PRELIMINARY OFFICIAL STATEMENT DATED APRIL 5, 2018

In the opinion of Bond Counsel, under present federal and State of Minnesota laws, regulations and rulings, the interest to be paid on the Bonds of this offering is not includible in gross income of the recipient for United States or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. See "Tax Exemption" herein for a discussion of federal tax legislation.

The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

New Issue **Rating Application Made: Moody's Investors Service**

INDEPENDENT SCHOOL DISTRICT NO. 1 (AITKIN PUBLIC SCHOOLS), MINNESOTA

(Aitkin and Crow Wing Counties)

(Minnesota School District Credit Enhancement Program)

$3,065,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2018A

PROPOSAL OPENING: April 16, 2018, 10:30 A.M., C.T. **CONSIDERATION**: April 16, 2018, 7:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $3,065,000 General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 123B.595 (long-term facilities maintenance revenue) by Independent School District No. 1 (Aitkin Public Schools), Minnesota (the "District") to provide funds for facility maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota.

DATE OF BONDS: May 10, 2018

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2019	$190,000	2024	$185,000	2029	$220,000
2020	165,000	2025	195,000	2030	230,000
2021	170,000	2026	200,000	2031	235,000
2022	175,000	2027	210,000	2032	245,000
2023	180,000	2028	215,000	2033	250,000

MATURITY ADJUSTMENTS: * The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BONDS: See "Term Bond Option" herein.

INTEREST: February 1, 2019 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 2027 and thereafter are subject to call for prior redemption on February 1, 2026 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: $3,034,350

GOOD FAITH DEPOSIT: A good faith deposit in the amount of $61,300 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

BOND COUNSEL: Knutson, Flynn & Deans, P.A.

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

BOOK-ENTRY-ONLY: See "Book-Entry-Only System" herein (unless otherwise specified by the purchaser).

REPRESENTATIONS

No dealer, broker, salesperson or other person has been authorized by the District to give any information or to make any representation other than those contained in this Preliminary Official Statement and, if given or made, such other information or representations must not be relied upon as having been authorized by the District. ***This Preliminary Official Statement does not constitute an offer to sell or a solicitation of an offer to buy any of the Bonds in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction.***

This Preliminary Official Statement is not to be construed as a contract with the Syndicate Manager or Syndicate Members. Statements contained herein which involve estimates or matters of opinion are intended solely as such and are not to be construed as representations of fact. Ehlers & Associates, Inc. prepared this Preliminary Official Statement and any addenda thereto relying on information of the District and other sources for which there is reasonable basis for believing the information is accurate and complete. Bond Counsel has not participated in the preparation of this Preliminary Official Statement and is not expressing any opinion as to the completeness or accuracy of the information contained therein. Compensation of Ehlers & Associates, Inc., payable entirely by the District, is contingent upon the sale of the issue.

COMPLIANCE WITH S.E.C. RULE 15c2-12

Certain municipal obligations (issued in an aggregate amount over $1,000,000) are subject to Rule 15c2-12 promulgated by the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934, as amended (the "Rule").

Preliminary Official Statement: This Preliminary Official Statement was prepared for the District for dissemination to potential investors. Its primary purpose is to disclose information regarding the Bonds to prospective underwriters in the interest of receiving competitive proposals in accordance with the sale notice contained herein. Unless an addendum is posted prior to the sale, this Preliminary Official Statement shall be deemed nearly final for purposes of the Rule subject to completion, revision and amendment in a Final Official Statement as defined below.

Review Period: This Preliminary Official Statement has been distributed to prospective bidders for review. Comments or requests for the correction of omissions or inaccuracies must be submitted to Ehlers & Associates, Inc. at least two business days prior to the sale. Requests for additional information or corrections in the Preliminary Official Statement received on or before this date will not be considered a qualification of a proposal received from an underwriter. If there are any changes, corrections or additions to the Preliminary Official Statement, interested bidders will be informed by an addendum prior to the sale.

Final Official Statement: Copies of the Final Official Statement will be delivered to the underwriter (Syndicate Manager) within seven business days following the proposal acceptance.

Continuing Disclosure: Subject to certain exemptions, issues in an aggregate amount over $1,000,000 may be required to comply with provisions of the Rule which require that underwriters obtain from the issuers of municipal securities (or other obligated party) an agreement for the benefit of the owners of the securities to provide continuing disclosure with respect to those securities. This Preliminary Official Statement describes the conditions under which the Bonds are exempt or required to comply with the Rule.

CLOSING CERTIFICATES

Upon delivery of the Bonds, the underwriter (Syndicate Manager) will be furnished with the following items: (1) a certificate of the appropriate officials to the effect that at the time of the sale of the Bonds and all times subsequent thereto up to and including the time of the delivery of the Bonds, this Preliminary Official Statement did not and does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (2) a receipt signed by the appropriate officer evidencing payment for the Bonds; (3) a certificate evidencing the due execution of the Bonds, including statements that (a) no litigation of any nature is pending, or to the knowledge of signers, threatened, restraining or enjoining the issuance and delivery of the Bonds, (b) neither the corporate existence or boundaries of the District nor the title of the signers to their respective offices is being contested, and (c) no authority or proceedings for the issuance of the Bonds have been repealed, revoked or rescinded; and (4) a certificate setting forth facts and expectations of the District which indicates that the District does not expect to use the proceeds of the Bonds in a manner that would cause them to be arbitrage bonds within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or within the meaning of applicable Treasury Regulations.

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BOARD OF EDUCATION

		Term Expires
Cindi Hills	Chairperson	January 2019
David Burgstaler	Vice Chairperson	January 2019
Joe Ryan	Clerk	January 2021
Kevin Hoge	Treasurer	January 2019
John Chute	Director	January 2021
Dennis Hasskamp	Director	January 2021
Jeremy Janzen	Director	January 2019

ADMINISTRATION

Brad Kelvington, Superintendent of Schools
Tiffany Gustin, Business Manager

PROFESSIONAL SERVICES

Knutson, Flynn & Deans, P.A., Bond Counsel, Mendota Heights, Minnesota

Ehlers & Associates, Inc., Municipal Advisors, Roseville, Minnesota
(*Other offices located in Waukesha, Wisconsin, Chicago, Illinois and Denver, Colorado*)

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 1 (Aitkin Public Schools), Minnesota (the "District") and the issuance of its $3,065,000* General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds" or the "Obligations"). Any descriptions or summaries of the Bonds, statutes, or documents included herein are not intended to be complete and are qualified in their entirety by reference to such statutes and documents and the form of the Bonds to be included in the resolution awarding the sale of the Bonds (the "Award Resolution") to be adopted by the Board of Education on April 16, 2018.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the District's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the Bond Sales link and following the directions at the top of the site.

THE BONDS

GENERAL

The Bonds will be issued in fully registered form as to both principal and interest in denominations of $5,000 each or any integral multiple thereof, and will be dated, as originally issued, as of May 10, 2018. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2019 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

Unless otherwise specified by the purchaser, the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). (See "Book-Entry-Only System" herein.) As long as the Bonds are held under the book-entry system, beneficial ownership interests in the Bonds may be acquired in book-entry form only, and all payments of principal of, premium, if any, and interest on the Bonds shall be made through the facilities of DTC and its participants. If the book-entry system is terminated, principal of, premium, if any, and interest on the Bonds shall be payable as provided in the Award Resolution.

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2027 shall be subject to optional redemption prior to maturity on February 1, 2026 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the District. If only part of the Bonds having a common maturity date are called for redemption, then the District or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

AUTHORITY; PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 123B.595 (long-term facilities maintenance revenue) by the District to provide funds for facility maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education.

ESTIMATED SOURCES AND USES*

Sources			
	Par Amount	$3,065,000	
	Original Issue Premium	66,314	
	Total Sources		**$3,131,314**
Uses			
	Total Underwriter's Discount (1.000%)	$30,650	
	Costs of Issuance	43,950	
	Deposit to Project Construction Fund	3,056,050	
	Rounding Amount	664	
	Total Uses		**$3,131,314**

*Preliminary, subject to change

SECURITY

The Bonds are general obligations of the District to which its full faith, credit and taxing powers are pledged. In accordance with Minnesota Statutes, the District will levy each year an amount not less than 105% of the debt service requirements on the Bonds, less estimated collections of other revenues pledged for payments on the Bonds. In the event funds on hand for payment of principal and interest are at any time insufficient, the District is required to levy additional taxes upon all taxable properties within its boundaries without limit as to rate or amount to make up any deficiency.

RATING

The District will be participating in the State of Minnesota Credit Enhancement Program ("MNCEP") for this issue and is requesting a rating from Moody's Investors Service ("Moody's"). Moody's has a policy which assigns a minimum rating of "Aa2" to issuers participating in the MNCEP. The "Aa2" rating is based on the State of Minnesota's current "Aa1" rating from Moody's. See "STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS" for further details.

The District does not currently have an underlying rating, however, has requested an underlying rating on this issue from Moody's. Such rating reflects only the views of such organization and explanations of the significance of such rating may be obtained from the rating agency furnishing the same. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating agency, if in the judgement of such rating agency circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Such rating is not to be construed as a recommendation of the rating agency to buy, sell or hold the Bonds, and the rating assigned by the rating agency should be evaluated independently. Except as may be required by the Disclosure Undertaking described under the heading "CONTINUING DISCLOSURE" neither the District nor the underwriter undertake responsibility to bring to the attention of the owner of the Bonds any proposed changes in or withdrawal of such rating or to oppose any such revision or withdrawal.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on January 8, 2018 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issue remain outstanding.

Under the State Payment Law, if the District believes it may be unable to make a principal or interest payment for this issue on the due date, it must notify the Commissioner of Education as soon as possible, but not less than 15 working days prior to the due date (which notice is to specify certain information) that it intends to exercise the provisions of the Law to guarantee payment of the principal and interest when due. The District also covenants in the Resolution to deposit with the Paying Agent for the issue three business days prior to the date on which a payment is due an amount sufficient to make that payment or to notify the Commissioner of Education that it will be unable to make all or a portion of the payment.

The Law also requires the Paying Agent for this issue to notify the Commissioner of Education if it becomes aware of a potential default in the payment of principal and interest on these obligations, or if, on the day two business days prior to the payment date, there are insufficient funds to make the payment or deposit with the Paying Agent.

The Law also requires, after receipt of a notice which requests a payment pursuant to the Law, after consultation with the Paying Agent and District, and after verifying the accuracy of the information provided, the Commissioner of Education shall notify the Commissioner of Management and Budget of the potential default. The State Payment Law provides that "upon receipt of this notice . . . the Commissioner of Management and Budget shall issue a warrant and authorize the Commissioner of Education to pay to the Paying Agent for the debt obligation the specified amount on or before the date due. The amounts needed for purposes of subdivision are annually appropriated to the Department of Education from the state general fund."

The Law requires that all amounts paid by the State on behalf of any School District are required to be repaid by the District to the State with interest, either via a reduction in State aid payable to the District, or through the levy of an ad valorem tax which may be made with the approval of the Commissioner of Education.

In its Official Statement dated September 27, 2017, for General Obligation State Bonds, Series 2017A, 2017B, 2017C, 2017D, and 2017E, the State of Minnesota disclosed the following information about the State Credit Enhancement Program for School Districts.

> "As the date of this Official Statement, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2046, is approximately $12.5 billion. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of the date of this Official Statement is $1.9 billion, with the maximum amount of principal and interest payable in any one month being $760 million. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.
>
> The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with SEC Rule 15c2-12 promulgated by the Securities and Exchange Commission, pursuant to the Securities Exchange Act of 1934 (hereinafter the "Rule"), the District shall covenant to take certain actions pursuant to a Resolution adopted by the Board of Education by entering into a Continuing Disclosure Undertaking (the "Disclosure Undertaking") for the benefit of holders, including beneficial holders. The Disclosure Undertaking requires the District to provide electronically or in the manner otherwise prescribed certain financial information annually and to provide notices of the occurrence of certain events enumerated in the Rule. The details and terms of the Disclosure Undertaking for this issue are set forth in Appendix D to be executed and delivered by the District at the time of delivery of the Bonds. Such Disclosure Undertaking will be in substantially the form attached hereto.

The District did not meet its disclosure obligation by not filing the following in the last five years as required by the Rule. Except to the extent that the following are deemed to be material, the District believes it has not failed to comply in all material respects with its prior undertakings under the Rule. In the interest of full disclosure the District notes the following: Prior continuing disclosure undertakings entered into by the District included language stating that the audited financial statements would be filed "when available." Although the District did not always comply with this requirement, the audited financial statements were timely filed within the required 365 days after the end of the fiscal year timeframe as provided for in each undertaking. The District has reviewed its continuing disclosure responsibilities to help ensure compliance in the future.

Disclosure Deficiency Description	Due Date/Date of Event	Date Filed
Fiscal year ending June 30, 2012 Audited Financial Statements were filed late.	June 30, 2013	November 1, 2013

A failure by the District to comply with any Disclosure Undertaking will not constitute an event of default on this issue or any issue outstanding. However, such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

The District will file its continuing disclosure information using the Electronic Municipal Market Access ("EMMA") system or any system that may be prescribed in the future. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org. Ehlers is currently engaged as disclosure dissemination agent for the District.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION AND RELATED CONSIDERATIONS

In the opinion of Knutson, Flynn & Deans, P.A., as Bond Counsel, on the basis of laws in effect on the date of issuance of the Bonds, interest on the Bonds is not includible in gross income for federal income tax purposes or in taxable net income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. Certain provisions of the Internal Revenue Code of 1986, as amended (the Code), however, impose continuing requirements that must be met after the issuance of the Bonds in order for interest thereon to be and remain not includible in federal gross income and in Minnesota taxable net income. Noncompliance with such requirements by the Issuer may cause the interest on the Bonds to be includible in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includible in federal gross income or Minnesota taxable net income.

Interest on the Bonds is not an item of tax preference includible in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers or the Minnesota alternative minimum tax applicable to individuals, estates and trusts, but is includible in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax and the environmental tax imposed by Section 59A of the Code. Interest on the Bonds may be includible in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includible in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income. Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest on the Bonds. Prospective purchasers or Bondholders should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, environmental tax or foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income. Except as stated in its opinion, no opinion will be expressed by Bond Counsel regarding other state or federal tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code relating to the ability of financial institutions to deduct from income for federal income tax purposes, interest expense that is allocable to carrying and acquiring tax-exempt obligations.

MUNICIPAL ADVISOR

Ehlers has served as municipal advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor cannot participate in the underwriting of the Bonds. The financial information included in this Preliminary Official Statement has been compiled by the Municipal Advisor. Such information does not purport to be a review, audit or certified forecast of future events and may not conform with accounting principles applicable to compilations of financial information. Ehlers is not a firm of certified public accountants. Ehlers is registered with the Securities and Exchange Commission and the MSRB as a Municipal Advisor.

MUNICIPAL ADVISOR AFFILIATED COMPANIES

Bond Trust Services Corporation ("BTSC") and Ehlers Investment Partners, LLC ("EIP") are affiliate companies of Ehlers. BTSC is chartered by the State of Minnesota and authorized in Minnesota, Wisconsin, and Illinois to transact the business of a limited purpose trust company. BTSC provides paying agent services to debt issuers. EIP is a Registered Investment Advisor with the Securities and Exchange Commission. EIP assists issuers with the investment of bond proceeds or investing other issuer funds. This includes escrow bidding agent services. Issuers, such as the District, have retained or may retain BTSC and/or EIP to provide these services. If hired, BTSC and/or EIP would be retained by the District under an agreement separate from Ehlers.

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2017 have been audited by Wipfli LLP, Duluth, Minnesota, independent auditors (the "Auditor"). The report of the Auditor, together with the basic financial statements, component units financial statements, and notes to the financial statements are attached hereto as "APPENDIX A – FINANCIAL STATEMENTS". The Auditor has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. The Auditor also has not performed any procedures relating to this Preliminary Official Statement.

RISK FACTORS

Following is a description of possible risks to holders of the Bonds without weighting as to probability. This description of risks is not intended to be all-inclusive, and there may be other risks not now perceived or listed here.

Taxes: The Bonds are general obligations of the District, the ultimate payment of which rests in the District's ability to levy and collect sufficient taxes to pay debt service should other revenue (state aids) be insufficient. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the District in time to pay debt service when due.

State Actions: Many elements of local government finance, including the issuance of debt and the levy of property taxes, are controlled by state government. Future actions of the state may affect the overall financial condition of the District, the taxable value of property within the District, and the ability of the District to levy and collect property taxes.

Future Changes in Law: Various State and federal laws, regulations and constitutional provisions apply to the District and to the Bonds. The District can give no assurance that there will not be a change in or interpretation of any such applicable laws, regulations and provisions which would have a material effect on the District or the taxing authority of the District.

Ratings; Interest Rates: In the future, the District's credit rating may be reduced or withdrawn, or interest rates for this type of obligation may rise generally, either possibility resulting in a reduction in the value of the Bonds for resale prior to maturity.

Tax Exemption: If the federal government or the State of Minnesota taxes all or a portion of the interest on municipal obligations, directly or indirectly, or if there is a change in federal or state tax policy, the value of the Bonds may fall for purposes of resale. Noncompliance following the issuance of the Bonds with certain requirements of the Code and covenants of the Award Resolution may result in the inclusion of interest on the Bonds in gross income of the recipient for United States income tax purposes or in taxable net income of individuals, estates or trusts for State of Minnesota income tax purposes. No provision has been made for redemption of the Bonds, or for an increase in the interest rate on the Bonds, in the event that interest on the Bonds becomes subject to federal or State of Minnesota income taxation, retroactive to the date of issuance.

Continuing Disclosure: A failure by the District to comply with the Disclosure Undertaking for continuing disclosure (see "CONTINUING DISCLOSURE") will not constitute an event of default on the Bonds. Any such failure must be reported in accordance with the Rule and must be considered by any broker, dealer, or municipal securities dealer before recommending the purchase or sale of the Bonds in the secondary market. Such a failure may adversely affect the transferability and liquidity of the Bonds and their market price.

State Economy; State Aids: State of Minnesota cash flow problems could affect local governments and possibly increase property taxes.

Book-Entry-Only System: The timely credit of payments for principal and interest on the Bonds to the accounts of the Beneficial Owners of the Bonds may be delayed due to the customary practices, standing instructions or for other unknown reasons by DTC participants or indirect participants. Since the notice of redemption or other notices to holders of these obligations will be delivered by the District to DTC only, there may be a delay or failure by DTC, DTC participants or indirect participants to notify the Beneficial Owners of the Bonds.

Economy: A combination of economic, climatic, political or civil disruptions or terrorist actions outside of the control of the District, including loss of major taxpayers or major employers, could affect the local economy and result in reduced tax collections and/or increased demands upon local government. Real or perceived threats to the financial stability of the District may have an adverse effect on the value of the Bonds in the secondary market.

Secondary Market for the Bonds: No assurance can be given that a secondary market will develop for the purchase and sale of the Bonds or, if a secondary market exists, that such Bonds can be sold for any particular price. The underwriters are not obligated to engage in secondary market trading or to repurchase any of the Bonds at the request of the owners thereof. Prices of the Bonds as traded in the secondary market are subject to adjustment upward and downward in response to changes in the credit markets and other prevailing circumstances. No guarantee exists as to the future market value of the Bonds. Such market value could be substantially different from the original purchase price.

Bankruptcy: The rights and remedies of the holders may be limited by and are subject to the provisions of federal bankruptcy laws, to other laws, or equitable principles that may affect the enforcement of creditors' rights, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against local governments. The opinion of Bond Counsel to be delivered with respect to the Bonds will be similarly qualified.

VALUATIONS

OVERVIEW

All non-exempt property is subject to taxation by local taxing districts. Exempt real property includes Indian lands, public property, and educational, religious and charitable institutions. Most personal property is exempt from taxation (except investor-owned utility mains, generating plants, etc.).

The valuation of property in Minnesota consists of three elements. (1) The estimated market value is set by city or county assessors. Not less than 20% of all real properties are to be appraised by local assessors each year. (2) The taxable market value is the estimated market value adjusted by all legislative exclusions. (3) The tax capacity (taxable) value of property is determined by class rates set by the State Legislature. The tax capacity rate varies according to the classification of the property. Tax capacity represents a percent of taxable market value.

The property tax rate for a local taxing jurisdiction is determined by dividing the total tax capacity or market value of property within the jurisdiction into the dollars to be raised from the levy. State law determines whether a levy is spread on tax capacity or market value. Major classifications and the percentages by which tax capacity is determined are:

Type of Property	2014/15	2015/16	2016/17
Residential homestead[1]	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%	First $500,000 - 1.00% Over $500,000 - 1.25%
Agricultural homestead[1]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $1,900,000 - 0.50% [2] Over $1,900,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,140,000 - 0.50% [2] Over $2,140,000 - 1.00% [2]	First $500,000 HGA - 1.00% Over $500,000 HGA - 1.25% First $2,050,000 - 0.50% [2] Over $2,050,000 - 1.00% [2]
Agricultural non-homestead	Land - 1.00% [2]	Land - 1.00% [2]	Land - 1.00% [2]
Seasonal recreational residential	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]	First $500,000 - 1.00% [3] Over $500,000 - 1.25% [3]
Residential non-homestead:	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City[4] - 1.25% Affordable Rental: First $100,000 - .75% Over $100,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $106,000 - .75% Over $106,000 - .25%	1 unit - 1st $500,000 - 1.00% Over $500,000 - 1.25% 2-3 units - 1.25% 4 or more - 1.25% Small City [4] - 1.25% Affordable Rental: First $115,000 - .75% Over $115,000 - .25%
Industrial/Commercial/Utility[5]	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%	First $150,000 - 1.50% Over $150,000 - 2.00%

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1 A residential property qualifies as "homestead" if it is occupied by the owner or a relative of the owner on the assessment date.

2 Applies to land and buildings. Exempt from referendum market value tax.

3 Exempt from referendum market value tax.

4 Cities of 5,000 population or less and located entirely outside the seven-county metropolitan area and the adjacent nine-county area and whose boundaries are 15 miles or more from the boundaries of a Minnesota city with a population of over 5,000.

5 The estimated market value of utility property is determined by the Minnesota Department of Revenue.

CURRENT PROPERTY VALUATIONS

2016/17 Economic Market Value[1]	$1,824,440,639[2]

2017/18 Assessor's Estimated Market Value

	Aitkin County	Crow Wing County	Total
Real Estate	$ 1,600,474,100	$ 132,768,000	$ 1,733,242,100
Personal Property	4,165,695	1,032,300	5,197,995
Total Valuation	$ 1,604,639,795	$ 133,800,300	$ 1,738,440,095

2017/18 Net Tax Capacity

	Aitkin County	Crow Wing County	Total
Real Estate	$ 15,296,169	$ 1,225,032	$ 16,521,201
Personal Property	71,920	20,033	91,953
Net Tax Capacity	$ 15,368,089	$ 1,245,065	$ 16,613,154
Less: Captured Tax Increment Tax Capacity[3]	(183,254)	0	(183,254)
Fiscal Disparities Contribution[4]	(347,300)	(9,886)	(357,186)
Power Line Adjustment[5]	(237)	(17,678)	(17,915)
Taxable Net Tax Capacity	$ 14,837,298	$ 1,217,501	$ 16,054,799
Plus: Fiscal Disparities Distribution[3]	353,566	6,799	360,365
Adjusted Taxable Net Tax Capacity	$ 15,190,864	$ 1,224,300	$ 16,415,164

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1 Most recent value available from the Minnesota Department of Revenue.

2 According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 1 (Aitkin Public Schools) is about 95.96% of the actual selling prices of property most recently sold in the District. The sales ratio was calculated by comparing the selling prices with the AEMV. Dividing the AEMV of real estate by the sales ratio and adding the AEMV of personal property and utility, railroads and minerals, if any, results in an Economic Market Value ("EMV") for the District of $1,824,440,639.

3 The captured tax increment value shown above represents the captured net tax capacity of tax increment financing districts located in the District.

4 Each community in the taconite credit area contributes 40% of the growth in its commercial- industrial property tax base to an area pool which is then distributed among the municipalities on the basis of population, special needs, etc. Each governmental unit makes a contribution and receives a distribution--sometimes gaining and sometimes contributing net tax capacity for tax purposes.

5 Ten percent of the net tax capacity of certain high voltage transmission lines is removed when setting local tax rates. However, taxes are paid on the full value of these lines. The taxes attributable to 10% of value of these lines are used to fund a power line credit. Certain property owners receive a credit when the high voltage transmission line runs over their property.

2017/18 NET TAX CAPACITY BY CLASSIFICATION

	2017/18 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$ 4,815,436	28.99%
Agricultural	2,929,540	17.63%
Commercial/industrial	965,346	5.81%
Public utility	32,176	0.19%
Railroad operating property	122,301	0.74%
Non-homestead residential	1,029,084	6.19%
Commercial & residential seasonal/rec.	6,627,318	39.89%
Personal property	91,953	0.55%
Total	$16,613,154	100.00%

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Adjusted Taxable Net Tax Capacity[2]	Percent +/- in Estimated Market Value
2013/14	$1,734,172,700	$1,650,393,500	$16,484,205	$16,019,548	-2.96%
2014/15	1,712,434,500	1,628,775,800	16,273,198	15,807,702	-1.25%
2015/16	1,723,212,900	1,641,675,000	16,442,755	15,975,837	+0.63%
2016/17	1,746,949,400	1,665,171,737	16,695,019	16,202,666	+1.38%
2017/18	1,738,440,095	1,654,188,826	16,613,154	16,415,164	-0.49%

1 Net Tax Capacity is before fiscal disparities adjustments and includes tax increment and power line values.

2 Adjusted Taxable Net Tax Capacity is after fiscal disparities adjustments and does not include tax increment or power line values.

LARGER TAXPAYERS

Taxpayer	Type of Property	2017/18 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Burlington Northern Railroad	Railroad	$109,642	0.66%
RK Midwest Enterprises	Industrial	58,121	0.35%
Aitkin Auto Group	Commercial	54,478	0.33%
MARBRI, LLP	Industrial	53,454	0.32%
Aicota Healthcare Center	Healthcare	50,444	0.30%
Paulbeck's Real Property	Commercial	50,272	0.30%
Mille Lacs Meadows Ranch	Agricultual	43,099	0.26%
Mille Lacs Energy Coop	Utility	32,294	0.19%
Midwest Community Properties	Healthcare	28,829	0.17%
Kenneth Kallar Foundation	Commercial	26,862	0.16%
Total		$507,495	3.05%

District's Total 2017/18 Net Tax Capacity $16,613,154

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Aitkin and Crow Wing Counties.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedule following)

Total g.o. debt being paid from taxes (includes the Bonds)*	$ 3,635,000

*Preliminary, subject to change.

STATE AID FOR DEBT SERVICE

The Minnesota Debt Service Equalization program provides state aid to finance a portion of the principal and interest payments on most school district bonds. Bonds not eligible for the program include all alternative facilities bonds, facilities maintenance bonds, capital facilities bonds and OPEB bonds, as well as building bonds with relatively short maturities.

Under the Debt Service Equalization Formula (the Formula) adopted by the 2001 Minnesota State Legislature, each school district is responsible for the amount of its qualifying annual debt service which is equal to 15.74% of its Adjusted Net Tax Capacity (ANTC). The District does not currently qualify for debt service equalization aid.

In addition to debt service equalization aid, some school districts will qualify for state Long Term Facilities Maintenance Aid to finance a portion of the payments on Alternative Facilities Bonds and Facilities Maintenance Bonds, pursuant to the Long Term Facilities Maintenance Revenue (LTFMR) program approved by the State in 2015. If any aid is received, it is deposited into the District's debt service fund and must be used for payments on the bonds; any payment of state aid into the debt service fund causes a reduction in the tax levy for Alternative Facilities Bonds and Facilities Maintenance Bonds. The amount of aid received in the debt service fund will vary each year, depending on a number of factors. The District does not currently qualify for Long Term Facilities Maintenance Aid.

1 Outstanding debt is as of the dated date of the Bonds.

Independent School District No. 1 (Aitkin Public Schools), Minnesota

Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(as of 5/10/18)
FISCAL YEAR BASIS

	Capital Facilities Series 2012A		Facilities Maintenance Series 2018A							
Dated	8/1/2012		5/10/2018							
Amount	$1,100,000		$3,065,000*							
Maturity	02/01		02/01							
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Estimated Interest**	**Total Principal**	**Total Interest**	**Total P & I**	**Principal Outstanding**	**% Paid**	**Fiscal Year Ending**
2019	110,000	8,355	190,000	73,665	300,000	82,020	382,020	3,335,000	8.25%	**2019**
2020	110,000	7,090	165,000	95,908	275,000	102,998	377,998	3,060,000	15.82%	**2020**
2021	115,000	5,605	170,000	90,958	285,000	96,563	381,563	2,775,000	23.66%	**2021**
2022	115,000	3,880	175,000	85,858	290,000	89,738	379,738	2,485,000	31.64%	**2022**
2023	120,000	2,040	180,000	80,608	300,000	82,648	382,648	2,185,000	39.89%	**2023**
2024			185,000	75,208	185,000	75,208	260,208	2,000,000	44.98%	**2024**
2025			195,000	67,808	195,000	67,808	262,808	1,805,000	50.34%	**2025**
2026			200,000	60,008	200,000	60,008	260,008	1,605,000	55.85%	**2026**
2027			210,000	52,008	210,000	52,008	262,008	1,395,000	61.62%	**2027**
2028			215,000	45,708	215,000	45,708	260,708	1,180,000	67.54%	**2028**
2029			220,000	39,258	220,000	39,258	259,258	960,000	73.59%	**2029**
2030			230,000	32,438	230,000	32,438	262,438	730,000	79.92%	**2030**
2031			235,000	24,963	235,000	24,963	259,963	495,000	86.38%	**2031**
2032			245,000	17,325	245,000	17,325	262,325	250,000	93.12%	**2032**
2033			250,000	8,750	250,000	8,750	258,750	0	100.00%	**2033**
	570,000	26,970	3,065,000	850,465	3,635,000	877,435	4,512,435			

*Preliminary, subject to change.

BONDED DEBT LIMIT

Minnesota Statutes, Section 475.53, subdivision 4, presently limits the "net debt" of a school district to 15% of its actual market value. The actual market value of property within a district, on which its debt limit is based, is (a) the value certified by the county auditors, or (b) this value divided by the ratio certified by the commissioner of revenue, whichever results in a higher value. The current debt limit of the District is computed as follows:

2016/17 Economic Market Value	$1,824,440,639
Multiply by 15%	0.15
Statutory Debt Limit	$ 273,666,096
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	(3,635,000)
Unused Debt Limit*	$ 270,031,096

*Preliminary, subject to change.

OVERLAPPING DEBT[1]

Taxing District	2017/18 Adjusted Taxable Net Tax Capacity	% In District	Total G.O. Debt[2]		District's Proportionate Share
Aitkin County	$ 27,203,390	55.8418%	$10,400,000	3	$ 5,807,547
Crow Wing County	109,151,408	1.1217%	9,807,500		$ 110,011
City of Aitkin	1,084,043	100.0000%	613,000		613,000
Town of Aitkin	1,033,639	100.0000%	28,411		28,411
District's Share of Total Overlapping Debt					$ 6,558,969

DEBT PAYMENT HISTORY

The District has no record of default in the payment of principal and interest on its debt.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value ($1,824,440,639)	Debt/ Current Population Estimate (9,491)
Direct G.O. Debt Being Paid From Taxes*	$ 3,635,000	0.20%	$382.99
District's Share of Total Overlapping Debt	$ 6,558,969	0.36%	$691.07
Total*	$ 10,193,969	0.56%	$1,074.07

*Preliminary, subject to change.

1 Overlapping debt is as of the dated date of the Bonds. Only those taxing jurisdictions with general obligation debt outstanding are included in this section. It does ***not*** include non-general obligation debt, self-supporting general obligation revenue debt, short-term general obligation debt, or general obligation tax/aid anticipation certificates of indebtedness.

2 Outstanding debt is based on information in Official Statements obtained on EMMA and the Municipal Advisor's records.

3 The total debt for Aitkin County includes their upcoming issuance of debt ($10,400,000 estimated principal outstanding) which is scheduled to close on May 10, 2018.

FUTURE FINANCING

The District has no current plans for additional financing in the next 12 months.

LEVY LIMITS

Minnesota school district tax levies for most purposes are subject to statutory limitations. No limit, however, is placed on the debt service levy, and districts are required to levy 105% of actual principal and interest requirements to allow for delinquencies.

School districts receive a basic revenue amount per pupil unit from aid and levy proceeds in a variety of categorical state aids. They are also allowed to certify additional levies within limits for certain specified purposes. The State Department of Education and the applicable County Auditors review the levies of each school district to determine compliance with state levy limits.

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date[2]	% Collected
2013/14	$ 958,432	$ 937,753	$ 957,784	99.93%
2014/15	1,026,021	1,005,025	1,023,876	99.79%
2015/16	1,194,291	1,173,875	1,188,628	99.53%
2016/17	1,108,617	1,090,081	1,090,081	98.33%
2017/18	1,702,616	In process of collection		

Property taxes are collected in two installments in Minnesota--the first by May 15 and the second by October 15.[3] Mobile home taxes are collectible in full by August 31. Minnesota Statutes require that levies (taxes and special assessments) for debt service be at least 105% of the actual debt service requirements to allow for delinquencies.

TAX CAPACITY RATES[4]

	2013/14	2014/15	2015/16	2016/17	2017/18
I.S.D. No. 1 (Aitkin Public Schools)	3.029%	3.400%	4.604%	4.030%	4.435%
Aitkin County	42.908%	44.534%	46.147%	46.849%	49.014%
Crow Wing County	35.269%	34.653%	33.574%	32.308%	31.741%
City of Aitkin	74.355%	74.349%	73.692%	81.900%	78.250%
Town of Rabbit Lake [5]	30.696%	30.840%	30.255%	28.294%	28.460%
CWC HRA	0.062%	0.064%	0.063%	0.062%	0.103%
Region 5	0.133%	0.133%	0.131%	0.131%	0.134%
Referendum Market Value Rates:					
I.S.D. No. 1 (Aitkin Public Schools)	0.06916%	0.07164%	0.06855%	0.06504%	0.13663%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Aitkin and Crow Wing Counties.

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1 This reflects the Final Levy Certification of the District after all adjustments have been made.

2 Collections are through March 1, 2018 for Aitkin County and through April 4, 2018 for Crow Wing County.

3 Second half tax payments on agricultural property are due on November 15th of each year.

4 After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

5 Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 207, including 111 non-licensed employees and 96 licensed employees (91 of whom are teachers). The District provides education for 1,166 students in grades kindergarten through twelve.

PENSIONS; UNIONS

Teachers' Retirement Association (TRA)

All teachers employed by the District are covered by defined benefit pension plans administered by the State of Minnesota Teachers Retirement Association (TRA). TRA members belong to either the Coordinated Plan or the Basic Plan. Coordinated members are covered by Social Security and Basic members are not. All new members must participate in the Coordinated Plan. These plans are established and administered in accordance with Minnesota Statutes, Chapter 354 and 356.

Public Employees' Retirement Association (PERA)

All full-time and certain part-time employees of the District (other than those covered by TRA) are covered by a defined benefit plan administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) which is a cost-sharing, multiple-employer retirement plan. This plan is established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

Recognized and Certified Bargaining Units

Bargaining Unit	Expiration Date of Current Contract
Aitkin Principals Association	June 30, 2017
Aitkin Education Support Staff	June 30, 2017
Bus Drivers - IUOE #70	June 30, 2019
Education Minnesota - Aitkin	June 30, 2019
Custodians/Mechanics - IUOE #70	June 30, 2019

Status of Contracts

The contracts which expired June 30, 2017 are currently in negotiations.

POST EMPLOYMENT BENEFITS

The District has obligations for some post-employment benefits for its employees. Accounting for these obligations is dictated by Governmental Accounting Standards Board Statement No. 45 (GASB 45). The District's most recent actuarial study of its OPEB obligations shows an actuarial accrued liability of $1,207,867 as of June 30, 2016. The District has been funding these obligations on a pay-as-you-go basis, and has also set up an irrevocable trust to pay the obligations.

STUDENT BODY

The number of students enrolled for the past four years and for the current year have been as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2013/14	79	555	592	1,226
2014/15	56	565	555	1,176
2015/16	70	538	560	1,168
2016/17	62	532	552	1,146
2017/18	96	523	547	1,166

Enrollments for the next three years are projected to be as follows:

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2018/19	80	536	547	1,163
2019/20	80	520	560	1,160
2020/21	80	502	590	1,172

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Rippleside Elementary	1957	1965, 1981, 1988, 1992, 1995, 2001
Aitkin High School	1936	1957, 1959, 1976, 1979, 1992, 2001

FUNDS ON HAND (as of February 28, 2018)

Fund	Total Cash and Investments
General	$ 3,775,861
Food Service	62,374
Community Service	271,293
Debt Service	32,493
OPEB (Fund 45)	1,102,658
Trust & Agency	863,098
Internal Service	54,204
Total Funds on Hand	$ 6,161,980

LITIGATION

There is no litigation threatened or pending questioning the organization or boundaries of the District or the right of any of its officers to their respective offices or in any manner questioning their rights and power to execute and deliver the Bonds or otherwise questioning the validity of the Bonds.

MUNICIPAL BANKRUPTCY

Municipalities are prohibited from filing for bankruptcy under Chapter 11 (reorganization) or Chapter 7 (liquidation) of the U.S. Bankruptcy Code (11 U.S.C. §§ 101-1532) (the "Bankruptcy Code"). Instead, the Bankruptcy Code permits municipalities to file a petition under Chapter 9 of the Bankruptcy Code, but only if certain requirements are met. These requirements include that the municipality must be "specifically authorized" under State law to file for relief under Chapter 9. For these purposes, "State law" may include, without limitation, statutes of general applicability enacted by the State legislature, special legislation applicable to a particular municipality, and/or executive orders issued by an appropriate officer of the State's executive branch.

Currently there is no statutory authority for Minnesota school districts to file for bankruptcy relief under Chapter 9 of the Bankruptcy Code.

Nevertheless, there can be no assurance (a) that State law will not change in the future while the Bonds are outstanding; or (b) even absent such a change in State law, that an executive order or other executive action could not effectively authorize the District to file for relief under Chapter 9; or (c) whether it would still be eligible for voluntary or involuntary relief under Chapters of the Bankruptcy Code other than Chapter 9 or under similar federal or state law or equitable proceeding regarding insolvency or providing for protection from creditors. Such action could impact the rights of holders of the Bonds. Such modifications could be adverse to holders of the Bonds and there could ultimately be no assurance that holders of the Bonds would be paid in full or in part on the Bonds.

SUMMARY GENERAL FUND INFORMATION

Following are summaries of the revenues and expenditures and fund balances for the District's General Fund. These summaries are not purported to be the complete audited financial statements of the District, and potential purchasers should read the included financial statements in their entirety for more complete information concerning the District. Copies of the complete statements are available upon request. Appendix A includes the District's 2017 audited financial statements.

	FISCAL YEAR ENDING JUNE 30				
COMBINED STATEMENT	**2014 Audited**	**2015 Audited**	**2016 Audited**	**2017 Audited**	**2017-18 Adopted Budget[1]**
Revenues					
Local property taxes	$ 783,719	$ 1,322,726	$ 1,313,780	$ 1,535,065	$ 1,149,944
Other local and county revenues	374,727	1,644,131	404,120	356,307	291,578
Revenues from state sources	10,523,454	10,558,096	10,488,409	10,358,592	10,794,790
Revenues from federal sources	322,400	331,178	324,295	336,897	298,602
Sales and other conversion of assets	42,395	30,699	62,450	23,280	0
Interest income	2,437	3,096	15,674	32,252	0
Total Revenues	$ 12,049,132	$ 13,889,926	$ 12,608,728	$ 12,642,393	$ 12,534,914
Expenditures					
Administration	$ 639,478	$ 673,815	$ 845,928	$ 828,277	$ 826,759
District support services	447,321	419,306	446,216	519,276	487,114
Regular instruction	5,407,453	5,818,791	6,075,831	6,086,333	6,307,621
Vocational instruction	120,443	153,558	177,939	185,416	180,958
Exceptional instruction	1,756,714	1,738,819	1,826,104	2,027,513	2,005,082
Community education and services	15,144	0	0	0	0
Instructional support services	484,814	641,924	673,466	962,049	1,038,149
Pupil support services	1,230,848	1,211,821	1,224,209	1,281,930	1,340,456
Sites, buildings and equipment	920,631	971,374	919,421	1,208,555	1,368,716
Fiscal and other fixed cost programs	47,817	49,604	43,629	51,261	59,000
Debt service	0	0	0	169,233	0
Capital outlay	707,214	2,182,729	1,484,674	1,397,665	0
Total Expenditures	$ 11,777,877	$ 13,861,741	$ 13,717,417	$ 14,717,508	$ 13,613,855
Excess of revenues over (under) expenditures	$ 271,255	$ 28,185	$ (1,108,689)	$ (2,075,115)	$ (1,078,941)
Other Financing Sources (Uses)					
Sale of capital assets	$ 13,323	$ 16,161	$ 0	$ 33,641	
Capital lease issued	0	0	655,480	0	
Flood assistance	0	0	1,043,871	339,444	
Flood expenses	0	0	(1,037,016)	(407,909)	
Total Other Financing Sources (Uses)	$ 13,323	$ 16,161	$ 662,335	$ (34,824)	
Net Change in Fund Balances	$ 284,578	$ 44,346	$ (446,354)	$ (2,109,939)	
General Fund Balance July 1	7,390,577	7,675,155	7,719,501	7,273,147	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	$ 7,675,155	$ 7,719,501	$ 7,273,147	$ 5,163,208	
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	$ 101,623	$ 101,497	$ 239,654	$ 238,407	
Restricted	415,685	324,996	381,059	367,306	
Assigned	1,572,933	1,448,951	1,379,494	1,433,616	
Unassigned	5,584,914	5,844,057	5,272,940	3,123,879	
Total	$ 7,675,155	$ 7,719,501	$ 7,273,147	$ 5,163,208	

[1] The 2017-18 budget was adopted on June 30, 2017. The General Fund deficits in 2015-16 and 2016-17 and the projected deficit in 2017-18 are attributable to significant one-time capital expenditures made as part of planned spenddowns in fund balances, which were well in excess of the School Board's fund balance policy (at least 25% of the district's General Fund operating budget, in the combined total of the General Fund committed, assigned and unassigned fund balances). The District expects to have a balanced budget in 2018-19.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 9,599 and a current population estimate of 9,491, and comprising an area of 491,500 land acres, is located approximately 130 miles north of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS[1]

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
Aitkin County	County government and services	261
I.S.D. No. 1 (Aitkin Public Schools)	Elementary and secondary education	207
Riverwood Health Care Center	Hospital and nursing home	108
Aicota Health Care Center	Nursing home/assisted living	155
Cedar Creek	Lumber-wholesale	80 [2]
Aitkin Iron Works	Metal fabrication shop	75
Mille Lacs Energy Cooperative	Electric company	50
Security State Bank	Bank	40
Oakridge Homes	Disabled adult care	40
County Market	Retail grocery store	32
Shopko	Retail	30

Source: *ReferenceUSA, written and telephone survey (March 2018), and the Minnesota Department of Employment and Economic Development.*

[1] This does not purport to be a comprehensive list and is based on available data obtained through a survey of individual employers, as well as the sources identified above. Some employers do not respond to inquiries for employment data.

[2] Formerly listed as Lake States Lumber.

U.S. CENSUS DATA

Population Trend: Independent School District No. 1 (Aitkin Public Schools), Minnesota

2000 Population Estimate[1]	8,960
2010 U.S. Census population	9,599
2016 Population Estimate	9,491
Percent of Change 2000 - 2010	+ 7.13%

Income and Age Statistics

	Aitkin Public School District	**Aitkin County**	**State of Minnesota**	**United States**
2016 per capita income	$26,418	$25,780	$33,225	$29,829
2016 median household income	$47,788	$44,524	$63,217	$55,322
2016 median family income	$56,795	$54,400	$79,595	$67,871
2016 median gross rent	$642	$632	$873	$928
2016 median value owner occupied units	$170,300	$165,300	$191,500	$184,700
2016 median age	53.7 yrs.	53.6 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	**United States**
District % of 2016 per capita income	79.51%	88.56%
District % of 2016 median family income	71.36%	83.68%

Source: *2000 and 2010 Census of Population and Housing, and 2016 American Community Survey (Based on a five-year estimate), U.S. Census Bureau (www.factfinder2.census.gov).*

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

	<u>**Average Employment**</u>	<u>**Average Unemployment**</u>	
Year	**Aitkin County**	**Aitkin County**	**State of Minnesota**
2014	6,295	6.7%	4.2%
2015	6,372	6.6%	3.7%
2016	6,521	7.0%	3.8%
2017	6,639	6.5%	3.6%
2018, February	6,806	8.5%	3.9%

Source: *Minnesota Department of Employment and Economic Development.*

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1 The 2000 U.S. Census data is not available.

APPENDIX A

FINANCIAL STATEMENTS

Potential purchasers should read the included financial statements in their entirety for more complete information concerning the District's financial position. Such financial statements have been audited by the Auditor, to the extent and for the periods indicated thereon. The District has not requested the Auditor to perform any additional examination, assessments or evaluation with respect to such financial statements since the date thereof, nor has the District requested that the Auditor consent to the use of such financial statements in this Preliminary Official Statement. Although the inclusion of the financial statements in this Official Statement is not intended to demonstrate the fiscal condition of the District since the date of the financial statements, in connection with the issuance of the Bonds, the District represents that there have been no material adverse change in the financial position or results of operations of the District, nor has the District incurred any material liabilities, which would make such financial statements misleading.

Copies of the complete audited financial statements for the past three years and the current budget are available upon request from Ehlers.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
TOGETHER WITH INDEPENDENT
AUDITOR'S REPORT

WIPFLi

Independent Auditor's Report

To the School Board
Independent School District No. 0001
Aitkin, 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. 0001, Aitkin, Minnesota (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 evaluation of the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to 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, where applicable, cash flows thereof, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and certain applicable sections of GASB Statement No. 82 *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* during fiscal year 2017. The adoption of GASB Statement No. 74 and No. 75 resulted in the restatement of Governmental Activities Net Position at June 30, 2016. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis, pages 4 - 8, the information about the District's other postemployment health care plan, page 54, and information about the District's net pension liability, pages 55 and 56, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information, in accordance with auditing standards generally accepted in the United States, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining nonmajor governmental funds financial statements and fiscal compliance table, pages 57 through 59, are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* and is also not a required part of the financial statements. The combining nonmajor governmental funds financial statements, fiscal compliance table, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining nonmajor governmental funds financial statements, fiscal compliance table and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

November 28, 2017
Duluth, Minnesota

As management of Independent School District No. 0001 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

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

- Overall actual revenues in the Statement of Activities were $14,021,661, which were $4,355,536 less than expenses.
- General Fund unassigned fund balance decreased $2,149,061.
- The District has assigned fund balance in the General Fund for transportation and future severance obligations totaling $1,433,616 at June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of four parts - Independent Auditor's Report, required supplemental information which includes the Management's Discussion and Analysis (this section), the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed.

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, state statutes, and to control and manage money for particular purposes. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or 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 government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. A reconciliation is provided to facilitate a comparison between governmental fund financial statements and government-wide financial statements.

Proprietary funds - The District has a special fund for self-insurance. This fund is funded by the combination of District and employee contributions for the purpose of covering health insurance costs between an employee's district deductible and the insurer's purchased deductible. The District is responsible for ensuring that the assets reported in this fund are used only for their intended purpose and for those to whom the assets belong. All of the District's proprietary activities are reported in a separate statement of proprietary net position and a statement of changes in proprietary net position.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the Sweetman and other scholarship funds. The District is responsible for ensuring that the assets reported in this fund are used only for their intended purpose and for those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operation.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position may serve over time as a useful indicator of a district's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $2,989,561 as of June 30, 2017.

Statements of Net Position
June 30,

	2017	2016
Capital assets	$ 9,434,030	$ 8,884,608
Current and other assets	8,379,262	11,535,031
Total assets	17,813,292	20,419,639
Deferred outflows of resources	16,564,577	1,688,585
Long- term liabilities	28,384,808	10,024,602
Current liabilities	1,636,364	1,683,536
Total liabilities	30,021,172	11,708,138
Deferred inflows of resources	1,367,136	2,104,220
Net position		
Net investment in capital assets	8,757,272	8,098,431
Restricted	782,608	760,046
Unrestricted	(6,550,319)	(562,611)
Total net position	$ 2,989,561	$ 8,295,866

Change in Net Position
For the years ended June 30,

	2017	2016
Revenues		
Program revenues		
Charges for services	$ 554,213	$ 501,364
Operating grants and contributions	595,650	569,082
General revenues		
Property taxes	1,780,277	1,569,370
State aids	10,753,870	10,866,024
Other	303,168	357,735
Investment earnings	34,483	16,724
Total revenues	14,021,661	13,880,299

	2017	2016
Expenses		
District and school administration	832,693	849,146
District support services	521,515	450,949
Regular instruction	9,309,968	6,035,356
Vocational instruction	193,601	193,814
Exceptional instruction	2,037,785	1,886,554
Instructional support services	980,265	754,302
Pupil support services	1,502,062	1,424,827
Sites and buildings	1,306,173	1,832,035
Food service		43,629
Community service	463,316	369,970
Fiscal and other fixed cost programs	726,042	697,408
Interest and fiscal charges on long-term debt	62,974	12,423
Unallocated depreciation expense	440,803	386,137
Total expenses	18,377,197	14,936,550
Change in net position before extraordinary items	(4,355,536)	(1,056,251)
Extraordinary item		
Flood assistance	339,444	1,043,871
Flood expenses	(407,909)	(1,037,016)
Net position, beginning of the year	8,295,866	9,345,262
Adjustment for restatement of Net OPEB asset	(882,304)	
Net position, end of the year	$ 2,989,561	$ 8,295,866

Activity for fiscal year 2016 was not restated because the actuarial valuation used June 30, 2016 as the measurement date. Information related to the Net OPEB liability prior to that date is not available.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

While government-wide presentations are designed to present users with a more complete picture of the District's financial position and results of operation, the traditional fund accounting basis provides users with information that can be used by the District to make decisions in the near-term.

General Fund Budgetary Highlights

The General Fund (which includes the District's general, transportation, and capital funds) adopted an original revenue budget of $12,167,400, which was revised to $13,126,767 (amount includes the amount presented as an extraordinary item and other financing sources), mostly due to insurance reimbursements for water damage repairs grant revenues/donations, consolidated conservation receipts and other unanticipated revenues.

The General Fund adopted an original expenditure budget of $12,640,515, which was revised to $14,934,665 (amount includes the amount presented as an extraordinary item), mostly due to expenditures for water damage repairs), severance payments, reading curriculum materials, grant expenditures, fees for contracted services, payments to other districts and the purchase of property.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues and other financing sources by $1,807,898, the actual results for the year showed expenditures exceeded revenues and other financing sources by $2,109,939.

- Actual revenues and other financing sources were $450,733 less than anticipated, mostly due to special education coming in under budget.
- Actual expenditures were $217,157 less than anticipated mostly due to lower than expected spending on supplies, materials, and benefits.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of the year, the value of capital assets in the District was $20,539,267. Total depreciation expense for the year was $669,890. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At June 30, 2017, the District had $680,000 in general obligation facility bonds and $486,247 in capital lease payable. The District's debt rating from the State of Minnesota Credit Enhancement Program is Aa2. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of fair market value of property in the District. The District is within its legal authority for bonded debt.

More detailed information about long-term debt is presented in Note 4 to the financial statements.

Severance, Postemployment Benefits and Net Pension Liability

Detailed information about the severance, post-employment benefits and net pension liability are presented in Notes 4, 5, 6 and 8 of the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

While no significant increases or decreases in enrollment are anticipated, the District continues to monitor enrollment and the potential impacts increases or decreases would have on operations.

The District will continue to monitor the changing climate in healthcare requirements.

The District continues to struggle filling some hourly positions. Combining and realigning jobs has been and will continue to be explored. Finding qualified/licensed substitutes for many positions also poses a significant challenge.

The Board will continue to work on planning to address current and future facility needs. Bonding with long-term facilities maintenance funding will be considered to address short-term needs.

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 the Business Office, Independent School District No. 0001, 306 Second Street NW, Aitkin, MN 56431 or call Tiffany Gustin, Business Manager, (218) 927-2115, extension 3422.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF NET POSITION
JUNE 30, 2017

		Governmental Activities
Assets and Deferred Outflows of Resources		
Current assets		
Cash and temporary cash investments	$	5,640,738
Current property taxes receivable		550,813
Delinquent property taxes receivable		17,278
Accounts receivable		446,630
Due from Minnesota Department of Education		1,047,435
Due from the federal government through the Minnesota Department of Education		76,036
Due from other governmental units		211,938
Inventory		25,677
Prepaid items		243,155
Total current assets		8,259,700
Noncurrent assets		
Net OPEB asset		119,562
Capital assets, net of accumulated depreciation		
Assets not being depreciated		1,160,646
Assets being depreciated, net		8,273,384
Total capital assets, net of accumulated depreciation		9,434,030
Total assets		17,813,292
Deferred outflows of resources		
Items related to OPEB		24,207
Items related to pensions		16,540,370
Total deferred outflows of resources		16,564,577
Total assets and deferred outflows of resources	$	34,377,869
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities		
Salaries payable	$	892,503
Accounts payable		89,770
Accrued interest		3,917
Claims payable		22,489
Accrued payroll taxes		267,150
Due to other Minnesota school districts		153,283
Due to other governments		4,153
Unearned revenue		203,099
Amounts due in less than one year		268,003
Total current liabilites		1,904,367
Long-term liabilities		28,116,805
Total liabilities		30,021,172
Deferred inflows of resources		
Property taxes levied for subsequent year's expenditures		944,269
Items related to OPEB		5,309
Items related to pensions		417,558
Total deferred inflows of resources		1,367,136
Net position		
Net investment in capital assets		8,757,272
Restricted		782,608
Unrestricted		(6,550,319)
Total net position		2,989,561
Total liabilities, deferred inflows of resources, and net position	$	34,377,869

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Total Governmental Activities
Governmental activities					
District and school administration	$ 832,693	$	$	$	$ (832,693)
District support services	521,515				(521,515)
Regular instruction	9,309,968	110,062			(9,199,906)
Vocational instruction	193,601				(193,601)
Exceptional instruction	2,037,785				(2,037,785)
Instructional support services	980,265				(980,265)
Pupil support services	1,502,062				(1,502,062)
Sites, buildings and equipment	1,306,173				(1,306,173)
Fiscal and other fixed cost programs					
Food service	726,042	257,147	454,669		(14,226)
Community service	463,316	187,004	140,981		(135,331)
Interest and fiscal charges on long-term debt	62,974				(62,974)
Unallocated depreciation expense	440,803				(440,803)
Total governmental activities	$ 18,377,197	$ 554,213	$ 595,650	$	$ (17,227,334)
General revenues					
Taxes					
Property taxes, levied for general purposes					1,487,421
Property taxes, levied for community service					170,068
Property taxes, levied for debt service					122,788
State aid-formula grants					10,753,870
Other general revenues					303,168
Investment earnings					34,483
Total general revenues					12,871,798
Extraordinary item					
Flood assistance					339,444
Flood expenses					(407,909)
Change in net position					(4,424,001)
Net position, beginning of the year, restated					7,413,562
Net position, end of the year					$ 2,989,561

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and temporary cash investments	$ 5,052,274	$ 508,385	$ 5,560,659
Current property taxes receivable	490,109	60,704	550,813
Delinquent property taxes receivable	15,369	1,909	17,278
Accounts receivable	443,233	1,993	445,226
Due from the Minnesota Department of Education	1,038,155	9,280	1,047,435
Due from the federal government through the Minnesota Department of Education	71,837	4,199	76,036
Due from other governmental units	174,769	37,169	211,938
Inventory		25,677	25,677
Prepaid items	238,407	4,142	242,549
Total assets	$ 7,524,153	$ 653,458	$ 8,177,611
Liabilities			
Salaries payable	$ 846,736	$ 45,767	$ 892,503
Accounts payable	83,632	6,138	89,770
Accrued payroll taxes	259,057	8,093	267,150
Due to other Minnesota school districts	153,283		153,283
Due to other governments	835	3,318	4,153
Due to other funds			
Unearned revenue	182,733	16,135	198,868
Total liabilities	1,526,276	79,451	1,605,727
Deferred inflows of resources			
Delinquent property taxes	15,369	1,909	17,278
Property taxes levied for subsequent year's expenditures	819,300	124,969	944,269
Total deferred inflows of resources	834,669	126,878	961,547
Fund balances			
Nonspendable	238,407	29,819	268,226
Restricted	367,306	417,310	784,616
Assigned	1,433,616		1,433,616
Unassigned	3,123,879		3,123,879
Total fund balances	5,163,208	447,129	5,610,337
Total liabilities, deferred inflows of resources, and fund balance	$ 7,524,153	$ 653,458	$ 8,177,611

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total fund balances - governmental funds	$	5,610,337
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 as assets in governmental funds.		
Cost of capital assets		20,539,267
Less accumulated depreciation		(11,105,237)
Long-term liabilities, including bonds and severance, are not due and payable in the current period, and therefore are not reported as liabilities in the funds.		
General obligation bonds		(676,758)
Capital lease payable		(486,247)
Severance payable		(323,084)
The net pension liability and the deferred ouflows of resources and deferred inflows of resources related to pensions are only reported in the statement of net position.		
Net pension liability		(26,898,719)
Deferred inflows of resources related to pensions		(417,558)
Deferred outflows of resources related to pensions		16,540,370
Postemployment benefits are funded on a pay-as-you go basis in the governmental fund financial statements. The actuarially determined OPEB liability and deferred outflows and deferred inflows of resources related to OPEB are only recorded in the District-wide financial statements.		
Net OPEB asset		119,562
Deferred outflows of resources related to OPEB		24,207
Deferred inflows of resources related to OPEB		(5,309)
Governmental funds do not report a liability for accrued interest until due and payable.		(3,917)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore are deferred in the funds.		17,278
An internal service fund is used by management to charge the costs of health insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		55,369
Total net position - governmental activities	$	2,989,561

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Local property tax levies	$ 1,535,065	$ 294,814	$ 1,829,879
Other local and county revenues	356,307	243,264	599,571
Revenue from state sources	10,358,592	137,603	10,496,195
Revenue from federal sources	336,897	412,410	749,307
Sales and other conversion of assets	23,280	257,147	280,427
Interest income	32,252	2,177	34,429
Total revenues	12,642,393	1,347,415	13,989,808
Expenditures			
Current			
District and school administration	828,277		828,277
District support services	519,276		519,276
Regular instruction	6,086,333		6,086,333
Vocational instruction	185,416		185,416
Exceptional instruction	2,027,513		2,027,513
Community education and services		458,216	458,216
Instructional support services	962,049		962,049
Pupil support services	1,281,930	718,978	2,000,908
Site, buildings, and equipment	1,208,555		1,208,555
Fiscal and other fixed costs programs	51,261		51,261
Debt service			
Principal	169,233	110,000	279,233
Interest and other fiscal costs		11,475	11,475
Capital outlay	1,397,665	12,164	1,409,829
Total expenditures	14,717,508	1,310,833	16,028,341
Excess (deficiency) of revenues over expenditures	(2,075,115)	36,582	(2,038,533)
Other financing sources			
Sale of capital assets	33,641		33,641
Extraordinary item			
Flood assistance	339,444		339,444
Flood expenses	(407,909)		(407,909)
Total extraordinary item	(68,465)		(68,465)
Net change in fund balances	(2,109,939)	36,582	(2,073,357)
Fund balances, beginning of the year	7,273,147	410,547	7,683,694
Fund balances, end of the year	$ 5,163,208	$ 447,129	$ 5,610,337

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Total net changes in fund balances - governmental funds	$	(2,073,357)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital outlays		1,234,545
Depreciation expense		(669,890)
Loss on disposal of capital assets		(15,233)
Repayment of bond principal and other long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amoritized in the statement of activities.		
General obligation bonds		110,000
Capital leases		169,233
Amortization of bond premiums and discounts		(581)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditures in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when due.		343
Vested employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.		
Change in Net OPEB asset		18,552
Change in deferred outflows of resources related to OPEB		24,207
Change in deferred inflows of resources related to OPEB		(5,309)
Change in severance		62,890
Change in deferred outflows of resources related to pensions		14,851,785
Change in deferred inflows of resources related to pensions		625,133
Change in pension liability		(18,701,748)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.		(1,842)
The net profit of the internal service funds is reported with governmental activities.		(52,729)
Change in net position - governmental activities	$	(4,424,001)

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budget			Variance
	Original	Final	Actual	Over (Under)
Revenues				
Local property tax levies	$ 1,346,268	$ 1,135,195	$ 1,535,065	$ 399,870
Other local and county revenues	212,920	356,794	356,307	(487)
Revenue from state sources	10,337,919	10,850,327	10,358,592	(491,735)
Revenue from federal sources	263,493	327,048	336,897	9,849
Sales and other conversion of assets	3,300	411,753	23,280	(388,473)
Investment income	3,500	12,000	32,252	20,252
Total revenues	12,167,400	13,093,117	12,642,393	(450,724)
Expenditures				
Current				
District and school administration	824,455	841,500	828,277	(13,223)
District support services	415,862	501,774	519,276	17,502
Regular instruction	6,021,267	6,196,495	6,086,333	(110,162)
Vocational instruction	183,996	168,195	185,416	17,221
Exceptional instruction	1,836,225	1,995,364	2,027,513	32,149
Instructional support services	594,950	1,148,894	962,049	(186,845)
Pupil support services	1,157,744	1,312,583	1,281,930	(30,653)
Site, buildings, and equipment	882,909	1,321,080	1,208,555	(112,525)
Fiscal and other fixed cost programs	54,000	52,000	51,261	(739)
Debt service				
Principal			169,233	169,233
Capital outlay	669,107	1,396,780	1,397,665	885
Total expenditures	12,640,515	14,934,665	14,717,508	(217,157)
Deficiency of revenues over expenditures	(473,115)	(1,841,548)	(2,075,115)	(233,567)
Other financing sources				
Sale of capital assets		33,650	33,641	(9)
Extraordinary item				
Flood assistance			339,444	339,444
Flood expenses			(407,909)	(407,909)
Total extraordinary item			(68,465)	(68,465)
Net change in fund balance	$ (473,115)	$ (1,807,898)	(2,109,939)	$ (302,041)
Fund balance, beginning of the year			7,273,147	
Fund balance, end of the year			$ 5,163,208	

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
INTERNAL SERVICE FUND
JUNE 30, 2017

Assets		
Cash and temporary cash investments	$	80,079
Accounts receivable		1,404
Prepaid expenses		606
Total assets	$	82,089
Liabilities		
Claims payable	$	22,489
Unearned revenue		4,231
Total liabilities		26,720
Net position		
Unrestricted		55,369
Total liabilities and net position	$	82,089

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2017

Operating revenues	
Charges for services	$ 57,763
Operating expenses	
Benefit claims	110,546
Operating loss	(52,783)
Nonoperating revenue	
Investment income	54
Change in net position	(52,729)
Net position, beginning of year	108,098
Net position, end of year	$ 55,369

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2017

Cash flows from operating activities	
Receipts from employees	$ 48,673
District's contribution to plan	7,686
Payments for health benefits	(96,747)
Payments for administrative services	(7,686)
Net cash used in operating activities	(48,074)
Net cash provided by investing activities	
Investment income received	54
Net decrease in cash	(48,020)
Cash and temporary cash investments, beginning of year	128,099
Cash and temporary cash investments, end of year	$ 80,079

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (52,783)
Changes in assets and liabilities	
Accounts receivable	(1,404)
Prepaid expenses	42
Claims payable	7,740
Unearned revenue	(1,669)
Net cash used in operating activities	$ (48,074)

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2017

	Postemployment Benefits Irrevocable Trust Fund	Private Purpose Trust Fund	Agency Fund
Assets			
Cash and temporary cash investments	$ 1,141,454	$ 873,006	$ 42,558
Interest receivable	25,090	679	
Prepaid expenses	10,857		
Total assets	$ 1,177,401	$ 873,685	$ 42,558
Liabilities			
Scholarships payable	$	$ 20,976	$
Due to student groups			42,558
Total liabilities		20,976	42,558
Net Position			
Restricted for postemployment benefits and other purposes	1,177,401	852,709	
Total liabilities and net position	$ 1,177,401	$ 873,685	$ 42,558

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2017

	Postemployment Benefits Irrevocable Trust Fund	Private Purpose Trust Fund
Additions		
Contributions	$ 46,698	$ 6,000
Investment earnings	15,552	7,369
Total additions	62,250	13,369
Deductions		
Payments to retirees	193,726	
Scholarships		14,961
Total deductions	193,726	14,961
Changes in net position	(131,476)	(1,592)
Net position		
Beginning of year	1,308,877	854,301
End of year	$ 1,177,401	$ 852,709

See accompanying notes to financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Independent School District No. 0001 (District) was formed and operates pursuant to applicable Minnesota laws and statutes. The Governing Body consists of a seven-member Board elected by voters of the District to serve four-year terms. The operations of the District consist of providing education programs for elementary, secondary and community education within the District. The accounting policies of the District conform to accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting Board for establishing governmental accounting and financial reporting principles.

Reporting Entity

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable or for which the exclusion of would render the financial statements to be misleading. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Based on criteria established by Governmental Accounting Standards Board, 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.

Basic Financial Statement Presentation

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

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

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function and is included in the direct expenses of each function, otherwise it is presented as unallocated. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

The fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (employees and student groups) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts early 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.

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

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

A general summary of the nature and purpose of each of the funds maintained by the District follows:

Major Governmental Funds

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for administration, kindergarten through 12th grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases, health and safety projects and disabled accessibility projects. Student activity funds are under Board control and included in the General Fund.

Nonmajor Governmental Funds

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes. The District has two special revenue funds:

Food Service Fund - is used to account for food service revenues and expenditures. Revenues consist of state and federal aids and grants and sales to pupils and adults.

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, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids and grants and participation fees.

Debt Service Fund - is used to account for the accumulation of resources for the retirement of principal and interest on all general obligation bond indebtedness. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Proprietary Funds

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The District's internal service fund is used to account for the portion of the employee's health insurance deductible paid by the District as an additional employee benefit.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fiduciary Funds

Postemployment Benefits Irrevocable Trust Fund - This fund is used for reporting resources set aside and held in an irrevocable trust arrangement for post-employment benefits. District contributions to this fund must be expensed to an operating fund.

Private Purpose Trust Fund - This fund is used to account for various trusts established for scholarships. These trusts stipulate that only earnings may be spent. The earnings are to be used for scholarships.

Agency Fund - This fund is used to account for assets that the District holds on behalf of others as their agent, which includes the Student Activity Accounts.

Budgeting

The School Board is responsible for the budget and for financial performance against the budget. District employees prepare a proposed budget for all District funds on the same basis and using the same accounting practices that are used to account for and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States. Reported budget amounts represent the originally adopted budget as revised. Revisions to the originally adopted budget require approval of the School Board. Budget appropriations lapse at year-end. Legal budgetary control is at the fund account level. The annual budget is not legally binding on the District unless the District has a total deficit in its general fund that exceeds 2.5 percent of expenditures.

Cash and Investments

Cash and investments of the individual funds, except the internal service fund and trusts funds, are combined to form a pool and are 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 average cash balance participation by each fund. Negotiable certificates of deposit are stated at cost, which approximates fair value. The investment in the Minnesota District Liquid Asset Fund and the MN Trust are recorded at fair value, based on the fair value of the position in the pool.

For purposes of the Proprietary Fund statement of cash flows, the District considers all legal investments authorized by Minnesota statutes with a maturity of three months or less to be cash equivalents.

Receivables

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

The District maintains no central stores and, therefore, expenses supply items as purchased. However, inventories for food items have been recorded in the proper funds. The District values its inventories at cost, on a first-in, first-out basis.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expenditure at the time of consumption.

Property Taxes

Property taxes are set by the School Board and certified to the county auditor, who acts as collecting agent, in December of the year prior to collection. Taxes become a lien on property on the following January 1. Minnesota school districts operate under a levy limitation law that generally limits annual increases in taxes per capita. This law does not cover levies for bonded indebtedness.

Taxpayers may pay real property taxes in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to school districts and other taxing districts in January, March, June, and November or December. Portions of the tax levy paid by the state in the form of credits are included in revenue from state sources. The District also receives revenue from taconite production taxes, which is recognized in the school year received, in accordance with Minnesota Statute 121.904.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred inflows of resources (property taxes levied for subsequent year). General fund revenue is determined annually by statutory funding formulas. These formulas allocate revenue between property taxes and state aids based on education funding priorities set by the Minnesota State Legislature. Changes in this allocation result in an annual change in property tax revenue recognition referred to as the "tax shift". In prior years, the amount of shift has varied between 0 and 50 percent.

The following is a summary of tax shift transactions by fund:

	(0.00%) Total Shift June 30, 2016	State Aid Adjustment	Revenue Adjustment	(0.00%) Total Shift June 30, 2017
General Fund	$ 207,278	$	$ 22,738	$ 230,016

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources in the fund based financial statements (unavailable revenue – delinquent taxes) because it is not available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets are capitalized at historical cost. The District maintains a threshold level of $4,000 or more for capitalizing capital assets. Current year additions are capitalized at cost; if purchased, donated assets are recorded as capital assets at their estimated fair market value at the date of donation. 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, ranging from five to fifty years.

Capital assets not being depreciated include land.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, 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 reported deferred outflows related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the District's contributions to pension plans subsequent to the measurement date of the collective net pension liability. The District has also reported deferred outflows of resources related to OPEB for the difference between projected and actual earnings on plan investments.

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 reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has also reported property taxes levied for subsequent years expenditures as a deferred inflow of resources in both the governmental funds balance sheet and the statement of net position. The District has also reported deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions. The District has also reported deferred inflows of resources related to OPEB for changes in assumptions.

Long-term Liabilities

In the governmental-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are included in expenditure/expense when incurred.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 are reported as debt service expenditures/expenses.

Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 8.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows or resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Postemployment Benefits Irrevocable Trust Fund and additions to/deductions from the Postemployment Benefits Irrevocable Trust Fund have been determined on the same basis as they are reported by the Postemployment Benefits Irrevocable Trust Fund. Investments are reported at fair value.

Fund Balance

In the fund financial statements, governmental funds report fund balance amounts within one of the following categories: nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance consists of amounts that cannot be spent because it is not in spendable form. Restricted fund balance consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions. Committed fund balance consists of amounts that are constrained from specific purposes that are internally imposed by formal action of the School Board. Assigned fund balance consists of amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed. The portion on the fund balance not nonspendable, restricted, committed, or assigned, is reported as unassigned. The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted fund balance is available. If resources from more than one fund balance classification could be spent, the District will strive to spend resources in the following order: nonspendable, restricted, committed, assigned and unassigned.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with the District's fund balance policy, the School Board, by formal action, may commit fund balance to a specific purpose and subsequently remove or change any constraint so adopted by the Board, and either the School Board, by formal action, or the Finance Director or Superintendent have the power to assign fund balance to a specific purpose.

In accordance with the District's fund balance policy, they will strive to maintain at least 25 percent of the District's General Fund operating budget, excluding those accounts associated with the restricted category, in the combined total of the General Fund's committed, assigned and unassigned fund balances.

Net Position

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

Use of Estimates

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

Implementation of New Standards

During fiscal year 2017, the District adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and certain applicable sections of GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.*

GASB Statements No. 74 and No. 75 replace the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The adoption resulted in the restatement of governmental activities net position at June 30, 2016 as follows:

Net position, as previously reported, at June 30, 2016	$ 8,295,866
Net OPEB asset previously reported under GASB Statement No. 45	(983,314)
Net OPEB asset as reported under GASB Statement No. 75	101,010
Net position, as restated, at June 20, 2016	$ 7,413,562

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 28, 2017, the date the financial statements were available to be issued.

NOTE 2 DEPOSITS AND INVESTMENTS

The District's total deposits and investments are as follows:

Petty cash	$	5,350
Deposits		1,609,505
Investments		6,082,901
Total deposits and investments	$	7,697,756

Presented in the basic financial statements as follows:

Statement of Net Position		
Cash and temporary cash investments	$	5,640,738
Statement of Fiduciary Net Position		
Cash and temporary cash investments		
Postemployment Benefits Irrevocable Trust Fund		1,141,454
Private Purpose Trust Fund		873,006
Agency Funds		42,558
Total cash and investments	$	7,697,756

Deposits

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

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

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. As of June 30, 2017, the District's deposits were not exposed to custodial credit risk.

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

Investments

The District may also invest idle funds as authorized by Minnesota Statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' bank eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MN Trust are regulated by Minnesota Statutes and are external investment pools not registered with the Securities and Exchange Commission (SEC). The District's investment in MSDLAF and MN Trust are measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. MSDLAF and MN Trust are short-term money market portfolios. The portfolios are managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of $1.00.

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2017, none of the District's investments were subject to custodial credit risk.

Concentration of Credit Risk - The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District does not have a policy to limit the amount the District may invest in any one issuer.

Interest rate risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District does not have a policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

At June 30, 2017, the District had the following investments:

		Maturities		
Investment Type	Fair Value	Less than one year	1-3 Years	Over 3 Years
External Investment Pools	$ 5,817,660	$ 5,817,660	$	$
State and local government securities	265,241		265,241	
Total	$ 6,082,901	$ 5,817,660	$ 265,241	$

Credit risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the District's policy to invest only in securities that meet the ratings requirements set by state statute. The District has no investment policy that would further limit its investment choices.

The District's exposure to credit risk as of June 30, 2017, was as follows:

S&P or Moody's Ratings	Fair Value
AAAm	$ 5,817,660
AA	265,241
Total	$ 6,082,901

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

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 2 DEPOSITS AND INVESTMENTS (Continued)

The District has the following investments valued at recurring fair value measurements at June 30, 2017:

		Fair Value Measurements Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level				
Debt securities				
State and local government securities	$ 265,241	$	$ 265,241	$
Investments measured at the net asset value (NAV)				
External investment pools	5,817,660			
Total investments	$ 6,082,901			

The following table sets forth additional disclosures about the District's investments whose value are estimated using net asset value (NAV) as of June 30, 2017:

	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF	$ 4,695,030	$ 0	14 days, with the exception of direct investments of funds distributed by the State of Minnesota	24-hour notice
External Investment Pool - MNTrust	1,122,630	0	None	None
Total	$ 5,817,660			

NOTE 3 CAPITAL ASSETS

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

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Capital assets not being depreciated				
Land	$ 407,749	$ 752,897	$	$ 1,160,646
Capital assets being depreciated				
Land improvements	928,827			928,827
Buildings	15,243,734	247,875	(10,823)	15,480,786
Equipment	2,936,305	233,773	(201,070)	2,969,008
Total capital assets being depreciated	19,108,866	481,648	(211,893)	19,378,621
Less accumulated depreciation				
Land improvements	692,989	26,547		719,536
Buildings	8,224,536	407,025	(10,823)	8,620,738
Equipment	1,714,482	236,318	(185,837)	1,764,963
Total accumulated depreciation	10,632,007	669,890	(196,660)	11,105,237
Total capital assets being depreciated, net	8,476,859	(188,242)	(15,233)	8,273,384
Capital assets, net	$ 8,884,608	$ 564,655	$ (15,233)	$ 9,434,030

Depreciation is charged to governmental functions as follows:

District and school administration	$ 980
District support services	448
Regular instruction	18,191
Instructional support	17,676
Pupil support services	175,605
Sped instruction	486
Sites, buildings and equipment	15,701
Unallocated	440,803
Total	$ 669,890

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 4 LONG-TERM DEBT

The following is a summary of changes in long-term debt:

	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Due Within One Year
GO Capital Facilities Bonds, Series 2012A, issued August 1, 2013, at an interest rate of .35 - 1.7 percent, annual principal and interest payments through February 1, 2023.	$ 790,000	$	$ 110,000	$ 680,000	$ 110,000
Less amounts for unamortized issuance discount	(3,823)	581		(3,242)	(581)
Capital leases payable	655,480		169,233	486,247	158,584
Net pension liability	8,196,971	19,321,469	619,721	26,898,719	
Severance payable	385,974	31,952	94,842	323,084	
Total	$ 10,024,602	$ 19,354,002	$ 993,796	$ 28,384,808	$ 268,003

The General Obligation Facilities Bonds is paid from the Debt Service Fund. The capital lease is payable from the General Fund. Net pension liability and severance is paid from the General, Food Service and Community Service Funds.

Annual amounts required to service outstanding long-term liabilities for the years ending June 30, are as follows:

	General Obligation Capital Facilities Bonds			Capital Lease Obligations		
	Principal	Interest	Total	Principal	Interest	Total
2018	$ 110,000	$ 9,400	$ 119,400	$ 158,584	$ 10,649	$ 169,233
2019	110,000	8,355	118,355	162,057	7,176	169,233
2020	110,000	7,090	117,090	165,606	3,627	169,233
2021	115,000	5,605	120,605			
2022	115,000	3,880	118,880			
2023	120,000	2,040	122,040			
Total	$ 680,000	$ 36,370	$ 716,370	$ 486,247	$ 21,452	$ 507,699

The District has entered into a capital lease agreement for the purchase of technology equipment. The lease qualified as a capital lease for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments. At June 30, 2017, the individual cost of items purchased was below the capitalization policy of the District and therefore are not included in capital assets at June 30, 2017.

NOTE 5 SEVERANCE PAY

Most full-time and certain part-time employees are eligible for a one-time severance payment upon voluntary separation. Most employee groups receive severance based upon the number of unused sick leave days multiplied by rates defined within their respective contractual agreements plus additional amounts based on years of service. In the fund financial statements, severance benefit expenditures are recognized when paid. During the year, the District expended $83,622 in severance benefits to five eligible participants. At the time of severing employment with the District, employees who have participated in the Minnesota Deferred Compensation Plan will be paid the calculated severance amount less the accumulated value of the matching contributions made by the District. The District will contribute up to $1,600 per year for employees hired prior to January 1, 1980, and up to $800 per year for employees hired between January 1, 1980 and July 1, 1992. The District will contribute various amounts for employees hired after July 1, 1992 based on years of teaching experience. The combination, 403B match payment and/or severance payment, shall not exceed $15,000 for teachers, depending on the date of hire. At June 30, 2017, the long-term obligation for severance pay was recorded in the statement of net position in the amount of $323,084.

NOTE 6 POSTEMPLOYMENT HEALTHCARE PLAN

Plan Description

The District administers a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) which provides medical, dental and life insurance benefits to eligible retired employees and their dependents in accordance with the terms of the plan.

The District has established an irrevocable trust fund to account for accumulated plan assets available to pay for current and future postemployment health care costs. The Trust does not issue a stand-alone financial report, but is included in this report of the District.

Benefits Provided

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years, age, and retiring dates needed to qualify for these postemployment benefits. The contracts also establish the amount the District will contribute towards the purchase of health insurance.

Plan Membership

As of June 30, 2016, following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	18
Active employees	193
	211

Net Other Postemployment Benefit Liability

The net other postemployment benefit liability (NOL) was measured as of June 30, 2017, and the total other postemployment benefit liability was determined by an actuarial valuation as of June 30, 2016.

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 6 POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Actuarial Methods and Assumptions

The District engaged an actuary to perform a valuation as of June 30, 2016 using the Entry Age Normal, level percent of pay actuarial cost method. The asset valuation method used was market value and the amortization method used was straight-line over a closed 5-year period.

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

Discount rate		3.52%
Inflation rate		2.75%
Expected long-term rate of return on assets		3.50%
Healthcare trend rates		
Annual premium increase rate	2016	6.60%
	2017	6.80%
	2018	6.50%
	2019	6.20%
	2020	5.80%
	2021-2023	5.50%
	2024-2049	5.40%
	2050-2074	Transition to ultimate rate
	2075+	4.40%

Salary increases were based on assumptions used in the July 1, 2016 TRA and PERA actuarial valuations.

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on Scale MP-2015, and other adjustments.

Best-estimates of geometric real and nominal rates of return for each major asset class included in the OPEB plan's asset allocation as of the measurement date are summarized in the following table:

Asset Class	Allocation at Measurement Date	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Cash and equivalents	100%	0.79%	3.54%

NOTE 6 POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Discount Rate

The discount rate used to measure the total OPEB liability was 3.52%. The projection of cash flows used to determine the discount rate was based on recent employer contribution history. Therefore, the OPEB trust's long-term assumed investment return was applied to all projected benefit payments when determining the total OPEB liability.

Changes in the Net Other Postemployment Benefit Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
Balances at 6/30/2016	$ 1,207,867	$ 1,308,877	$ (101,010)
Changes for the year:			
Service Cost	33,698		33,698
Interest	36,643		36,643
Changes of assumptions	(6,172)		(6,172)
Employer contributions		67,169	(67,169)
Net investment income		15,552	(15,552)
Benefit payments	(214,197)	(214,197)	
Net changes	(150,028)	(131,476)	(18,552)
Balances at 6/30/2017	$ 1,057,839	$ 1,177,401	$ (119,562)

Sensitivity of the Net Other Postemployment Benefit Liability to changes in the discount rate

The following presents the NOL of the District, calculated using the discount rate of 3.52%, as well as what the District's NOL would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
1% decrease in discount rate (2.52%)	$ 1,078,907	$ 1,177,401	$ (98,494)
Current discount rate (3.52%)	1,057,839	1,177,401	(119,562)
1% increase in discount rate (4.52%)	1,036,202	1,177,401	(141,199)

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
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NOTE 6 POSTEMPLOYMENT HEALTHCARE PLAN (Continued)

Sensitivity of the Net Other Postemployment Benefit Liability to changes in the health care trend rates

The following table presents the NOL of the District, calculated using current trend rates, as well as what the District's NOL would be if it were calculated using trend rates 1 percentage point lower or 1 percentage point higher than the current trend rates:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
1% decrease in trend rates	$ 1,026,005	$ 1,177,401	$ (151,396)
Current trend rates	1,057,839	1,177,401	(119,562)
1% increase in trend rates	1,092,843	1,177,401	(84,558)

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

For the year ended June 30, 2017 the District recognized OPEB expense of $29,719. 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
Changes of assumptions	$	$ 5,309
Net difference between projected and actual earnings on plan investments	24,207	
Total	$ 24,207	$ 5,309

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

Year ended June 30,	Pension Expense Amount
2018	$ 5,189
2019	5,189
2020	5,189
2021	5,188
2022	(863)
Thereafter	(994)
Total	$ 18,898

NOTE 7 NET POSITION/FUND BALANCES

The District had the following nonspendable fund balances at June 30, 2017

Nonspendable	
General Fund - prepaid expenses	$ 238,407
Nonmajor Governmental Funds	
Food Service Fund - inventory	25,677
Community Service Fund - prepaid expenses	4,142
Total nonmajor governmental funds	29,819
Total nonspendable	$ 268,226

Net position and fund balances were restricted for the following purposes at June 30, 2017:

Restricted	Net Position	Fund Balance
General Fund		
Staff development	$ 296,272	$ 296,272
Gifted and talented	23,063	23,063
Operating capital	6,401	6,401
Teacher development and evaluation	27,482	27,482
Basic skills	14,088	14,088
Total general fund		367,306
Nonmajor Governmental Funds		
Food Service Fund	54,935	54,935
Community Service Fund		
$25 Taconite	97,215	97,215
Community education	53,699	53,699
E.C.F.E.	112,443	112,443
School readiness	52,717	52,717
Community service	29,095	29,081
Debt Service Fund		
Debt service	15,198	17,220
Total nonmajor governmental funds		417,310
Total restricted	$ 782,608	$ 784,616

The District had the following assigned fund balances at June 30, 2017:

Assigned	
General Fund	
Transportation	$ 1,095,242
Severance	338,374
Total assigned	$ 1,433,616

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NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 7 NET POSITION/FUND BALANCES (Continued)

The following fund had fund balance deficits at June 30, 2017:

General Fund	
Restricted	
Long term facilities maintenance	$ (34,848)
Health and safety	(17,832)
Total	$ (52,680)

The deficit balances are allowable by the Minnesota Department of Education. The deficit will be eliminated through future levies, or fund transfers, if necessary. The deficits are included in the General Fund unassigned fund balance on the Balance Sheet.

NOTE 8 DEFINED BENEFIT PENSION PLANS

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

A. Teachers Retirement Fund (TRA)

1. 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.

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State 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.

2. 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

Tier I	Step rate formula	Percentage
Basic	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent 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% per year early retirement reduction factors 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

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

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. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent 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 which 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 members terminating service are 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.

3. Contribution Rate

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

	Employee	Employer
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

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.

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

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 nonemployer contributions	35,587,410
Employer contributions reported in Schedule of Employer and Non-Employer pension allocations	$ 390,131,928

Amounts reported in the allocation schedule 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.

4. 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	3.5%
Projected Salary Increase	3.5 – 9.5%
Cost of living adjustment	2.0%

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

Mortality Assumption:

Pre-retirement	RP-2014 white collar table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant, male rates set back 3 years and female rate set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality, 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 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 an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation.

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The "Difference Between Expected and Actual Experience" and "Changes of Assumptions", and "Changes in Proportion use the amortization period of 6 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68.

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

5. Discount Rate

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee and employer 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 these assumptions, each of 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.

6. Net Pension Liability

At June 30, 2017, the District reported a liability of $23,780,829 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0997% at the end of the measurement period and 0.0995% for the beginning of the period.

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 proportional share of net pension liability	$	23,780,829
State's proportional share of net pension liability associated with the District	$	2,386,816

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

For the year ended June 30, 2017, the District recognized pension expense of $3,525,949. It also recognized $333,279 as an increase to pension expense for the support provided by direct aid.

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NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

At June 30, 2017, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 241,542	$
Net difference between projected and actual earnings on plan investments	991,638	
Changes in proportion		30,845
Changes in actuarial assumptions	13,688,723	
Contributions paid to TRA subsequent to the measurement date	422,156	
Total	$ 15,344,059	$ 30,845

$422,156 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2018	$ 2,957,499
2019	2,957,499
2020	3,300,461
2021	3,036,295
2022	2,639,304
Total	$ 14,891,058

7. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66%, as well as what the liability measured 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
Discount Rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	$ 30,635,651	$ 23,780,829	$ 18,197,799

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.

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

8. 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, Minnesota, 55103-4000; or by calling (651)296-2409 or 1-800-657-3669.

B. Public Employee Retirement Association (PERA)

1. Plan Description

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

2. 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 described in the following paragraph 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.

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

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

3. Contributions

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2017 were $197,643. The District's contribution were equal to the required contribution for the year as set by state statute.

4. Pension Costs

At June 30, 2017, the District reported a liability of $3,117,890 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $40,719. 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 0.0384%, which was a decrease of 0.0010% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $419,194 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $12,141 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

At June 30, 2017, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$	$ 244,499
Changes in actuarial assumptions	681,168	
Net difference between projected and actual earnings on plan investments	317,500	
Changes in proportion		142,214
Contributions paid to PERA subsequent to the measurement date	197,643	
Total	$ 1,196,311	$ 386,713

$197,643 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2018	$ 145,592
2019	64,385
2020	289,356
2021	112,622
2022	0
Total	$ 611,955

5. 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 in the General Employees Plan was completed in 2015.

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

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 increase, 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-estimates ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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

6. 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 contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 8 DEFINED BENEFIT PENSION PLANS (Continued)

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the PERA net pension liability	$ 4,428,327	$ 3,117,890	$ 2,038,446

8. 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 at www.mnpera.org.

NOTE 9 LEASES

The District has commitments under several operating leases for technology equipment and a bus. Lease expense for the year ended June 30, 2017 was $68,721. Future minimum lease payments are as follows:

Year Ended June 30,	
2018	$ 44,117
2019	43,480
	$ 87,597

NOTE 10 COMMITMENTS AND CONTINGENCIES

The District purchases health insurance for its employees and retired employees eligible for postemployment benefits. The plan purchased by the District has a $4,000 deductible, $8,000 maximum out-of-pocket for a single coverage and an $8,000 deductible, $16,000 maximum out-of-pocket for an employee with family coverage. The District purchases policies with high deductibles in order to keep the cost of insurance lower. The District pays, as a benefit for the employee, the difference between $500 deductible, $1,500 maximum out-of-pocket for single coverage and $1,000 deductible, $2,500 maximum out-of-pocket for family coverage, and the deductible/maximum of the plan purchased. As an employee files claims with the insurance carrier, the carrier informs the District of the amount of claims eligible toward the employee's deductible. When the employee reaches the deductible/maximum out-of-pocket, the District then pays the providers until the carrier's deductible/maximum are reached. Each month the District transfers funds from the General Fund to the Internal Service Fund to fund this employee benefit. The District records the cost in the General Fund as an employee benefit expense.

At June 30, 2017, the District had commitments under a construction contract for future work in the amount of $43,695. The commitment will be paid from restricted General Fund balance.

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

NOTE 11 RISK MANAGEMENT

The District's property and liability premiums and reemployment claims are paid by the General Fund. The General and Food Service Funds pay workers' compensation premiums based on salaries. There were no significant reductions in insurance coverage from coverage in the prior year, and claims did not exceed insurance coverage in any of the past three years. The District purchases commercial insurance for property and liability, transferring the risk of loss to the insurance carrier The District participates in a risk pool for workers' compensation insurance. The pool in turn contracts with an insurance carrier, thereby transferring the risk from the pool members to the insurance carrier. The workers' compensation policy is retrospectively rated in that the initial premium is adjusted based on the actual experience during coverage period of the group of entities that participate in the pool. The District handles reemployment costs through a self-insurance plan. The District retains the risks associated with reemployment claims.

NOTE 12 EXTRAORDINARY EVENT

During the year, the District received insurance proceeds to assist with repairs necessary as a result of roof damage and flooding. The revenue and expense directly attributable to repairs and cleanup is recorded as an extraordinary items in the financial statements.

NOTE 13 FUTURE ACCOUNTING STANDARDS

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. Listed below are the statements which may impact future financial statements of the District.

GASB Statement No. 83, *Certain Asset Retirement Obligations*, will be effective for the District beginning with its year ending June 30, 2019. This statement addresses accounting and financial reporting for liabilities associated with the legal obligation to perform future asset retirement activities.

GASB Statement No. 84, *Fiduciary Activities*, will be effective for the District beginning with its year ending June 30, 2020. This statement establishes criteria for identifying fiduciary activities and clarifies whether and how business-type activities should report their fiduciary activities.

GASB Statement No. 86 *Certain Debt Extinguishment Issues*, will be effective for the District beginning with its year ending June 30, 2018. This statement provides guidance on accounting and financial reporting for in-substance defeasance of debt.

GASB Statement No. 87, *Leases*, will be effective for the District beginning with its year ending June 30, 2021. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT HEALTH CARE PLAN
FOR THE YEAR ENDED JUNE 30, 2017

Schedule of Changes in Net OPEB Liability and Related Ratios

	2017
Total OPEB Liability	
Service Cost	$ 33,698
Interest	36,643
Changes of assumptions	(6,172)
Benefit payments	(214,197)
Net change in total OPEB liability	(150,028)
Total OPEB Liability - beginning of year	1,207,867
Total OPEB liability - end of year	$ 1,057,839
Plan fiduciary net position	
Contributions	$ 67,169
Net investment income	15,552
Benefit payments	(214,197)
Net change in plan fiduciary net position	(131,476)
Plan fiduciary net position - beginning of year	1,308,877
Plan fiduciary net position - end of year	$ 1,177,401
Net OPEB asset - end of year	$ (119,562)
Plan fiduciary net position as a percentage of the total OPEB asset	111.30%
Covered payroll	8,170,810
Net OPEB asset as a percentage of covered payroll	-1.50%

Schedule of Investment Returns

Plan fiduciary net position	6/30/2017
Annual money-weighted rate of return, net of investment expense	1.2%

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

Schedule of Employer's Share of Net Pension Liability

TEACHER'S RETIREMENT ASSOCIATION (TRA)

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 of the Net Pension Liability Associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.0997%	$23,780,829	$2,386,816	$26,167,645	$5,184,613	458.7%	44.9%
June 30, 2015	0.0995%	$6,155,059	$754,945	$6,910,004	$5,052,493	121.8%	76.8%
June 30, 2014	0.1047%	$4,824,501	$339,502	$5,164,003	$4,777,194	101.0%	81.5%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

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 of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2016	0.0384%	$3,117,890	$40,719	$3,158,609	$2,358,325	132.2%	68.9%
June 30, 2015	0.0394%	$2,041,912	$0	$2,041,912	$2,282,428	89.5%	78.2%
June 30, 2014	0.0438%	$2,057,505	$0	$2,057,505	$2,272,857	90.5%	78.7%

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2017

Schedule of Employer's Contributions

TEACHER'S RETIREMENT ASSOCIATION (TRA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2017	$422,156	$422,156	$0	$5,628,735	7.50%
June 30, 2016	$388,846	$388,846	$0	$5,184,601	7.50%
June 30, 2015	$378,937	$378,937	$0	$5,052,493	7.50%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2017	$197,643	$197,643	$0	$2,618,975	7.50%
June 30, 2016	$178,846	$178,846	$0	$2,358,325	7.50%
June 30, 2015	$170,578	$170,578	$0	$2,282,428	7.25%

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2017

	Food Service Fund	Community Service Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Cash and temporary cash investments	$ 84,995	$ 342,095	$ 81,295	$ 508,385
Current property taxes receivable			60,704	60,704
Delinquent property taxes receivable		14	1,895	1,909
Accounts receivable	1,957	36		1,993
Due from the Minnesota Department of Education	3,425	5,665	190	9,280
Due from the federal government through the Minnesota Department of Education	4,199			4,199
Due from other governmental units		37,169		37,169
Inventory	25,677			25,677
Prepaid expenses		4,142		4,142
Total assets	$ 120,253	$ 389,121	$ 144,084	$ 653,458
Liabilities				
Salaries payable	$ 20,773	$ 24,994	$	$ 45,767
Accounts payable	134	6,004		6,138
Accrued payroll deductions	3,145	4,948		8,093
Due to other governments	3,318			3,318
Unearned revenue	12,271	3,864		16,135
Total liabilities	39,641	39,810		79,451
Deferred inflows of resources				
Delinquent property taxes		14	1,895	1,909
Property taxes levied for subsequent year's expenditures			124,969	124,969
Total deferred inflows of resources		14	126,864	126,878
Fund balances				
Nonspendable	25,677	4,142		29,819
Restricted	54,935	345,155	17,220	417,310
Total fund balances	80,612	349,297	17,220	447,129
Total liabilities, deferred inflows of resources, and fund balances	$ 120,253	$ 389,121	$ 144,084	$ 653,458

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2017

	Food Service Fund	Community Service Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
Local property tax levies	$	$ 170,054	$ 124,760	$ 294,814
Other local and county revenues		243,264		243,264
Revenue from state sources	42,260	93,438	1,905	137,603
Revenue from federal sources	412,410			412,410
Sales and other conversion of assets	257,147			257,147
Investment income	350	1,472	355	2,177
Total revenues	712,167	508,228	127,020	1,347,415
Expenditures				
Current				
Community education and services		458,216		458,216
Pupil support services	718,978			718,978
Debt service				
Principal			110,000	110,000
Interest and other fiscal costs			11,475	11,475
Capital outlay	7,064	5,100		12,164
Total expenditures	726,042	463,316	121,475	1,310,833
Net change in fund balances	(13,875)	44,912	5,545	36,582
Fund balances, beginning	94,487	304,385	11,675	410,547
Fund balances, ending	$ 80,612	$ 349,297	$ 17,220	$ 447,129

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

FISCAL COMPLIANCE TABLE FOR THE YEAR ENDED JUNE 30, 2017

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total revenues	$ 12,981,837	$ 12,981,843	$ (6)
Total expenditures	15,125,417	15,125,416	1
Non spendable			
460 Non spendable fund balance	238,407	238,407	
Restricted/Reserve			
403 Staff development	296,272	296,272	
405 Deferred maintenance			
406 Health and safety	(17,832)	(17,832)	
407 Capital Projects Levy			
408 Cooperative revenue			
411 Severance pay			
413 Project funded by COP			
414 Operating debt			
416 Levy reduction			
417 Taconite building maintenance			
423 Certain teacher programs			
424 Operating capital	6,401	6,401	
426 $25 Taconite			
427 Disabled accessibility			
428 Learning and development			
434 Area learning center			
435 Contracted alt. Programs			
436 St. approved alt. Program			
438 Gifted & talented	23,063	23,063	
440 Teacher development and evaluation	27,482	27,482	
441 Basic skills program	14,088	14,088	
445 Career and technical Programs			
446 First Grade Preparedness			
449 Safe schools levy			
450 Prekindergarten			
451 QZAB payments			
452 OPEB liability not in trust			
453 Unfunded sev & retirement levy			
467 LTFM	(34,848)	(34,848)	
Restricted			
464 Restricted fund balance			
Committed			
418 Committed for separation			
461 Committed fund balance			
Assigned			
462 Assigned fund balance	1,433,616	1,433,616	
Unassigned			
422 Unassigned fund balance	3,176,559	3,176,562	(3)
02 FOOD SERVICE			
Total revenues	712,167	712,166	1
Total expenditures	726,042	726,042	
Non spendable			
460 Non spendable fund balance	25,677	25,677	
Restricted			
452 OPEB liability not in trust			
464 Restricted fund balance	54,935	54,935	
Unassigned			
463 Unassigned fund balance			
04 COMMUNITY SERVICE			
Total revenues	508,228	508,228	
Total expenditures	463,316	463,316	
Non spendable			
460 Non spendable fund balance	4,142	4,142	
Restricted/Reserve			
426 $25 taconite	97,215	97,215	
431 Community education	53,699	53,699	
432 ECFE	112,443	112,443	
444 School readiness	52,717	52,717	
447 Adult Basic Education			
452 OPEB liability not in trust			
Restricted			
464 Restricted fund balance	29,081	29,081	
Unassigned			
463 Unassigned fund balance			

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total revenues	$		$
Total expenditures			
Non spendable			
460 Non spendable fund balance			
Restricted/Reserve			
407 Down payment levy			
409 Alternative facility program			
413 Projects funded by COP			
Restricted			
464 Restricted fund balance			
Unassigned			
463 Unassigned fund balance			
07 DEBT SERVICE			
Total revenues	127,020	127,020	
Total expenditures	121,475	121,475	
Non spendable			
460 Non spendable fund balance			
Restricted/Reserve			
425 Bond refundings			
451 QZAB payments			
Restricted			
464 Restricted fund balance	17,220	17,220	
Unassigned			
463 Unassigned fund balance			
08 TRUST			
Total revenues	13,369	13,369	
Total expenditures	14,961	14,961	
422 Net assets	852,709	852,709	
20 INTERNAL SERVICE			
Total revenues	57,817	57,816	1
Total expenditures	110,546	110,546	
422 Net assets	55,369	55,368	1
25 OPEB REVOCABLE TRUST FUND			
Total revenues			
Total expenditures			
422 Net assets			
45 OPEB IRREVOCABLE TRUST FUND			
Total revenues	62,250	62,250	
Total expenditures	193,726	193,726	
422 Net assets	1,177,401	1,177,400	1
47 OPEB DEBT SERVICE FUND			
Total revenues			
Total expenditures			
Non spendable			
460 Non spendable fund balance			
Restricted			
425 Bond refundings			
464 Restricted fund balance			
Unassigned			
463 Unassigned fund balance			

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed-through Minnesota Department of Education			
Child Nutrition Cluster			
National School Breakfast Program	10.553	None provided	$ 75,985
Non-cash assistance - commodities	10.555	None provided	63,220
Commodities Cash Rebate Program	10.555	None provided	105
National School Lunch Program	10.555	None provided	261,180
Special Milk Program for Children	10.556	None provided	445
Summer Food Service Program for Children	10.559	None provided	11,475
Total U.S. Department of Agriculture - Child Nutrition Cluster			412,410
U.S. DEPARTMENT OF EDUCATION			
Passed-through Minnesota Department of Education			
Title I, Part A	84.010	None provided	229,074
Title II, Part A	84.367	None provided	54,938
Passed-through Independent School District No. 181			
Special Education Cluster			
IDEA, Part B	84.027	None provided	44,457
Passed-through Freshwater Education District			
Carl Perkins Vocational and Applied Technology	84.048	None provided	8,428
Total U.S. Department of Education			336,897
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed-through Minnesota Department of Health and Human Services			
Medicaid Cluster			
Medical Assistance	93.778	None provided	55,145
Total expenditures of Federal awards			$ 804,452

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 0001 under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal* Awards (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Independent School District No. 0001, it is not intended to and does not present the financial position, changes in net position, or cash flows of Independent School District No. 0001.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Independent School District No. 0001 has not elected to use the 10 percent de minimus indirect costs rate as allowed under Uniform Guidance.

NOTE 3 SUBRECIPIENTS

Independent School District No. 0001 does not have subrecipients or subrecipient expenditures.

WIPFLi

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

To the School Board
Independent School District No. 0001
Aitkin, Minnesota

We have audited, in accordance with the auditing standards general accepted in the United States 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. 0001 (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 28, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Wipfli LLP

Wipfli LLP

November 28, 2017
Duluth, Minnesota

WIPFLi

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance

To the School Board
Independent School District No. 0001
Aitkin, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 0001, Aitkin, Minnesota's (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2017. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for Compliance

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

November 28, 2017
Duluth, Minnesota

WIPFLI

Independent Auditor's Report on Legal Compliance for the State of Minnesota

To the School Board
Independent School District No. 0001
Aitkin, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States 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. 0001, Aitkin, Minnesota (District), 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 28, 2017.

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

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

Wipfli LLP
Wipfli LLP

November 28, 2017
Duluth, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	**Unmodified**			
Internal control over financial reporting:				
Material weakness identified?	______	Yes	X	No
Significant deficiency(s) identified?	______	Yes	X	None reported
Noncompliance material to the financial statements	______	Yes	X	No

Federal Awards

Internal control over major programs:				
Material weakness identified?	______	Yes	X	No
Significant deficiency(s) identified?	______	Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	**Unmodified**			
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance [2 CFR 200.516(a)]?	______	Yes	X	No

Identification of major federal program

CFDA Number	Name of Federal Program or Cluster
10.553, 10.555, 10.556, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000			
Auditee qualified as a low-risk auditee?	______	Yes	X	No

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017
(Continued)

Section II - Financial Statement Findings

None.

Section III - Federal Major Program Findings

None.

Section IV - Minnesota Legal Compliance Findings

None.

INDEPENDENT SCHOOL DISTRICT NO. 0001
AITKIN, MINNESOTA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2017

Financial Statement Findings

2016-001 - Bank Reconciliations (Significant Deficiency) - This finding was not repeated in fiscal 2017.

2016-002 - SERVS Financial Reports (Significant Deficiency) - This finding was not repeated in fiscal 2017.

APPENDIX B

FORM OF LEGAL OPINION

(See following page)

KNUTSON, FLYNN & DEANS, P.A.
1155 Centre Pointe Drive, Suite 10
Mendota Heights, MN 55120
651.222.2811 fax 651.225.0600
www.kfdmn.com

$3,065,000*
GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2018A
INDEPENDENT SCHOOL DISTRICT NO. 1
(AITKIN PUBLIC SCHOOLS)
AITKIN AND CROW WING COUNTIES, MINNESOTA

We have acted as Bond Counsel in connection with the issuance by Independent School District No. 1 (Aitkin Public Schools), Aitkin and Crow Wing Counties, Minnesota (the "District"), of its General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds"), in the aggregate principal amount of $3,065,000*, bearing a date of original issue of May 10, 2018. The Bonds are fully registered as to principal and interest and are originally issued using a global book-entry system.

We have not been engaged or undertaken to review the accuracy, completeness, or sufficiency of the Official Statement or other offering material relating to the Bonds (except to the extent, if any, stated in the Official Statement) and we express no opinion relating thereto (excepting only the matters set forth as our opinion in the Official Statement).

We have examined the law and such certified proceedings and other documents as we have deemed necessary to render this opinion. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other affidavits and certificates of public officials furnished to us without undertaking to verify such facts by independent investigation.

Based upon our examination of these materials, assuming the authenticity of all documents submitted to us as originals, the conformity to original documents of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such documents, and based upon present Minnesota and federal laws, regulations, rulings and decisions, it is our opinion that:

(1) The Bonds are in due form and the proceedings show lawful authority for their issuance according to their terms under the Constitution and laws of the State of Minnesota now in force, including specifically Minnesota Statutes, Section 123B.595.

(2) The Bonds are valid and binding general obligations of the District enforceable in accordance with their terms except to the extent to which enforceability thereof may be limited by the exercise of judicial discretion in accordance with general principles of equity, by the constitutional powers of the United States of America and by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted. All of the taxable property in the District is subject to the levy of ad valorem taxes to pay the principal and interest on the Bonds, which taxes are without limitation as to rate or amount.

(3) Interest on the Bonds is not includable in gross income for federal income tax purposes or in taxable net income of individuals, estates or trusts for Minnesota income tax purposes. Interest on the Bonds is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax measured by income. Interest on the Bonds is not an item of tax preference required to be included in the computation of "alternative minimum taxable income" for purposes of the federal alternative minimum tax applicable to individuals and other taxpayers under Section 55 of the Internal Revenue Code of 1986, as amended, (the "Code") or for purposes of the Minnesota alternative minimum tax applicable to individuals, trusts and estates. Interest on the Bonds is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal and Minnesota alternative minimum taxes applicable to corporations.

(4) The opinion set forth in Paragraph (3) above is subject to the condition that the District comply with all the requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal and state income tax purposes. The District has covenanted in the resolution authorizing the issuance of the Bonds to comply with these continuing requirements. Noncompliance with these covenants by the District following the issuance of the Bonds may result in inclusion of interest on the Bonds in federal gross income and Minnesota taxable net income for federal and Minnesota income tax purposes retroactive to the date of issuance of the Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences caused by the receipt or accrual of interest on or arising with respect to ownership of the Bonds.

(5) The Bonds have been designated as "qualified tax-exempt obligations" for the purposes of Section 265 of the Code relating to the deduction of interest expenses allocable to the Bonds by financial institutions.

DATED at Mendota Heights, Minnesota, this 10th day of May, 2018.

KNUTSON, FLYNN & DEANS
Professional Association

APPENDIX C

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]

2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.

4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]

6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.

10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.

11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.

12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

CONTINUING DISCLOSURE CERTIFICATE
(Limited Disclosure)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 1 (Aitkin Public Schools), State of Minnesota (the "District"), in connection with the issuance of its General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the School Board on April 16, 2018 (the "Resolution"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (the "State Payment Law" described in the Official Statement for the Bonds) which provides for payment by the State of Minnesota in the event of a potential default of a District obligation. The District covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Bondholders or beneficial owners, if different, and in order to assist the Participating Underwriters in complying with SEC Rule 15c2-12. This Disclosure Certificate constitutes the written Undertaking required by the Rule and reflects the District's obligations under the provisions of paragraph (d)(2) of the Rule.

SECTION 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Audited Financial Statements" shall mean the financial statements of the District audited annually by an independent certified public accounting firm and prepared in accordance with generally accepted accounting principles or as otherwise required by Minnesota law for the preceding Fiscal Year, including a balance sheet and statement of revenues, expenditures and changes in fund balances.

"Dissemination Agent" shall mean the District, or any successor Dissemination Agent which has been designated in writing by the District and which has filed with the District a written acceptance of such designation.

"EMMA" shall mean the Electronic Municipal Market Access system: www.emma.msrb.org, established by the MSRB and which contains a component that includes a continuing disclosure service for the receipt and public availability of continuing disclosure documents and related information to be submitted by issuers, obligated persons, and their agents pursuant to continuing disclosure undertakings entered into consistent with the Rule.

"Fiscal Year" shall mean the fiscal year of the District.

"Listed Events" shall mean any of the events listed in Section 4(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with the offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission (the “SEC”) under the Securities Exchange Act of 1934, as the same may be amended from time to time, and including written interpretations thereof by the Securities and Exchange Commission.

SECTION 3. Provision of Information.

The District shall annually provide to the MSRB, in an electronic format through the use of EMMA, or shall cause the Dissemination Agent to provide its Audited Financial Statements for the most recent Fiscal Year, which is the only financial information or operating data which is customarily prepared by the District and publicly available. The Annual Financial Statements shall be submitted not later than June 30, 2019, and twelve (12) months after the end of each fiscal year during which the bonds are outstanding.

All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the District or related public entities, which have been submitted to the MSRB or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must also be available from the Municipal Securities Rulemaking Board (MSRB). The District shall clearly identify each such other document so incorporated by reference.

SECTION 4. Reporting of Significant Events.

(a) This Section 4 shall govern the giving of notices of the occurrence of any of the following events, with respect to the Bonds:

1. Principal and interest payment delinquencies;

2. Non-payment related defaults, if material;

3. Unscheduled draws on debt service reserves reflecting financial difficulties;

4. Unscheduled draws on credit enhancements reflecting financial difficulties;

5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. Modifications to rights of security holders, if material;

8. Bond calls, if material, and tender offers;

9. Defeasances;

10. Release, substitution, or sale of property securing repayment of the securities, if material;

11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the obligated person;

13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material;

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

(b) Whenever a Listed Event occurs, the District shall in a timely manner not in excess of ten business days after the occurrence of the Listed Event file a notice of such occurrence with the MSRB.

SECTION 5. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all the Bonds.

SECTION 6. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision of this Disclosure Certificate may be waived, if such amendment or waiver is supported by an opinion of counsel expert in federal securities laws, to the effect that such amendment or waiver would not, in and of itself, cause the undertakings herein to violate the Rule if such amendment or waiver had been effective on the date hereof but taking into account any subsequent change in or official interpretation of the Rule.

If this Disclosure Certificate is amended, the District will disclose such amendment, together with a narrative explanation of that amendment, to the MSRB with its annual financial information disclosure.

SECTION 8. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate . If the District chooses to include any information in any report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Disclosure Certificate to update such information or include it in any future report or notice of occurrence of a Listed Event.

SECTION 9. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Bondholder or beneficial owner may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Resolution or with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

SECTION 10. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees, to the extent permitted by law, to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorney's fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 11. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders from time to time of the Bonds or the beneficial owners, if different, and shall create no rights in any other person or entity.

SECTION 12. Reserved Rights. The District reserves the right to discontinue providing any information required under the Rule if a final determination should be made by a court of competent jurisdiction that the Rule is invalid or otherwise unlawful or to modify the Undertaking under this Disclosure Certificate if the District determines that such modification is required by the Rule, or by a court of competent jurisdiction.

SECTION 14. District Contact Information.

Title:	Superintendent
Name of District:	Independent School District No. 1 (Aitkin Public Schools)
Address:	306 2^{nd} St NW
	Aitkin, MN 56431
Telephone No.	(218) 927-2115

Dated as of this 10th day of May, 2018.

INDEPENDENT SCHOOL DISTRICT NO. 1
(AITKIN PUBLIC SCHOOLS)
AITKIN, MINNESOTA

By: ____
Chair

And: ____
Clerk

[Signature Page for Continuing Disclosure Certificate]

APPENDIX E

TERMS OF PROPOSAL

$3,065,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2018A INDEPENDENT SCHOOL DISTRICT NO. 1 (AITKIN PUBLIC SCHOOLS), MINNESOTA

Proposals for the purchase of $3,065,000* General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds") of Independent School District No. 1 (Aitkin Public Schools), Minnesota (the "District") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the District, until 10:30 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:30 A.M. Central Time, on April 16, 2018, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Education for consideration for award by resolution at a meeting to be held at 7:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

The Bonds are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 123B.595 (long-term facilities maintenance revenue) by the District to provide funds for facility maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged.

DATES AND MATURITIES

The Bonds will be dated May 10, 2018, will be issued as fully registered Bonds in the denomination of $5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2019	$190,000	2024	$185,000	2029	$220,000
2020	165,000	2025	195,000	2030	230,000
2021	170,000	2026	200,000	2031	235,000
2022	175,000	2027	210,000	2032	245,000
2023	180,000	2028	215,000	2033	250,000

ADJUSTMENT OPTION

* The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

TERM BOND OPTION

Proposals for the Bonds may contain a maturity schedule providing for any combination of serial bonds and term bonds, subject to mandatory redemption, so long as the amount of principal maturing or subject to mandatory redemption in each year conforms to the maturity schedule set forth above. All dates are inclusive.

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2019 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

Unless otherwise specified by the purchaser, the Bonds will be designated in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds, and will be responsible for maintaining a book-entry system for recording the interests of its participants and the transfers of interests between its participants. The participants will be responsible for maintaining records regarding the beneficial interests of the individual purchasers of the Bonds. So long as Cede & Co. is the registered owner of the Bonds, all payments of principal and interest will be made to the depository which, in turn, will be obligated to remit such payments to its participants for subsequent disbursement to the beneficial owners of the Bonds.

PAYING AGENT

The District has selected Bond Trust Services Corporation, Roseville, Minnesota, to act as paying agent (the "Paying Agent"). Bond Trust Services Corporation and Ehlers are affiliate companies. The District will pay the charges for Paying Agent services. The District reserves the right to remove the Paying Agent and to appoint a successor.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 2027 shall be subject to optional redemption prior to maturity on February 1, 2026 and on any date thereafter, at a price of par plus accrued interest.

Redemption may be in whole or in part of the Bonds subject to prepayment. If redemption is in part, the selection of the amounts and maturities of the Bonds to be redeemed shall be at the discretion of the District. If only part of the Bonds having a common maturity date are called for redemption, then the District or Paying Agent, if any, will notify DTC of the particular amount of such maturity to be redeemed. DTC will determine by lot the amount of each participant's interest in such maturity to be redeemed and each participant will then select by lot the beneficial ownership interest in such maturity to be redeemed.

Notice of redemption shall be sent by mail not more than 60 days and not less than 30 days prior to the date fixed for redemption to the registered owner of each Bond to be redeemed at the address shown on the registration books.

DELIVERY

On or about May 10, 2018, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

An opinion as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

SUBMISSION OF PROPOSALS

Proposals must not be for less than $3,034,350 plus accrued interest on the principal sum of $3,065,000 from date of original issue of the Bonds to date of delivery. Prior to the time established above for the opening of proposals, interested parties may submit a proposal as follows:

1) Electronically to bondsale@ehlers-inc.com; or

2) Facsimile submission to Ehlers, Facsimile Number (651) 697-8555; or

3) Electronically via **PARITY** in accordance with this Terms of Proposal until 10:30 A.M. Central Time, but no proposal will be received after the time for receiving proposals specified above. To the extent any instructions or directions set forth in **PARITY** conflict with this Terms of Proposal, the terms of this Terms of Proposal shall control. For further information about **PARITY**, potential bidders may contact Ehlers or i-Deal LLC at 1359 Broadway, 2nd Floor, New York, New York 10018, Telephone (212) 849-5021.

Proposals must be submitted to Ehlers via one of the methods described above and must be received prior to the time established above for the opening of proposals. Each proposal must be unconditional except as to legality. Neither the District nor Ehlers shall be responsible for any failure to receive a facsimile submission.

A good faith deposit ("Deposit") in the amount of $61,300 shall be made by the winning bidder by wire transfer of funds to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138**. Such Deposit shall be received by Ehlers no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received by such time. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. The Deposit will be retained by the District as liquidated damages if the proposal is accepted and the Purchaser fails to comply therewith.

The District and the winning bidder who chooses to so wire the Deposit hereby agree irrevocably that Ehlers shall be the escrow holder of the Deposit wired to such account subject only to these conditions and duties: 1) All income earned thereon shall be retained by the escrow holder as payment for its expenses; 2) If the proposal is not accepted, Ehlers shall, at its expense, promptly return the Deposit amount to the winning bidder; 3) If the proposal is accepted, the Deposit shall be returned to the winning bidder at the closing; 4) Ehlers shall bear all costs of maintaining the escrow account and returning the funds to the winning bidder; 5) Ehlers shall not be an insurer of the Deposit amount and shall have no liability hereunder except if it willfully fails to perform or recklessly disregards, its duties specified herein; and 6) FDIC insurance on deposits within the escrow account shall be limited to $250,000 per bidder.

No proposal can be withdrawn after the time set for receiving proposals unless the meeting of the District scheduled for award of the Bonds is adjourned, recessed, or continued to another date without award of the Bonds having been made.

AWARD

The Bonds will be awarded to the bidder offering the lowest interest rate to be determined on a True Interest Cost (TIC) basis. The District's computation of the interest rate of each proposal, in accordance with customary practice, will be controlling. In the event of a tie, the sale of the Bonds will be awarded by lot. The District reserves the right to reject any and all proposals and to waive any informality in any proposal.

BOND INSURANCE

If the Bonds are qualified for any bond insurance policy, the purchase of such policy shall be at the sole option and expense of the winning bidder. Any cost for such insurance policy is to be paid by the winning bidder, except that, if the District requested and received a rating on the Bonds from a rating agency, the District will pay that rating fee. Any rating agency fees not requested by the District are the responsibility of the winning bidder.

Failure of the municipal bond insurer to issue the policy after the Bonds are awarded to the winning bidder shall not constitute cause for failure or refusal by the winning bidder to accept delivery of the Bonds.

CUSIP NUMBERS

The District will assume no obligation for the assignment or printing of CUSIP numbers on the Bonds or for the correctness of any numbers printed thereon, but will permit such numbers to be printed at the expense of the winning bidder, if the winning bidder waives any delay in delivery occasioned thereby.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The District will designate the Bonds as qualified tax-exempt obligations for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with the provisions of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 the District will enter into an undertaking for the benefit of the holders of the Bonds. A description of the details and terms of the undertaking is set forth in Appendix D of the Preliminary Official Statement.

NEW ISSUE PRICING

The winning bidder will be required to provide, in a timely manner, certain information necessary to compute the yield on the Bonds pursuant to the provisions of the Internal Revenue Code of 1986, as amended, and to provide a certificate which will be provided by Bond Counsel upon request.

(a) The winning bidder shall assist the District in establishing the issue price of the Bonds and shall execute and deliver to the District at closing an "issue price" or similar certificate satisfactory to Bond Counsel setting forth the reasonably expected initial offering price to the public or the sales price or prices of the Bonds, together with the supporting pricing wires or equivalent communications. All actions to be taken by the District under this Terms of Proposal to establish the issue price of the Bonds may be taken on behalf of the District by the District's municipal advisor identified herein and any notice or report to be provided to the District may be provided to the District's municipal advisor.

(b) The District intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Bonds) will apply to the initial sale of the Bonds (the "competitive sale requirements") because:

(1) The District shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;

(2) all bidders shall have an equal opportunity to bid;

(3) the District may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and

(4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

Any proposal submitted pursuant to this Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, as specified in this proposal.

(c) If all of the requirements of a "competitive sale" are not satisfied, the District shall advise the winning bidder of such fact prior to the time of award of the sale of the Bonds to the Underwriter. In such event, any proposal submitted will not be subject to cancellation or withdrawal and the District agrees to use the rule selected by the Underwriter on its proposal form to determine the issue price for the Bonds. On its proposal form, each Underwriter must select one of the following two rules for determining the issue price of the Bonds: (1) the first price at which 10% of a maturity of the Bonds (the "10% test") is sold to the public as the issue price of that maturity or (2) the initial offering price to the public as of the sale date as the issue price of each maturity of the Bonds (the "hold-the-offering-price rule").

(d) <u>If all of the requirements of a "competitive sale" are not satisifed and the Underwriter selects the hold-the-offering-price rule</u>, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Bonds to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the proposal submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Bonds, that the underwriters will neither offer nor sell unsold Bonds of any maturity to which the hold-the-offering-price rule shall apply to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

(1) the close of the fifth (5^{th}) business day after the sale date; or
(2) the date on which the underwriters have sold at least 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the District when the underwriters have sold 10% of that maturity of the Bonds to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5^{th}) business day after the sale date.

The District acknowledges that in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The District further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

(e) <u>If all of the requirements of a "competitive sale" are not satisfied and the Underwriter selects the 10% test</u>, the Underwriter agrees to promptly report to the District, Bond Counsel and Ehlers the prices at which the Bonds have been sold to the public. That reporting obligation shall continue, whether or not the closing date has occurred, until the 10% test has been satisfied as to each maturity of the Bonds or until all of the Bonds of a certain maturity have been sold.

(f) By submitting a proposal, each bidder confirms that (i) any agreement among underwriters, any selling group agreement and each retail distribution agreement (to which the bidder is a party) relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is party to such retail distribution agreement, as applicable, to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Bonds to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail distribution agreement to be employed in connection with the initial sale of the Bonds to the public to require each broker-dealer that is a party to such retail distribution agreement to (A) report the prices at which it sells to the public the unsold Bonds of each maturity allotted to it until it is notified by the winning bidder or such underwriter that either the 10% test has been satisfied as to the Bonds of that maturity or all Bonds of that maturity have been sold to the public, and (B) comply with the hold-the-offering-price rule, if applicable, in each case if an for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.

(g) Sales of any Bonds to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Terms of Proposal. Further, for purposes of this Terms of Proposal:

(i) "public" means any person other than an underwriter or a related party,

(ii) "underwriter" means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),

(iii) a purchaser of any of the Bonds is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and

(iv) "sale date" means the date that the Bonds are awarded by the District to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

Bidders may obtain a copy of the Preliminary Official Statement relating to the Bonds prior to the proposal opening by request from Ehlers at www.ehlers-inc.com by connecting to the Bond Sales link. The Syndicate Manager will be provided with an electronic copy of the Final Official Statement within seven business days of the proposal acceptance. Up to 10 printed copies of the Final Official Statement will be provided upon request. Additional copies of the Final Official Statement will be available at a cost of $10.00 per copy.

Information for bidders and proposal forms may be obtained from Ehlers at 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Telephone (651) 697-8500.

By Order of the Board of Education

Independent School District No. 1
(Aitkin Public Schools), Minnesota

PROPOSAL FORM

The Board of Education **April 16, 2018**
Independent School District No. 1 (Aitkin Public Schools), Minnesota

RE: $3,065,000* General Obligation Facilities Maintenance Bonds, Series 2018A
DATED: May 10, 2018

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you $__________________ (not less than $3,034,350) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

________	% due	2019	________	% due	2024	________	% due	2029
________	% due	2020	________	% due	2025	________	% due	2030
________	% due	2021	________	% due	2026	________	% due	2031
________	% due	2022	________	% due	2027	________	% due	2032
________	% due	2023	________	% due	2028	________	% due	2033

* The District reserves the right to increase or decrease the principal amount of the Bonds on the day of sale, in increments of $5,000 each. Increases or decreases may be made in any maturity. If any principal amounts are adjusted, the purchase price proposed will be adjusted to maintain the same gross spread per $1,000.

The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2019 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.) All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

We enclose our Deposit in the amount of $61,300, to be held by you pending delivery and payment. Alternatively, if we are the winning bidder, we will wire our Deposit to **KleinBank, 1550 Audubon Road, Chaska, Minnesota, ABA No. 091915654 for credit: Ehlers & Associates Good Faith Account No. 3208138.** Such Deposit shall be received by Ehlers & Associates no later than two hours after the proposal opening time. The District reserves the right to award the Bonds to a winning bidder whose wire transfer is initiated but not received by such time provided that such winning bidder's federal wire reference number has been received. In the event the Deposit is not received as provided above, the District may award the Bonds to the bidder submitting the next best proposal provided such bidder agrees to such award. If our proposal is not accepted, said deposit shall be promptly returned to us. If the Deposit is wired to such escrow account, we agree to the conditions and duties of Ehlers & Associates, Inc., as escrow holder of the Deposit, pursuant to the Terms of Proposal. This proposal is for prompt acceptance and is conditional upon delivery of said Bonds to The Depository Trust Company, New York, New York, in accordance with the Terms of Proposal. Delivery is anticipated to be on or about May 10, 2018.

This proposal is subject to the District's agreement to enter into a written undertaking to provide continuing disclosure under Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934 as described in the Preliminary Official Statement for this Issue.

We have received and reviewed the Official Statement and have submitted our requests for additional information or corrections to the Final Official Statement. As Syndicate Manager, we agree to provide the District with the reoffering price of the Bonds within 24 hours of the proposal acceptance.

This proposal is a firm offer for the purchase of the Bonds identified in the Terms of Proposal, on the terms set forth in this proposal form and the Terms of Proposal, and is not subject to any conditions, except as permitted by the Terms of Proposal.

By submitting this proposal, we confirm that we are an Underwriter and have an established industry reputation for underwriting new issuances of municipal bonds. YES: ____ NO: ____.

If the competitive sale requirements are not met, we elect to use the (circle one): 10% test / hold-the-offering-price rule to determine the issue price of the Bonds.

Account Manager: ______________________________ By: ______________________________
Account Members:

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from May 10, 2018 of the above proposal is $_______________and the true interest cost (TIC) is __________%.

The foregoing offer is hereby accepted by and on behalf of the Board of Education of Independent School District No. 1 (Aitkin Public Schools), Minnesota, on April 16, 2018.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________