and benefits	$ 7,578,044	$ 7,133,381	$ 444,663	6.2%
Purchased services	1,759,324	1,782,908	(23,584)	-1.3%
Capital expenditures	273,313	538,810	(265,497)	-49.3%
Supplies and materials	412,802	391,997	20,805	5.3%
Other expenditures	624,650	332,622	292,028	87.8%
Total General Fund expenditures	$ 10,648,133	$ 10,179,718	$ 468,415	4.6%

Total General Fund expenditures increased by approximately $468,000 or 4.6% from the previous year. This increase was a result of an increase in salaries and benefits due to step increases and lower than normal employee turnover, along with new capital leases in the current year for copiers and security equipment.

In fiscal year 2017, salaries and benefits increased 6.2%. This increase is due in part to contract negotiations which were approved at the January 2016 school board meeting.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale, and gifts.
- Revising budgets to reflect enrollment and staffing changes.

The District's final general fund results when compared to the revised budget are:

- Actual revenues were approximately $530,000 more than expected.
- The actual expenditures were approximately $409,000 more than budget.

Other Non-Major Funds

Revenues exceeded expenditures in the other Non-major funds by approximately $38,000. The Food Service Fund saw a decrease of approximately $4,000, the Community Service Fund saw an increase of approximately $49,000 in the fund balance, and the OPEB Debt Service Fund saw a decrease of approximately $6,000.

Capital Asset and Debt Administration

By the end of 2017, the District had invested approximately $41,226,000 in a broad range of capital assets including the building renovation, science area renovation, HVAC project continuation, property purchase and computer and audio-visual equipment. Total depreciation expense for the year was approximately $498,000.

	2017	2016
Land	$ 232,279	$ 106,440
Construction in progress	26,601,826	23,156,255
Buildings	12,226,017	11,805,222
Improvements	487,663	534,088
Equipment	1,677,722	1,655,325
Accumulated depreciation	(7,849,592)	(7,565,655)
Total capital assets	$ 33,375,915	$ 29,691,675

Long-Term Liabilities

At year-end, the District had $28,960,000 in General Obligation school building bonds, facilities maintenance, refunding, alternative and capital facilities bonds, HVAC bonds, and OPEB bonds due to the issuance for various facility improvement projects and OPEB obligations, approximately $638,000 in energy loan liabilities due to the issuance for energy/facility improvement projects. The District had a net pension liability of approximately $22,800,000 at June 30, 2017, and a net OPEB obligation of $431,000.

Factors Bearing on the District's Future

The District is dependent on the State of Minnesota for its revenue authority. During the past years the District experienced declining enrollment; however the 2015-16 school year resulted in higher enrollment than originally forecasted; this continued through the 2016-2017 school year allowing the District to maintain an excellent educational product to the community without deficit spending for the 2017 school year. 2017-2018 school year, District enrollment continues to decline, will force the District to deficit spend in 2018. Should student enrollment continue to decline the District will need to look at reallocation of resources or securing additional revenue to maintain its excellent educational product.

Contacting The District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact our Business Office at: 310 South Broadway, Pelican Rapids, Minnesota, 56572 (or mailing address: PO Box 642, Pelican Rapids, MN 56572)

Assets	
Cash and cash equivalents	$ 4,032,806
Restricted cash and equivalents	3,110,583
Investments	36,025
Receivables	
Current property taxes	1,705,563
Delinquent property taxes	76,897
Due from other governmental units	849,867
Interest	5,596
Accounts	3,974
Prepaid items	502
Inventories	5,832
	9,827,645
Capital assets	
Land	232,279
Construction in progress	26,601,826
Buildings	487,663
Improvements	12,226,017
Equipment	1,677,722
Less accumulated depreciation	(7,849,592)
Total capital assets, net of depreciation	33,375,915
Total assets	43,203,560
Deferred Outflows of Resources	
Pension plans	14,164,071
Other post employment benefits	3,056
Total deferred outflows of resources	14,167,127
Liabilities	
Accounts payable	581,549
Salaries payable	1,041,341
Accrued interest payable	401,185
Long-term liabilities	
Due within one year - bonds, premiums, energy loan and capital lease	1,411,380
Due in more than one year - bonds, premiums, energy loan, capital lease and compensated absences	28,825,608
Due in more than one year - net OPEB obligation	430,664
Due in more than one year - net pension liability	22,800,243
Total liabilities	55,491,970
Deferred Inflows of Resources	
Unavailable revenue-property taxes	3,529,638
Pension plans	399,394
Total deferred inflows of resources	3,929,032
Net Position	
Net investment in capital assets	3,644,585
Restricted for specific purposes	3,362,370
Unrestricted	(9,057,270)
Total net position	$ (2,050,315)

The Notes to Financial Statements are an integral part of this statement.

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Administration	$ 699,973	$ -	$ -	$ (699,973)
District support services	108,067	-	-	(108,067)
Regular instruction	9,207,704	28,132	410,157	(8,769,415)
Vocational educational instruction	274,571	-	-	(274,571)
Special education instruction	1,248,716	69,988	-	(1,178,728)
Community education and services	229,057	33,710	148,642	(46,705)
Instructional support services	101,365	-	-	(101,365)
Pupil support services	1,233,219	161,514	569,739	(501,966)
Sites and buildings	1,947,108	6,140	-	(1,940,968)
Fiscal and other fixed-cost programs	967,594	-	-	(967,594)
Total governmental activities	$ 16,017,374	$ 299,484	$ 1,128,538	(14,589,352)
General revenues:				
Property taxes, levied for general purposes				1,410,820
Property taxes, levied for community service				93,128
Property taxes, levied for debt service				2,025,455
Aids and payments from the state				8,390,524
County apportionment				57,905
Unrestricted investment earnings				58,369
Miscellaneous revenues				283,108
Total general revenues				12,319,309
Changes in net position				(2,270,043)
Net position - beginning, as restated (Note 14)				219,728
Net position - ending				$ (2,050,315)

Governmental Funds
Balance Sheet
June 30, 2017

	General	Capital Projects	Debt Service	Other Governmental Funds	Totals
Assets					
Cash and cash equivalents	$ 2,175,555	$ -	$ 1,463,099	$ 394,152	$ 4,032,806
Restricted cash and cash equivalents	-	1,471,315	1,639,268	-	3,110,583
Investments	-	-	-	36,025	36,025
Receivables					
Current property taxes	614,241	-	975,321	116,001	1,705,563
Delinquent property taxes	28,241	-	43,799	4,857	76,897
Due from other governmental units	802,828	-	3,400	43,639	849,867
Interest	-	-	5,596	-	5,596
Accounts	3,974	-	-	-	3,974
Prepaid items	502	-	-	-	502
Inventories	2,211	-	-	3,621	5,832
Total assets	$ 3,627,552	$ 1,471,315	$ 4,130,483	$ 598,295	$ 9,827,645
Liabilities					
Accounts payable	$ 6,985	$ 574,564	$ -	$ -	$ 581,549
Salaries payable	1,013,343	-	-	27,998	1,041,341
Total liabilities	1,020,328	574,564	-	27,998	1,622,890
Deferred Inflows of Resources					
Unavailable revenue-property taxes	1,227,248	-	2,126,848	252,439	3,606,535
Fund Balance (Deficit)					
Nonspendable	2,713	-	-	3,621	6,334
Restricted	144,000	896,751	2,003,635	317,984	3,362,370
Unassigned	1,233,263	-	-	(3,747)	1,229,516
Total fund balance	1,379,976	896,751	2,003,635	317,858	4,598,220
Total liabilities, deferred inflows of resources, and fund balances	$ 3,627,552	$ 1,471,315	$ 4,130,483	$ 598,295	$ 9,827,645

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2017

Total Fund Balances - Governmental Funds	$ 4,598,220
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	33,375,915
Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(401,185)
Delinquent property taxes are not considered available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	76,897
Deferred outflows and inflows of resources related to OPEB and pensions are applicable to future periods and, therefore, are not reported in the funds.	13,767,733
Long-term liabilities, including bonds payable, energy loans payable, net OPEB obligation, net pension liability, capital leases, and vacation payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds.	(53,467,895)
Total Net Position - Governmental Activities	$ (2,050,315)

Pelican Rapids Area Public Schools
Independent School District No. 548
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year Ended June 30, 2017

	General	Capital Projects	Debt Service	Other Governmental Funds	Totals
Revenues					
Local property tax levies	$ 1,348,734	$ -	$ 2,025,006	$ 222,405	$ 3,596,145
Other local and county sources	455,516	27,800	51,835	110,921	646,072
State sources	8,434,094	-	-	139,747	8,573,841
Federal sources	412,739	-	-	342,351	755,090
Sales and other conversion of assets	34,241	-	-	101,185	135,426
Total revenues	10,685,324	27,800	2,076,841	916,609	13,706,574
Expenditures					
Administration	676,253	-	-	-	676,253
District support services	112,017	-	-	-	112,017
Regular instruction	6,250,731	-	-	-	6,250,731
Vocational educational instruction	274,570	-	-	-	274,570
Special education instruction	1,248,388	-	-	-	1,248,388
Community education and service	-	-	-	229,055	229,055
Instructional support services	88,373	-	-	-	88,373
Pupil support services	776,995	-	-	511,734	1,288,729
Sites and buildings	1,154,376	4,569,466	-	-	5,723,842
Fiscal and other fixed cost programs	66,430	-	1,979,840	137,563	2,183,833
Total expenditures	10,648,133	4,569,466	1,979,840	878,352	18,075,791
Excess (Deficiency) of Revenues Over (Under) Expenditures	37,191	(4,541,666)	97,001	38,257	(4,369,217)
Other Financing Source					
Sale of property and equipment	2,523	-	-	-	2,523
Net Change in Fund Balance	39,714	(4,541,666)	97,001	38,257	(4,366,694)
Fund Balance, Beginning of Year	1,340,262	5,438,417	1,906,634	279,601	8,964,914
Fund Balance, End of Year	$ 1,379,976	$ 896,751	$ 2,003,635	$ 317,858	$ 4,598,220

Net Change in Fund Balances - Total Governmental Funds	$ (4,366,694)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense and disposals in the current period.	3,684,240
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	8,488
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amount paid).	17,761
In the statement of activities OPEB liabilities are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(45,327)
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	(2,865,218)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principle of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	1,296,707
Change in Net Position of Governmental Activities	$ (2,270,043)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues				
Local property tax levies	$ 1,319,648	$ 1,431,201	$ 1,348,734	$ (82,467)
Other local and county sources	235,338	253,879	455,516	201,637
State sources	7,796,672	8,068,383	8,434,094	365,711
Federal sources	369,718	372,880	412,739	39,859
Sales and other conversion of assets	2,000	32,000	34,241	4,764
Total revenues	9,723,376	10,158,343	10,685,324	529,504
Expenditures				
District and school administration	662,286	674,335	676,253	(1,918)
District support services	113,685	113,685	112,017	1,668
Regular instruction	5,511,470	5,736,639	6,250,731	(514,092)
Vocational instruction	279,811	279,811	274,570	5,241
Special education instruction	1,255,010	1,260,257	1,248,388	11,869
Instructional support services	78,355	89,667	88,373	1,294
Pupil support services	757,586	782,065	776,995	5,070
Sites and buildings	980,705	1,153,299	1,154,376	(1,077)
Fiscal and other fixed cost programs	143,661	149,661	66,430	83,231
Total expenditures	9,782,569	10,239,419	10,648,133	(408,714)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(59,193)	(81,076)	37,191	120,790
Other Financing Source				
Sale of property and equipment	2,000	2,000	2,523	523
Net Change in Fund Balance	$ (57,193)	$ (79,076)	39,714	$ 121,313
Fund Balance, Beginning of Year			1,340,262	
Fund Balance, End of Year			$ 1,379,976	

The Notes to Financial Statements are an integral part of this statement.

Statement of Fiduciary Net Position
June 30, 2017

	Agency	OPEB Trust	Private-Purpose Trust	Total Trust Funds
Assets				
Cash	$ 88,313	$ 162,874	$ 22,114	$ 273,301
Investments	-	-	16,500	16,500
Total assets	$ 88,313	$ 162,874	$ 38,614	$ 289,801
Liabilities				
Due to student activities	$ 88,313	$ -	$ -	$ 88,313
Net Position				
Unrestricted	$ -	$ 162,874	$ 38,614	$ 201,488

The Notes to Financial Statements are an integral part of this statement.

	OPEB Trust	Private-Purpose Trust	Total Trust Funds
Additions			
Gifts, bequests and interest	$ 1,087	$ 9,744	$ 10,831
Deductions			
Scholarships	-	15,139	15,139
OPEB health insurance	42,683	-	42,683
Total deductions	42,683	15,139	57,822
Net Change in Net Position	(41,596)	(5,395)	(46,991)
Net Position, Beginning of Year	204,470	44,009	248,479
Net Position, End of Year	$ 162,874	$ 38,614	$ 201,488

Note 1 - Summary of Significant Accounting Policies

Organization

Independent School District No. 548, Pelican Rapids Area Public Schools, Pelican Rapids, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District 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.

Reporting Entity

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

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include 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 burden or benefit 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.

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 at the fund financial statement level. Generally, the effect of 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. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported 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 the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar 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. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Fund Financial Statement Presentation

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

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 statements.

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

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

2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

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. Each fund is accounted for as an independent entity. A description of the funds included in this report are as follows:

Major Governmental Fund

General Fund – The general fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, and health and safety projects.

Capital Projects Fund – The capital projects fund is used to account for financial resources used for the construction of major capital facilities authorized by bond issue or alternative facility levies.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and payment of, general obligation bond principal, interest, and related costs.

Nonmajor Governmental Funds

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

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

OPEB Debt Service Fund – The OPEB debt service fund is used to account for the accumulation of resources for, and payment of, general obligation OPEB bond principal, interest, and related costs.

Fiduciary Funds

Private-Purpose Trust Fund – The private-purpose trust fund is used to administer resources received and held by the District as the trustee for others. The private-purpose trust fund is used for scholarships.

OPEB Trust Fund – The Other Post-Employment Benefit (OPEB) trust fund is used to account for the accumulation of resources to be used for the District's portion of the premium cost for providing health insurance to the District's retired employees.

Agency Fund - The agency fund is used to account for the extracurricular student activities, not under board control. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations

Other Significant Accounting Policies

Budgeting

An operating budget is adopted by July 1 of each fiscal year for all governmental funds on the same modified accrual basis used to reflect actual revenues and expenditures. The superintendent is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

Cash and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

The District considers certificates of deposit with a maturity of three months or more to be investments.

Short-term, highly liquid debt instruments (including commercial paper, bankers acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents consists of excess proceeds over expenditures of General Obligation Facilities Maintenance and Refunding Bonds held as of June 30, 2016, to be utilized for the specific construction projects and interest payments due through February 1, 2019 on the General Obligation Refunding Bonds, Series 2016B.

Receivables

All receivables are shown net of any allowance for uncollectibles. No allowances for uncollectibles have been recorded. The only receivables not expected to be collected within one year are property taxes receivable.

Inventories

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

Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District.

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county general remits taxes to the District at periodic intervals as they are collected. A portion of the property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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 3 to 50 years.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

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. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds using the straight-line method.

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

Postemployment Benefits Other Than Pensions (OPEB)

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

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 9.

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.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, changes in the net pension liability not included in pension expense reported in the government-wide statement of net position, and changes in the net OPEB liability not included in expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net position liability not included in pension expense reported in the government-wide statement of net position.

Risk Management

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

Net Position

Net position represent the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows in the District's government-wide and fiduciary fund financial statements. Net invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Fund Balance

In governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

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

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

- Committed fund balance amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the school board and that remain binding unless removed by the school board by subsequent formal action. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts actually committed can be determined in the subsequent fiscal year. A committed fund balance cannot be a negative number. A majority vote of the school board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board.

- Assigned fund balance amounts are comprised of unrestricted funds constrained by the school district's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the school district's intended use of those resources. The action to assign a fund balance may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number. The school board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The board also delegates the power to assign fund balances to the following: Superintendent. Assignments so made shall be reported to the school board on a monthly basis, either separately or as part of ongoing reporting by the assigning party if other than the school board. An appropriation of an existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.

- Unassigned fund balance amounts are the residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

The District's policy is to strive to maintain a minimum unassigned general fund balance of $400,000. The first priority is to utilize the balance as restricted fund balance. Committed funds will be considered with assigned fund balance third when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

Implementation of GASB Statement No. 74 and GASB Statement No. 75

As of June 30, 2017, the District adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of these standards improves the usefulness of information about and improves accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). The effect of the implementation of these standards on beginning net position is disclosed in Note 15 and the additional disclosures required by these standards are included in Note 7.

Note 2 - Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations

The General Fund had expenditures exceeding appropriations of $408,714 for the year ended June 30, 2017. These over expenditures were funded by revenues exceeding budget and existing fund balance. During 2017, all Minnesota school districts were required to record the additional pension revenue and expense related to the support received from the State of Minnesota for TRA and PERA special funding situations per GASB Statement No. 68. During 2017, the District's additional pension expense totaled $301,322. Therefore, the District's General Fund expenditures budget exceeded actual expenditures by $107,392 prior to this additional expense being recorded.

Note 3 - Deposits and Investments

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System.

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% 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.

At June 30, 2017, all deposits were insured or adequately collateralized by securities held by the District's agent in the Districts name.

Investments

Credit Risk – Investments

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The District had no such investments of this kind during the year or at year end.

Interest Rate Risk – Investments

The District does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates.

The following table presents the District's deposit and investment balances at June 30, 2017:

Type	Fair Value	Investment Maturities (in Years) N/A	1 - 5
Cash and cash equivalents			
Minnesota School District Liquid Asset Fund	$ 2,946,570	$ 2,946,570	$ -
Deposits	4,470,120	4,470,120	-
Investments			
Certificates of deposit	52,525	-	52,525
	$ 7,469,215	$ 7,416,690	$ 52,525

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

Cash and cash equivalents and investments - Statement of Net Position	$ 4,068,831
Cash and cash equivalents and investments - Statement of Fiduciary Net Position	289,801
Restricted cash and cash equivalents - Statement of Net Position	3,110,583
	$ 7,469,215

The Minnesota School District Liquid Asset Fund 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 fair value of the position in the pool is the same as the value of the pools shares.

Note 4 - Due from other Governmental Units

Amounts receivable from other governments as of June 30, 2017, include:

Fund	Federal	State	Other	Total
Major funds				
General	$ 103,895	$ 666,754	$ 32,179	$ 802,828
Debt Service	-	3,400	-	3,400
Non-major funds	37,504	6,135	-	43,639
	$ 141,399	$ 676,289	$ 32,179	$ 849,867

Note 5 - Capital Assets

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated:				
Land	$ 106,440	$ 125,839	$ -	$ 232,279
Construction in progress	23,156,255	3,445,571	-	26,601,826
Total capital assets not being depreciated	23,262,695	3,571,410	-	26,834,105
Capital assets being depreciated:				
Improvements	534,088	-	46,425	487,663
Buildings	11,805,222	580,915	160,120	12,226,017
Equipment	1,655,325	44,433	22,036	1,677,722
Total capital assets being depreciated	13,994,635	625,348	228,581	14,391,402
Less accumulated depreciation for:				
Improvements	398,610	11,061	44,841	364,830
Buildings	6,573,795	307,928	146,720	6,735,003
Equipment	593,250	178,545	22,036	749,759
Total accumulated depreciation	7,565,655	497,534	213,597	7,849,592
Net capital assets, depreciated	6,428,980	127,814	14,984	6,541,810
Total capital assets, net	$ 29,691,675	$ 3,699,224	$ 14,984	$ 33,375,915

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

District and school administration	$ 20,356
Regular instruction	60,618
Vocation Instruction	460
Pupil support services	10,567
Sites and buildings	405,533
Total depreciation expense	$ 497,534

Note 6 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Bonds payable	$ 30,070,000	$ -	$ 1,110,000	$ 28,960,000	$ 1,235,000
Deferred bond premiums	535,406	-	29,748	505,658	29,748
Energy loan	709,036	-	71,383	637,653	74,607
Lease payable	202,159	-	68,482	133,677	72,025
Compensated absences	17,761	-	17,761	-	-
	$ 31,534,362	$ -	$ 1,297,374	$ 30,236,988	$ 1,411,380

The following is a summary of bonds payable as of June 30, 2017:

Bond Description	Final Maturities	Interest Rate	Original Principal	Outstanding Balance
General Obligation Facilities Maintenance Bonds, Series 2016A	2/31	2.00%-2.15%	$ 1,965,000	$ 1,930,000
General Obligation Refunding Bonds, Series 2016B	2/29	2.00%	1,655,000	1,655,000
General Obligation Facilities Bond Series 2009A	2/29	2.50% - 4.90%	3,115,000	2,040,000
General Obligation Taxable OPEB Bonds Series 2009B	2/20	2.00% - 5.25%	1,050,000	360,000
General Obligation Alternative Facilities Bonds Series 2012A	2/28	2.00% - 2.375%	4,210,000	3,240,000
General Obligation Capital Facilities Series 2010C	2/34	2.00% - 2.95%	21,425,000	19,735,000
				$ 28,960,000

Bonds Payable – These are for the acquisition and betterment of school sites and facilities, additional capital facility improvements, to fund OPEB benefits, and the District's Middle School/High School ventilation project, renovation of science area and roof repairs. The General Obligation Taxable OPEB Bonds Series 2009B principal and interest payments are paid out of the OPEB Debt Service Fund. All other bond principal and interest payments are paid out of the Debt Service Fund.

Energy Loan – This is for the purchase of installation of energy efficient equipment for the buildings in the District. The energy loan principal and interest payments were paid out of the General Fund.

Leases Payable – These were for multiple leases for the purchase of technology equipment for the District. The first lease bears interest of 2.6 percent that matured in September 2017. The principal and interest payments were paid out of the General Fund. The equipment cost $159,238 and accumulated depreciation was $31,846 as of June 30, 2017. The second lease bears interest of 13.16 percent with a final maturity in February 2021. The principal and interest payment were paid out of the General Fund. The equipment costs $79,000 and accumulated depreciation as of June 30, 2017 was $7,900. The third lease bears interest of 8.00 percent with a final maturity in February 2021. The principal and interest payment were paid out of the General Fund. The equipment costs $23,540 and accumulated depreciation as of June 30, 2017 was $1,380.

Compensated Absences – This is for vacation and severance payable due to administration.

Remaining principal and interest payments on long-term debt are as follows:

Years Ending June 30,	Bonds Payable Principal	Bonds Payable Interest	Energy Loan Principal	Energy Loan Interest	Lease Payable Principal	Lease Payable Interest
2018	$ 1,235,000	$ 983,988	$ 74,607	$ 26,540	$ 72,025	$ 10,145
2019	1,280,000	941,253	77,975	23,172	20,853	6,286
2020	1,470,000	896,343	81,497	19,650	23,496	3,644
2021	1,525,000	846,490	85,177	15,970	17,303	794
2022	1,570,000	796,385	89,024	12,124	-	-
2023 - 2027	8,675,000	3,181,365	229,373	12,788	-	-
2028 - 2032	9,380,000	1,764,253	-	-	-	-
2033 - 2034	3,825,000	231,000	-	-	-	-
	$ 28,960,000	$ 9,641,077	$ 637,653	$ 110,244	$ 133,677	$ 20,869

Note 7 - Other Post-Employment Benefits

Plan Description

All employees are allowed upon meeting the eligibility requirements (55 years of age and at least three years of service) under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. Contract groups receive other post-retirement benefits as follows:

- Teachers – For retirees hired prior to January 30, 1987, 55 years of age, and at least three years of service, the District will pay 70% of base salary minus District contributions to the Matching Program paid to the Health Care Savings Plan in two equal installments. The annual matching contribution amount is $0 from years 1-5, $1,500 from years 6-10, and $2,000 for years 11 and over, up to a maximum of $45,000.

The retiree health plan does not issue a publicly available financial report.

Benefits Provided

The plan provides medical benefits to terminated or retired employees. Benefits are provided through a third-party insurer, and the cost of the benefits covered by the plan are described above.

Employees Covered by Benefit Terms

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	4
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	114
	118

Contributions

For the year ended June 30, 2017, the District made no contributions and therefore the contribution rate was 0.00 percent of covered employee payroll. Employees are not required to contribute to the plan.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent
Investment rate of return	2.40 percent, net of OPEB plan investment expenses
Healthcare cost trend rates	6.75 percent in 2016 grading to 5.00 percent over 7 years

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

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

The long-term expected rate of return on OPEB plan investments was determined using a building-black method in which best estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic 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
Fixed income	95%	2.50%
Cash	5%	1.00%
Total	100%	

Discount Rate

The discount rate used to measure the total OPEB liability was 2.90 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2016	$ 586,751	$ 204,470	$ 382,281
Changes from the Prior Year:			
Service cost	31,911	-	31,911
Interest cost	17,330	-	17,330
Assumption changes	-	-	-
Plan changes	-	-	-
Employer contributions	-	-	-
Projected investment return	-	4,907	(4,907)
Differences between Expected and Actual Experience	-	(3,820)	3,820
Benefit payments	(42,454)	(42,454)	-
Administrative expenses	-	(229)	229
Total Net Changes	6,787	(41,596)	48,383
Balances at June 30, 2017	$ 593,538	$ 162,874	$ 430,664

The measurement date of the net OPEB liability was June 30, 2017.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions 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 changes in the District's net OPEB liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multiple 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 will be displayed.

Sensitivity of the Net OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

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

	1% Decrease	Discount Rate	1% Increase
Net OPEB Liability	$ 460,309	$ 430,664	$ 401,566
Discount Rate	1.90%	2.90%	3.90%

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

	1% Decrease	Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	$ 383,309	$ 430,664	$ 485,426
Medical Trend Rate	5.75% decreasing to 4.00% over 7 years	6.75% decreasing to 5.00% over 7 years	7.75% decreasing to 6.00% over 7 years
Dental Trend Rate	3.00%	4.00%	5.00%

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in a separately issued OPEB financial report.

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

For the year ended June 30, 2017, the District recognized OPEB expense of $45,327. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and actual investment earnings	$ 3,056	$ -

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

Years Ended June 30,	Pension Expense Amount
2018	$ 764
2019	764
2020	764
2021	764
2022	-
Thereafter	-

Note 8 - Fund Balance

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

At June 30, 2017, the District has recorded the following fund balances for the following purposes:

	General	Capital Projects	Debt Service	Other Government Funds	Totals
Fund balances					
Nonspendable					
Inventory	$ 2,211	$ -	$ -	$ 3,621	$ 5,832
Prepaid items	502	-	-	-	502
Total nonspendable	2,713	-	-	3,621	6,334
Restricted					
Operating capital	39,726	-	-	-	39,726
Safe schools - crime levy	28,408	-	-	-	28,408
Gifted and talented	10,017	-	-	-	10,017
Food service	-	-	-	107,288	107,288
Community education	-	-	-	76,791	76,791
School readiness	-	-	-	73,179	73,179
E.C.F.E.	-	-	-	48,336	48,336
Capital projects	-	140,425	-	-	140,425
Long term facility maintenance	65,849	756,326	-	-	822,175
Debt service	-	-	364,367	-	364,367
Debt service - bond refunding	-	-	1,639,268	-	1,639,268
OPEB debt service	-	-	-	12,390	12,390
Total restricted	144,000	896,751	2,003,635	317,984	3,362,370
Unassigned	1,233,263	-	-	(3,747)	1,229,516
Total fund balances	$ 1,379,976	$ 896,751	$ 2,003,635	$ 317,858	$ 4,598,220

The UFARS fund balance reporting standards are slightly different than the reporting standards under GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balance reporting under GASB 54 and UFARS reporting standards:

	GASB Balance	Reconciling Items	UFARS Balance
Fund balances			
Nonspendable			
Inventory	$ 5,832	$ -	$ 5,832
Prepaid items	502	-	502
Total nonspendable	6,334	-	6,334
Restricted			
Operating capital	39,726	-	39,726
Safe schools - crime levy	28,408	-	28,408
Gifted and talented	10,017	-	10,017
Long term facility maintenance (fund 01)	65,849	-	65,849
Food service	107,288	-	107,288
Community education	76,791	-	76,791
School readiness	73,179	-	73,179
E.C.F.E.	48,336	-	48,336
Community service	-	(3,747)	(3,747)
Capital projects	140,425	-	140,425
Long term facility maintenance (fund 06)	756,326	-	756,326
Debt service	364,367	-	364,367
Debt service - bond refunding	1,639,268	-	1,639,268
OPEB debt service	12,390	-	12,390
Total restricted	3,362,370	(3,747)	3,358,623
Unassigned	1,229,516	3,747	1,233,263
Total fund balances	$ 4,598,220	$ -	$ 4,598,220

Note 9 - Defined Benefit Pension Plans

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Public Employees Retirement Association (PERA)

A. Plan Descriptions

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

All full-time and certain part-time employees of the District, other than teachers, are covered by General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

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

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

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

GERF benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively of their annual covered salary in calendar year 2016. The District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2016. The District's contributions to the GERF for the year ended June 30, 2017, were $108,119. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Actuarial Assumptions

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

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

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

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

The following changes in actuarial assumptions occurred in 2016:

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocations	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%
	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% 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 rates set in Minnesota Statutes. 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 active 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.

F. Pension Costs

At June 30, 2017, the District reported a liability of $1,786,291 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $23,238. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0220%, which was an increase of 0.0003% from June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $251,473 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional $6,929 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the GERF.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 5,287	$ 145,110
Change in actuarial assumptions	385,259	-
Difference between projected and actual investment earnings	199,427	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	11,661	83,342
District's contributions to GERF subsequent to the measurement date	108,119	-
Total	$ 709,753	$ 228,452

$108,119 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	$ 86,532
2019	45,742
2020	176,385
2021	64,523
2022	-

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	$ 2,537,062	$ 1,786,291	$ 1,124,607

H. Pension Plan Fiduciary Net Position

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

Teachers Retirement Association (TRA)

A. Plan Description

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

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

B. Benefits Provided

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

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

Tier I Benefits

Tier1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordi	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

(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) 3 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).

or

Tier II Benefits

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

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

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

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

C. Contribution Rate

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

	Employees	Employers
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

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

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

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

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	4.66, from the Single Equivalent Interest Rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50 - 9.50%
Cost of living adjustment	2.00%

Mortality assumptions

Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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

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

Asset Class	Target Allocations	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%
	100%	

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

E. Discount Rate

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.

F. Net Pension Liability

At June 30, 2017, the District reported a liability of $21,013,952 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on The District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota. The District's proportionate share was 0.0881% at the end of the measurement period and 0.0902% for the beginning of the year.

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

District’s proportionate share of net pension liability	$ 21,013,952
State’s proportionate share of the net pension liability associated with the district	$ 2,108,318

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

For the year ended June 30, 2017, the District recognized pension expense of $3,092,235. It also recognized $294,392 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	$ 205,841	$ 586
Changes in actuarial assumptions	11,982,955	-
Difference between projected and actual investment earnings	909,077	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	170,356
District's contributions to TRA subsequent to the measurement date	356,445	-
Total	$ 13,454,318	$ 170,942

$356,445 was reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	$ 2,554,555
2019	2,554,557
2020	2,859,694
2021	2,649,381
2022	2,308,744

G. Net Pension Liability

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	$ 27,071,223	$ 21,013,952	$ 16,080,503

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

H. Pension Plan Fiduciary Net Position

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

Note 10 - Flexible Benefit Plan

The District has a flexible benefit plan which is classified as a "cafeteria plan" (the Plan) under section 125 of the Internal Revenue Code. 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 September 1 to August 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.

Payment of insurance premiums (health, dental, life, and disability) 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 and special revenue funds.

Amounts withheld for medical reimbursement and dependent care are paid by the District to an outside administrator upon an employee submitting a request for reimbursement. Payments are made by the outside administrator to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the employee.

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 11 - Employee Benefit Plan 403(b)

All teachers having completed their fifth year of teaching in the District are eligible to participate in the matching 403(b) program. The District will match the employees' deferral up to the following maximums:

Years of Service	Maximum Match
6-10	$ 1,000
11+	1,500

The maximum career matching contribution by the District will not exceed $20,000 per teacher.

Note 12 - Affiliated Organization

The District, in conjunction with eight other school districts, is a member district of Fergus Falls Area Special Education Cooperative No. 935. The Joint Powers Board consists of one representative and one delegate from each member district. The representative is the Superintendent of Schools of each member district, and the delegate is one School Board member from each member district appointed by the School Board of that member district, who serves a three-year term. The purpose of the Joint Powers Board is to provide by cooperative effort a comprehensive special education program for the member districts. Each member district is entitled to one vote, which shall be cast by the delegate of that member district. The representative is a nonvoting member of the Joint Powers Board. Contributions of $140,600 were made by the District to the joint venture for the year ended June 30, 2017. The contributions are based on the operating budget of the Cooperative and allocated per agreement to the member districts.

Fergus Falls Area Special Education Cooperative is separately audited from the District. Complete financial statements for the Cooperative can be obtained from its administrative office at 1519 Pebble Lake Road, Fergus Falls, MN 56537.

Note 13 - Commitments and Contingencies

Federal Revenue

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.

Construction

The District has entered into construction contracts for the acquisition and betterment of school buildings and building maintenance projects for school facilities. The projects include replacement and improvement of heating, ventilation, and control efficiency improvements, roof repairs, renovation of science area and other improvements. At June 30, 2017, the estimated cost to complete the project was approximately $290,000.

Note 14 - Restatement of Beginning Net Position

As of July 1, 2016, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard requires governments to improve the usefulness of information about postemployment benefits other than pensions and establishes standards for governmental employer recognition, measurement, and presentation of information about OPEB.

The adjustments to the beginning balance of net position is as follows:

Net Position - June 30, 2016, as previously reported	$ 1,210,488
Restatement due to implementation of GASB Statement No. 75	(990,760)
Net Position - July 1, 2016, as restated	$ 219,728

Note 15 - Issued But Non-effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement enhance the comparability of financial statements among governments. This statement will be implemented at the District in the year ended June 30, 2018.

The second statement issued but not yet implemented that will significantly affect the District is statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The third statement issued but not yet implemented that will significantly affect the District is statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. This statement will be implemented at the District in the year ended June 30, 2018.

The final statement issued but not yet implemented that will significantly affect the District is statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.

Required Supplementary Information
June 30, 2017

Pelican Rapids Area Public Schools
Independent School District No. 548

Schedule of Total OPEB Liability and Related Ratios
Last 10 Fiscal Years *

	2017
Total OPEB liability	
Service cost	$ 31,911
Interest cost	17,330
Benefit payments	(42,454)
Net change in total OPEB liability	6,787
Total OPEB liability - beginning	586,751
Total OPEB liability - ending (a)	$ 593,538
Plan fiduciary net position	
Projected investment return	$ 4,907
Differences between expected and actual experience	(3,820)
Benefit payments	(42,454)
Administrative expenses	(229)
Net change in plan fiduciary net position	(41,596)
Plan fiduciary net position - beginning	204,470
Plan fiduciary net position - ending (b)	$ 162,874
District's net OPEB liability - ending (a) - (b)	$ 430,664
Plan fiduciary net position as a percentage of the total OPEB liability	27.44%
Covered-employee payroll	$ 5,836,928
District's net OPEB liability as a percentage of covered-employee payroll	7.38%

* GASB Statements No. 74 and 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedules of Changes in the District's Net OPEB Liability and Related Ratios

The District implemented the standards as of June 30, 2017, and as such there has only been one valuation performed. The valuation date was July 1, 2016, and the measurement date was June 30, 2017.

Schedule of District OPEB Contributions
Last 10 Fiscal Years *

	2017
Actuarially determined contribution	$ -
Contributions in relation to the actuarially determined contribution	-
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 5,836,928
Contributions as a percentage of covered-employee payroll	0.00%

* GASB Statements No. 74 and 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of District OPEB Contributions

Valuation date:	July 1, 2016
Actuarial cost method:	Entry Age, level percentage of pay
Amortization method:	Straight-line
Amortization period:	30 years
Asset valuation method:	Closed five-year period
Inflation:	2.50 percent
Healthcare cost trend rates:	6.75 percent in 2016 grading to 5.00 percent over seven years
Salary increases:	3.00 percent
Investment rate of return:	2.40 percent (net of investment expenses)
Retirement age:	Similar to those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodical experience studies.
Mortality:	RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale

Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years*

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (c) (a+b)	Employer's Covered-Employee Payroll (d)**	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (c/d)**	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2016	0.0220%	$ 1,786,291	N/A	$ 1,786,291	$ 1,376,407	129.8%	68.9%
PERA	6/30/2015	0.0217%	$ 1,124,607	N/A	$ 1,124,607	$ 1,287,674	87.3%	78.2%
PERA	6/30/2014	0.0252%	$ 1,183,770	N/A	$ 1,183,770	$ 1,326,965	89.2%	78.8%
TRA	6/30/2016	0.0881%	$ 21,013,952	$ 2,108,318	$ 23,122,270	$ 4,594,962	503.2%	44.9%
TRA	6/30/2015	0.0902%	$ 5,579,762	$ 684,655	$ 6,264,417	$ 4,590,231	136.5%	76.8%
TRA	6/30/2014	0.0953%	$ 4,391,355	$ 308,913	$ 4,700,268	$ 4,388,779	107.1%	81.5%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Schedule of Employer's Contributions
Last 10 Fiscal Years*

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)**	Contributions as a Percentage of Covered-Employee Payroll (b/c)**
PERA	6/30/2017	$ 108,119	$ 108,119	$ -	$ 1,445,924	7.5%
PERA	6/30/2016	$ 102,787	$ 102,787	$ -	$ 1,376,407	7.5%
PERA	6/30/2015	$ 95,012	$ 95,012	$ -	$ 1,287,674	7.4%
TRA	6/30/2017	$ 356,445	$ 356,445	$ -	$ 4,793,690	7.4%
TRA	6/30/2016	$ 342,338	$ 342,338	$ -	$ 4,594,962	7.5%
TRA	6/30/2015	$ 342,111	$ 342,111	$ -	$ 4,590,231	7.5%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

Since the last actuarial valuation as of July 30, 2015, the following have been changed:

- PERA's CAFR may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TRA's CAFR may be obtained on the TRA's website at www.MinnesotaTRA.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- Covered payroll has been retrospectively restated for all years presented to conform to the definition of covered payroll as clarified in GASB Statement No. 82, *Pension Issues*.

**Covered payroll as restated to conform to GASB Statement No. 82.

Combining and Individual Fund Schedules
June 30, 2017

Pelican Rapids Area Public Schools Independent School District No. 548

General Fund
Schedule of Changes in UFARS Fund Balances
Years Ended June 30, 2017

	Fund Balance Beginning of Year	Net Change in Fund Balance	Fund Balance End of Year
Nonspendable	$ 5,928	$ (3,215)	$ 2,713
Restricted for deferred maintenance	8,149	(8,149)	-
Restricted for long-term facility maintenance	-	65,849	65,849
Restricted for health and safety	(52,208)	52,208	-
Restricted for operating capital	33,991	5,735	39,726
Restricted for gifted and talented	-	10,017	10,017
Restricted for safe school - crime levy	20,924	7,484	28,408
Restricted for teacher development/evaluation	2,817	(2,817)	-
Assigned for deferred maintenance of flooring	40,000	(40,000)	-
Unassigned	1,280,661	(47,398)	1,233,263
	$ 1,340,262	$ 39,714	$ 1,379,976

	Food Service	Community Service	OPEB Debt Service Fund	Totals
Assets				
Cash and cash equivalents	$ 95,670	$ 250,792	$ 47,690	$ 394,152
Investments	-	-	36,025	36,025
Receivables				
Current property taxes	-	51,638	64,363	116,001
Delinquent property taxes	-	2,006	2,851	4,857
Due from other governmental units	37,504	4,317	1,818	43,639
Inventories	3,621	-	-	3,621
Total assets	$ 136,795	$ 308,753	$ 152,747	$ 598,295
Liabilities				
Accrued salaries and related liabilities	$ 25,886	$ 2,112	$ -	$ 27,998
Deferred Inflows of Resources				
Unavailable revenue-property taxes	-	112,082	140,357	252,439
Fund Balance				
Nonspendable	3,621	-	-	3,621
Restricted	107,288	198,306	12,390	317,984
Unassigned	-	(3,747)	-	(3,747)
Total fund balance	110,909	194,559	12,390	317,858
Total liabilities, deferred inflows of resources and fund balance	$ 136,795	$ 308,753	$ 152,747	$ 598,295

	Food Service	Community Service	OPEB Debt Service Fund	Totals
Revenues				
Local property tax levies	$ -	$ 93,107	$ 129,298	$ 222,405
Other local and county sources	4,505	106,416	-	110,921
State sources	59,594	78,300	1,853	139,747
Federal sources	342,351	-	-	342,351
Sales and other conversion of assets	101,185	-	-	101,185
Total revenues	507,635	277,823	131,151	916,609
Expenditures				
Community education and service	-	229,055	-	229,055
Pupil support services	511,734	-	-	511,734
Fiscal and other fixed cost programs	-	-	137,563	137,563
Total expenditures	511,734	229,055	137,563	878,352
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,099)	48,768	(6,412)	38,257
Fund Balance, Beginning of Year	115,008	145,791	18,802	279,601
Fund Balance, End of Year	$ 110,909	$ 194,559	$ 12,390	$ 317,858

Other Supplementary Information
June 30, 2017

Pelican Rapids Area Public Schools
Independent School District No. 548

Activity	Balance 7/1/16	Receipts and and Transfers	Disbursements and Transfers	Balance 6/30/17
Special Education	$ 14	$ -	$ -	$ 14
Spanish	8,571	18,549	11,484	15,636
F.F.A.	1,372	15,528	14,499	2,401
Student Council	3,007	5,880	7,387	1,500
Sixth Grade Trip	21,051	25,011	28,086	17,976
Shada	3,003	5,178	3,276	4,905
Miscellaneous	-	11,323	11,323	-
Elementary Student Council	831	575	603	803
Elementary Yearbook	140	3,238	3,220	158
Picture Fund	-	33,958	33,958	-
National Honor Society	313	906	800	419
Interest	-	299	299	-
T.E.C.H.S.	1,274	666	-	1,940
S.A.D.D.	1,156	2,644	3,047	753
Choir	17,005	70,532	68,673	18,864
Band	34,852	120,808	134,237	21,423
Class of 2017	426	381	340	467
Class of 2018	-	9,164	8,110	1,054
	$ 93,015	$ 324,640	$ 329,342	$ 88,313

Fiscal Compliance Report - 6/30/2017

Help Logoff

District: PELICAN RAPIDS (548-1)

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01 GENERAL FUND

	Audit	UFARS	Audit - UFARS
Total Revenue	$10,685,324	$10,685,320	$4
Total Expenditures	$10,648,133	$10,648,133	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$2,713	$2,713	$0
Restricted / Reserved:			
4.03 Staff Development	$0	$0	$0
4.06 Health and Safety	$0	$0	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.24 Operating Capital	$39,726	$39,726	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$0	$0	$0
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.38 Gifted & Talented	$10,017	$10,017	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$0	$0	$0
4.45 Career Tech Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe School Crime - Crime Levy	$28,408	$28,408	$0
4.50 Pre-Kindergarten	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.67 LTFM	$65,849	$65,849	$0
4.72 Medical Assistance	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Committed:			
4.18 Committed for Separation	$0	$0	$0
4.61 Committed Fund Balance	$0	$0	$0
Assigned:			
4.62 Assigned Fund Balance	$0	$0	$0
Unassigned:			
4.22 Unassigned Fund Balance	$1,233,263	$1,233,261	$2

02 FOOD SERVICES

	Audit	UFARS	Audit - UFARS
Total Revenue	$507,635	$507,632	$3
Total Expenditures	$511,734	$511,731	$3
Non Spendable:			
4.60 Non Spendable Fund Balance	$3,621	$3,621	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$107,288	$107,288	$0
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

04 COMMUNITY SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$277,823	$277,823	$0
Total Expenditures	$229,055	$229,056	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$76,791	$76,791	$0
4.32 E.C.F.E	$48,336	$48,336	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$73,179	$73,179	$0
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			

06 BUILDING CONSTRUCTION

	Audit	UFARS	Audit - UFARS
Total Revenue	$27,800	$27,800	$0
Total Expenditures	$4,569,466	$4,569,467	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.67 LTFM	$756,325	$756,325	$0
Restricted:			
4.64 Restricted Fund Balance	$140,425	$140,425	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

07 DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$2,076,841	$2,076,841	$0
Total Expenditures	$1,979,840	$1,979,839	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$1,639,268	$1,639,268	$0
4.51 QZAB Payments	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$364,367	$364,367	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

08 TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$9,744	$9,744	$0
Total Expenditures	$15,139	$15,139	$0
4.22 Unassigned Fund Balance (Net Assets)	$38,614	$38,614	$0

20 INTERNAL SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

25 OPEB REVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

45 OPEB IRREVOCABLE TRUST

	Audit	UFARS	Audit - UFARS
Total Revenue	$1,086	$1,086	$0
Total Expenditures	$42,683	$42,683	$0
4.22 Unassigned Fund Balance (Net Assets)	$162,873	$162,874	($1)

47 OPEB DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$131,151	$131,151	$0
Total Expenditures	$137,563	$137,563	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted:			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$12,390	$12,390	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

Additional Reports
June 30, 2017

Pelican Rapids Area Public Schools Independent School District No. 548

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*

The School Board of
Independent School District No. 548
Pelican Rapids Area Public Schools
Pelican Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 548, Pelican Rapids Area Public Schools, 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 District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2017-A, 2017-B, and 2017-C to be material weaknesses.

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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.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

Response to Findings
The District's responses to the findings identified in our audit are described in the accompanying schedule of findings. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Fargo, North Dakota
November 29, 2017

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Report on Compliance over Financial Reporting of the Student Activity Accounts

The School Board of
Independent School District No. 548
Pelican Rapids Area Public Schools
Pelican Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *Manual for Activity Fund Accounting (MAFA)*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 548, Pelican Rapids Area Public Schools, 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.

Compliance
As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity 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. Finding 2017-D in the Section II of the attached schedule of findings was noted to be in noncompliance through testing of these requirements.

Response to Finding
The District's responses to the finding identified in our audit is described in the accompanying schedule of findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, the Minnesota Department of Education and other state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
November 29, 2017

EideBailly

CPAs & BUSINESS ADVISORS

Report on *Minnesota Legal Compliance*

The School Board of
Independent School District No. 548
Pelican Rapids Area Public Schools
Pelican Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 548 as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 29, 2017.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursement, 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 no items 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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions. The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Fargo, North Dakota
November 29, 2017

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Section I – Financial Statement Findings

2017-A Segregation of Duties
Material Weakness

Criteria: A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping and reconciliation functions.

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

Cause: There is a limited amount of office employees.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials: There is no disagreement with the audit finding.

2017-B Preparation of Financial Statements
Material Weakness

Criteria: A good system of internal accounting control contemplates an adequate system for internally preparing the District's financial statements.

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

Cause: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect: The disclosures in the financial statements could be incomplete.

Recommendation: This circumstance is not unusual in a District of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: There is no disagreement with the audit finding.

2017-C Significant Journal Entries
Material Weakness

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition: During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

Cause: The District does not have an internal control system designed to identify all necessary adjustments.

Effect: This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials: There is no disagreement with the audit finding.

Section II – Student Activity Findings

2017-D Unallowable Inactive/Discontinued Activity Accounts with Remaining Cash Balances

Criteria: A good system of internal accounting control contemplates an adequate system for compliance with the MAFA guidelines of properly disposing of inactive/discontinued activity accounts with remaining cash balances. Page 29 of the MAFA guidelines describe the requirements for student activity accounts related to a graduating class, any funds remaining in the account after graduation must be disposed of in the manner indicated on the activity purpose form no later than September 1 after graduation.

Condition: During the course of our engagement, we noted that the 2017 graduating class had a remaining cash balance as of June 30, 2017 that was not properly disposed of in the required time frame.

Cause: The District does not have an internal control system designed to follow the procedures in MAFA guidelines.

Effect: This deficiency could result in student activities funding being misused.

Recommendation: The District should establish policies and procedures to properly dispose of remaining cash balances in inactive/discontinued activity accounts in the required time frame.

Views of Responsible Officials: There is no disagreement with the audit finding.

Section III – Minnesota Legal Compliance Findings

None