PRELIMINARY OFFICIAL STATEMENT DATED NOVEMBER 30, 2017

In the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and assuming compliance with certain requirements of the Internal Revenue Code of 1986, as amended, (the "Code"), and certain covenants, interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes, and is not an item of tax preference for federal or Minnesota alternative minimum tax purposes. Such interest is included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions and in adjusted current earnings of corporations for federal alternative minimum tax purposes. The Bonds will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. See "TAX EXEMPTION" and "RELATED TAX CONSIDERATIONS".

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 a portion of the interest expense that is allocable to carrying and acquiring tax-exempt obligations. Sections 265(a)(2) and 291 of the Code impose additional limitations on the deductibility of such interest expense.

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

INDEPENDENT SCHOOL DISTRICT NO. 727 (BIG LAKE), MINNESOTA
(Sherburne County)

(Minnesota School District Credit Enhancement Program)

$4,000,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2017B

PROPOSAL OPENING: December 14, 2017, 10:00 A.M., C.T. **CONSIDERATION**: December 14, 2017, 6:30 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The $4,000,000* General Obligation Facilities Maintenance Bonds, Series 2017B (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. 727 (Big Lake), 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 Dorsey & Whitney LLP, Minneapolis, Minnesota.

DATE OF BONDS: December 28, 2017

MATURITY: February 1 as follows:

Year	Amount*	Year	Amount*	Year	Amount*
2019	$70,000	2024	$165,000	2029	$245,000
2020	105,000	2025	200,000	2030	255,000
2021	125,000	2026	235,000	2031	265,000
2022	135,000	2027	275,000	2032	705,000
2023	175,000	2028	315,000	2033	730,000

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: August 1, 2018 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 2028 and thereafter are subject to call for prior redemption on February 1, 2027 and any date thereafter, at a price of par plus accrued interest.

MINIMUM PROPOSAL: $3,960,000.

GOOD FAITH DEPOSIT: A cashier's check in the amount of $80,000 may be submitted contemporaneously with the proposal or, alternatively, a good faith deposit shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation, Roseville, Minnesota.

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
Mark Hedstrom	Chairperson	January 2021
Tonya Reasoner	Clerk	January 2019
Amber Sixberry	Treasurer	January 2021
Tim Hayes	Director	January 2019
Dan Nygaard	Director	January 2019
Tony Scales	Director	January 2021

ADMINISTRATION

Steve Westerberg, Superintendent of Schools
Angie Manuel, Director of Business Services

PROFESSIONAL SERVICES

Dorsey & Whitney LLP, Bond Counsel, Minneapolis, 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. 727 (Big Lake), Minnesota (the "District") and the issuance of its $4,000,000* General Obligation Facilities Maintenance Bonds, Series 2017B (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 December 14, 2017.

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 December 28, 2017. 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 August 1, 2018, 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"). 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, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 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 of Bonds	$4,000,000	
	Estimated Premium	94,252	
	Total Sources		**$4,094,252**
Uses			
	Project Costs	$4,010,502	
	Estimated Discount	40,000	
	Finance Related Expenses	43,750	
	Total Uses		**$4,094,252**

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, Inc. ("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 currently has a "A1" underlying rating from Moody's and will be requesting an underlying rating on this issue. 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 November 16, 2017 (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.

In the previous five years, the District believes it has not failed to comply in all material respects with its prior undertakings under the Rule.

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 in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP, Minneapolis, Minnesota, bond counsel to the District.

TAX EXEMPTION AND RELATED TAX CONSIDERATIONS

The following discussion is not intended to be an exhaustive discussion of collateral tax consequences arising from ownership or disposition of the Bonds or receipt of interest on the Bonds. Prospective purchasers should consult their tax advisors with respect to collateral tax consequences, including, without limitation, the determination of gain or loss on the sale of a Bond, the calculation of alternative minimum tax liability, the inclusion of Social Security or other retirement payments in taxable income, the disallowance of deductions for certain expenses attributable to the Bonds, and applicable state and local tax rules in states other than Minnesota. The form of the approving opinion of Dorsey & Whitney LLP, Bond Counsel, is attached as Appendix B hereto.

Tax Exemption

It is the opinion of Dorsey & Whitney LLP, Minneapolis, Minnesota, Bond Counsel, based on present federal and Minnesota laws, regulations, rulings and decisions, and on certifications to be furnished at closing, and assuming compliance by the District with certain covenants (the "Tax Covenants"), that interest to be paid on the Bonds is excluded from gross income for federal income tax purposes and from taxable net income of individuals, estates, and trusts for Minnesota income tax purposes. Such interest is, however, included in taxable income for purposes of the Minnesota franchise tax on corporations and financial institutions.

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 that interest on the Bonds be and remain excludable from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. These requirements include, but are not limited to, provisions regarding the use of Bond proceeds and the facilities financed or refinanced with such proceeds; restrictions on the investment of Bond proceeds and other amounts; and provisions requiring that certain investment earnings be rebated periodically to the federal government. Noncompliance with such requirements of the Code may cause interest on the Bonds to be includable in federal gross income or in Minnesota taxable net income retroactively to their date of issue. Compliance with the Tax Covenants will satisfy the current requirements of the Code with respect to exclusion of interest on the Bonds from federal gross income and from Minnesota taxable net income of individuals, estates, and trusts. 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 same becomes includable in federal gross income or in Minnesota taxable net income.

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 a portion of the interest expense that is allocable to carrying and acquiring tax-exempt obligations. Sections 265(a)(2) and 291 of the Code impose additional limitations on the deductibility of such interest expense.

Original Issue Discount

Certain maturities of the Bonds may be issued at a discount from the principal amount payable on such Bonds at maturity (collectively, the "Discount Bonds"). The difference between the price at which a substantial amount of the Discount Bonds of a given maturity is first sold to the public (the "Issue Price") and the principal amount payable at maturity constitutes "original issue discount" under the Code. The amount of original issue discount that accrues to a holder of a Discount Bond under section 1288 of the Code is excluded from federal gross income and from

Minnesota taxable net income of individuals, estates, and trusts to the same extent that stated interest on such Discount Bond would be so excluded. The amount of the original issue discount that accrues with respect to a Discount Bond under section 1288 is added to the owner's federal and Minnesota tax basis in determining gain or loss upon disposition of such Discount Bond (whether by sale, exchange, redemption or payment at maturity). Original issue discount is taxable under the Minnesota franchise tax on corporations and financial institutions.

Interest in the form of original issue discount accrues under section 1288 pursuant to a constant yield method that reflects semiannual compounding on dates that are determined by reference to the maturity date of the Discount Bond. The amount of original issue discount that accrues for any particular semiannual accrual period generally is equal to the excess of (1) the product of (a) one-half of the yield on such Bonds (adjusted as necessary for an initial short period) and (b) the adjusted issue price of such Bonds, over (2) the amount of stated interest actually payable. For purposes of the preceding sentence, the adjusted issue price is determined by adding to the Issue Price for such Bonds the original issue discount that is treated as having accrued during all prior semiannual accrual periods. If a Discount Bond is sold or otherwise disposed of between semiannual compounding dates, then the original issue discount that would have accrued for that semiannual accrual period for federal income tax purposes is allocated ratably to the days in such accrual period.

If a Discount Bond is purchased for a cost that exceeds the sum of the Issue Price plus accrued interest and accrued original issue discount, the amount of original issue discount that is deemed to accrue thereafter to the purchaser is reduced by an amount that reflects amortization of such excess over the remaining term of such Bond. If such excess is greater than the amount of remaining original issue discount, the basis reduction rules in the Code for amortizable Bond premium might result in taxable gain upon sale, redemption or maturity of the Bonds, even if the Bonds are sold, redeemed or retired for an amount equal to or less than their cost.

Except for the Minnesota rules described above, no opinion is expressed as to state and local income tax treatment of original issue discount. It is possible under certain state and local income tax laws that original issue discount on a Discount Bond may be taxable in the year of accrual, and may be deemed to accrue differently than under federal law.

Holders of Discount Bonds should consult their tax advisors with respect to the computation and accrual of original issue discount and with respect to the other federal, state and local tax consequences associated with the purchase, ownership, redemption, sale or other disposition of Discount Bonds.

Bond Premium

Certain maturities of the Bonds may be issued at a premium to the principal amount payable at maturity. Except in the case of dealers, which are subject to special rules, Bondholders who acquire Bonds at a premium, even Bonds that were not initially offered at a premium, must, from time to time, reduce their federal and Minnesota tax bases for the Bonds for purposes of determining gain or loss on the sale or payment of such Bonds. Premium generally is amortized for federal and Minnesota income and franchise tax purposes on the basis of a Bondholder's constant yield to maturity or to certain call dates with semiannual compounding. Accordingly, Bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds, even if such Bonds are sold for an amount equal to or less than their original cost. Amortized premium is not deductible for federal or Minnesota income tax purposes. Bondholders who acquire Bonds at a premium should consult their tax advisors concerning the calculation of Bond premium and the timing and rate of premium amortization, as well as the state and local tax consequences of owning and selling Bonds acquired at a premium.

Related Tax Considerations

Interest on the Bonds is not an item of tax preference for federal or Minnesota alternative minimum tax purposes, but is included in adjusted current earnings of corporations for purposes of the federal alternative minimum tax. Section 86 of the Code and corresponding provisions of Minnesota law require recipients of certain Social Security and railroad retirement benefits to take interest on the Bonds into account in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to taxation under section 1375 of the Code, and corresponding provisions of Minnesota law, for an S corporation that has accumulated earnings and profits at the close of the taxable year, if more than 25 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, and Minnesota law similarly denies a deduction for such interest in the case of individuals, estates, and trusts. Indebtedness may be allocated to the Bonds for this purpose even though not directly traceable to the purchase of the Bonds. Federal and Minnesota laws also restrict the deductibility of other expenses allocable to the Bonds. [Because of the basis reduction rules in the Code for amortizable Bond premium, Bondholders who acquire Bonds at a premium might recognize taxable gain upon sale of the Bonds even if the Bonds are sold for an amount equal to or less than their original cost.] 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 15 percent of the interest on the Bonds that is received or accrued during the taxable year. Interest on the Bonds may be included in the income of a foreign corporation for purposes of the branch profits tax imposed by section 884 of the Code, and is included in net investment income of foreign insurance companies under section 842(b) of the Code.

Proposed Changes in Federal and State Law

From time to time, there are Presidential proposals, proposals of various federal committees and legislative proposals in Congress and in the state that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. For example, in the recent past, legislation has been proposed that effectively would have imposed a partial tax on otherwise tax exempt interest for certain higher income taxpayers. In addition, regulatory and administrative actions may from time to time be announced that could adversely affect the market value, marketability or tax status of the Bonds.

No prediction is made concerning future events. The opinions expressed by Bond Counsel in connection with the issuance of the Bonds are based upon existing law only. Purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed legislation, regulatory action, or litigation.

THE FOREGOING IS NOT INTENDED TO BE AN EXHAUSTIVE DISCUSSION OF COLLATERAL TAX CONSEQUENCES ARISING FROM OWNERSHIP OR DISPOSITION OF THE BONDS OR RECEIPT OF INTEREST ON THE BONDS. PROSPECTIVE PURCHASERS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES OF, OR TAX CONSIDERATIONS FOR, PURCHASING OR HOLDING THE BONDS.

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 Bergan KDV Ltd., Minneapolis, 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 bond 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 United States 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 $1,494,703,972[1]

	2016/17 Assessor's Estimated Market Value	2016/17 Net Tax Capacity
Real Estate	$1,374,751,200	$ 13,394,340
Personal Property	11,934,600	237,352
Total Valuation	$1,386,685,800	$ 13,631,692
Less: Captured Tax Increment Tax Capacity[2]		(98,363)
Taxable Net Tax Capacity		$ 13,533,329

[1] According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 727 (Big Lake) is about 92.28% 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 $1,494,703,972.

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

2016/17 NET TAX CAPACITY BY CLASSIFICATION

	2016/17 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	$ 9,465,489	69.44%
Agricultural	310,753	2.28%
Commercial/industrial	1,822,820	13.37%
Public utility	18,463	0.14%
Railroad operating property	58,470	0.43%
Non-homestead residential	1,477,869	10.84%
Commercial & residential seasonal/rec.	235,720	1.73%
Other	4,756	0.03%
Personal property	237,352	1.74%
Total	$13,631,692	100.00%

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity[1]	Taxable Net Tax Capacity[2]	Percent +/- in Estimated Market Value
2012/13	$1,191,694,100	$1,062,867,100	$11,779,783	$11,645,534	- 6.53%
2013/14	1,188,242,300	1,060,437,500	11,688,504	11,527,534	- 0.29%
2014/15	1,276,868,898	1,155,078,398	12,585,924	12,474,644	+ 7.46%
2015/16	1,331,245,400	1,210,586,100	13,110,470	13,022,593	+ 4.26%
2016/17	1,386,685,800	1,262,907,129	13,631,692	13,533,329	+ 4.16%

1 Net Tax Capacity includes tax increment values.

2 Taxable Net Tax Capacity does not include tax increment values.

LARGER TAXPAYERS

Taxpayer	Type of Property	2016/17 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Xcel Energy	Utility	$109,352	0.80%
Minnegasco Property Accounting	Utility	93,614	0.69%
Inland Big Lake, LLC	Commercial	89,562	0.66%
Riverwood Bank	Commercial	89,295	0.66%
Alcoa[1]	Industrial	85,764	0.63%
Centracare Health Systems	Commercial	61,416	0.45%
BNSF Railway Company	Commercial	58,470	0.43%
Cargill Kitchens	Commercial	54,690	0.40%
Keller Lake Commons, LLC	Apartments	53,644	0.39%
Great River Energy	Utility	48,790	0.36%
Total		$744,597	5.46%

District's Total 2016/17 Net Tax Capacity $13,631,692

Source: Current Property Valuations, Net Tax Capacity by Classification, Trend of Valuations and Larger Taxpayers have been furnished by Sherburne County.

[1] Formerly listed as Remmele Engineering, Inc.

DEBT

DIRECT DEBT[1]

General Obligation Debt (see schedule following)

Total g.o. debt being paid from taxes and state aids[2] (includes the Bonds)*	$46,105,000

*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 Formula is applied against the remaining qualifying annual debt service which, in the case of the Big Lake School District, is expected to result in a "local share" of about 89.99% of the amount in excess of 15.74% of ANTC, but less than 26.24% of ANTC, and a "local share" of about 49.79% of the amount in excess of 26.24% of ANTC. This results in estimated total State participation of about 13.40% of total annual debt service. The District's $2,960,000 General Obligation Taxable OPEB Bonds, Series 2009A, the District's $5,120,000 General Obligation Facilities Maintenance Bonds, Series 2016A, and the Bonds of this issue, do **not** qualify for equalization pursuant to Minnesota Statutes.

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. Although the District expects to receive some Long Term Facilities Maintenance Aid in its debt service fund, Ehlers has not attempted to estimate the portion of debt service payments that would be financed by state aid.

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

2 Based upon the debt service equalization formula, long term facilities maintenance revenue formula, and current statistics, the District anticipates a portion of this debt will be paid by the State of Minnesota.

INDEPENDENT SCHOOL DISTRICT NO. 727 (BIG LAKE), MINNESOTA

Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 12/28/17)
FISCAL YEAR BASIS

	OPEB Series 2009A		Refunding 1) Series 2010B		Refunding 2) Series 2012B		Refunding 3) Series 2015A		Facilities Maintenance Series 2016A		Building Series 2016B	
Dated	6/02/09		11/17/10		4/25/12		11/3/15		2/18/16		7/27/16	
Amount	$2,960,000		$11,500,000		$8,730,000		$14,490,000		$5,120,000		$4,000,000	
Maturity	2/01		2/01		2/01		2/01		2/01		2/01	
Fiscal Year Ending	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2018	335,000	27,799	1,325,000	93,656	0	218,250	2,075,000	228,250	285,000	76,163	0	43,869
2019	350,000	37,944	1,395,000	143,190	0	436,500	2,115,000	394,250	300,000	140,925	0	87,738
2020	370,000	19,499	1,450,000	96,737	0	436,500	2,160,000	330,800	310,000	128,925	0	87,738
2021			1,455,000	48,452	0	436,500	2,275,000	266,000	320,000	119,625	0	87,738
2022					0	436,500	3,955,000	197,750	330,000	110,025	0	87,738
2023					3,000,000	436,500			340,000	96,825	0	87,738
2024					3,000,000	286,500			355,000	83,225	0	87,738
2025					2,730,000	136,500			370,000	69,025	0	87,738
2026									385,000	54,225	465,000	87,738
2027									390,000	46,525	505,000	78,438
2028									400,000	38,725	500,000	68,338
2029									410,000	30,225	490,000	58,338
2030									415,000	21,000	500,000	48,538
2031									425,000	10,625	505,000	38,538
2032											515,000	27,175
2033											520,000	14,300
	1,055,000	85,242	5,625,000	382,034	8,730,000	2,823,750	12,580,000	1,417,050	5,035,000	1,026,063	4,000,000	1,079,431

1) This issue refunded the 2013 through 2021 maturities of the District's $11,425,000 General Obligation School Building Refunding Bonds, Series 2001C, dated April 18, 2001.

2) This issue refunded the outstanding balance of the District's 1995 Maximum Effort Capital Loan.

3) This issue refunded the 2017 through 2022 maturities of the District's $20,790,000 General Obligation School Building Refunding Bonds, Series 2006A, dated February 22, 2006.

Continued on next page -

INDEPENDENT SCHOOL DISTRICT NO. 727 (BIG LAKE), MINNESOTA
Schedule of Bonded Indebtedness - continued
General Obligation Debt Being Paid From Taxes
(As of 12/28/17)
FISCAL YEAR BASIS

	Building Series 2017A		Facilities Maintenance Series 2017B							
Dated	2/16/17		12/28/17							
Amount	$5,080,000		$4,000,000*							
Maturity	2/01		2/01							
Fiscal Year Ending	Principal	Interest	Principal	Estimated Interest	Total Principal	Total Interest	Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
2018	0	64,950	0	0	4,020,000	752,937	4,772,937	42,085,000	8.72%	2018
2019	0	129,900	70,000	131,000	4,230,000	1,501,447	5,731,447	37,855,000	17.89%	2019
2020	0	129,900	105,000	117,900	4,395,000	1,347,998	5,742,998	33,460,000	27.43%	2020
2021	0	129,900	125,000	114,750	4,175,000	1,202,964	5,377,964	29,285,000	36.48%	2021
2022	0	129,900	135,000	111,000	4,420,000	1,072,913	5,492,913	24,865,000	46.07%	2022
2023	0	129,900	175,000	106,950	3,515,000	857,913	4,372,913	21,350,000	53.69%	2023
2024	0	129,900	165,000	101,700	3,520,000	689,063	4,209,063	17,830,000	61.33%	2024
2025	0	129,900	200,000	96,750	3,300,000	519,913	3,819,913	14,530,000	68.48%	2025
2026	580,000	129,900	235,000	90,750	1,665,000	362,613	2,027,613	12,865,000	72.10%	2026
2027	595,000	112,500	275,000	83,700	1,765,000	321,163	2,086,163	11,100,000	75.92%	2027
2028	610,000	97,625	315,000	75,450	1,825,000	280,138	2,105,138	9,275,000	79.88%	2028
2029	625,000	82,375	245,000	66,000	1,770,000	236,938	2,006,938	7,505,000	83.72%	2029
2030	645,000	66,750	255,000	58,650	1,815,000	194,938	2,009,938	5,690,000	87.66%	2030
2031	660,000	50,625	265,000	51,000	1,855,000	150,788	2,005,788	3,835,000	91.68%	2031
2032	675,000	34,125	705,000	43,050	1,895,000	104,350	1,999,350	1,940,000	95.79%	2032
2033	690,000	17,250	730,000	21,900	1,940,000	53,450	1,993,450	0	100.00%	2033
	5,080,000	1,565,400	4,000,000	1,270,550	46,105,000	9,649,520	55,754,520			

*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	$ 1,494,703,972
Multiply by 15%	0.15
Statutory Debt Limit	$ 224,205,596
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes[1] (includes the Bonds)*	45,050,000
Unused Debt Limit*	$ 269,255,596

*Preliminary, subject to change.

OVERLAPPING DEBT[2]

Taxing District	2016/17 Taxable Net Tax Capacity	% In District	Total G.O. Debt[3]	District's Proportionate Share
Sherburne County	$ 88,154,298	15.3519%	$47,300,000	$ 7,261,449
City of Big Lake	6,886,448	99.8713%	13,685,000	13,667,387
Town of Becker	4,738,176	9.8162%	120,000	11,779
Town of Big Lake	6,915,051	55.9783%	640,000	358,261
District's Share of Total Overlapping Debt				$21,298,877

DEBT PAYMENT HISTORY

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

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1 Does not include the $2,960,000 General Obligation Taxable OPEB Bonds, Series 2009A, as they are not subject to the debt limit calculation.

2 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.

3 Outstanding debt is based on information in official statements obtained on EMMA and the Municipal Advisor's records.

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value ($1,494,703,972)	Debt/ Current Population Estimate (18,029)
Direct G.O. Debt Being Paid From Taxes and State Aids[1]	$ 46,105,000	3.08%	$2,557.27
Less: State Equalization Aid	(4,826,010)		
Tax Supported General Obligation Debt *	$ 41,278,990	2.76%	$2,289.59
District's Share of Total Overlapping Debt	$ 21,298,877	1.43%	$1,181.37
Total*	$ 62,577,867	4.19%	$3,470.96

*Preliminary, subject to change.

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.

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[1] Based on current State law and statistics, the State of Minnesota is estimated to pay approximately 13.40% of the principal and interest of the District's general obligation bonds. Assuming this percentage continues for the life of the issue, the State's proportionate share of principal is $4,826,010. *Does not include the District's $2,960,000 General Obligation Taxable OPEB Bonds, Series 2009A, the District’s $5,120,000 General Obligation Facilities Maintenance Bonds, Series 2016A or the Bonds of this issue, which do* ***not*** *qualify for equalization pursuant to Minnesota Statutes.*

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy[1]	Total Collected Following Year	Collected to Date[2]	% Collected
2012/13	$6,959,188	$6,823,434	$6,912,799	99.33%
2013/14	6,500,985	6,363,453	6,474,411	99.59%
2014/15	6,710,998	6,622,784	6,680,930	99.55%
2015/16	8,241,384	8,153,239	8,202,347	99.53%
2016/17	8,638,228	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]

	2012/13	2013/14	2014/15	2015/16	2016/17
I.S.D. No. 727 (Big Lake)	46.864%	46.352%	42.136%	44.247%	44.224%
Sherburne County	54.420%	54.861%	51.979%	50.478%	50.460%
City of Big Lake	55.198%	60.048%	57.518%	57.122%	57.936%
City of Big Lake - RSD	19.784%	25.362%	23.534%	22.608%	20.540%
Town of Big Lake[5]	15.306%	15.591%	16.058%	19.004%	17.972%
Big Lake EDA	0.000%	1.167%	0.305%	0.743%	0.726%
New River Medical Center	0.608%	0.000%	0.000%	0.000%	0.000%
Sherburne County Rail Authority	2.534%	2.374%	2.026%	1.909%	1.656%
Referendum Market Value Rates:					
I.S.D. No. 727 (Big Lake)	0.13675%	0.10356%	0.12262%	0.19928%	0.20450%

Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Sherburne County.

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

2 Collections are through June 30, 2017.

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 337, including 124 non-licensed employees and 213 licensed employees (200 of whom are teachers). The District provides education for 3,024 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
Administrators	June 30, 2018
Teachers	June 30, 2017
Secretaries/paraprofessionals	June 30, 2018
Custodians	June 30, 2018
Food Service	June 30, 2018

Status of Contracts

The contract which expired on June 30, 2017, is 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 Numbers 74/75 (GASB 74/75). The District's most recent actuarial study of its OPEB obligations show a total OPEB liability of $3,187,662 as of July 1st, 2017. The District had been funding these obligations on a pay-as-you-go basis, but in June of 2009 they issued $2,960,000 in OPEB bonds to fund an irrevocable trust. The fiduciary net position of the trust at July 1st, 2017 was $1,800,721, leaving a net OPEB liability of $1,386,941 at July 1, 2017. Future OPEB costs will be paid partially from the trust and partially from operating funds.

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	263	1,518	1,449	3,230
2014/15	227	1,579	1,432	3,238
2015/16	235	1,511	1,394	3,140
2016/17	209	1,475	1,379	3,063
2017/18	222	1,419	1,383	3,024

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2018/19	220	1,396	1,373	2,989
2019/20	220	1,334	1,423	2,977
2020/21	220	1,298	1,434	2,952

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Independence Elementary	1981	1987, 1998
Liberty Elementary	2003	--
Big Lake Middle School	1966	1974, 1984, 1987, 1998, 2002
Big Lake High School	1994	1997, 2002

FUNDS ON HAND (as of October 31, 2017)

Fund	Total Cash and Investments
General	$ 8,480,545
Food Service	179,176
Community Service	595,237
Debt Service	4,240,575
Building/Construction	4,030,499
Trust & Agency	1,819,784
Total Funds on Hand	$19,345,816

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.

COMBINED STATEMENT	FISCAL YEAR ENDING JUNE 30 2014 Audited	2015 Audited	2016 Audited	2017 Audited	2017-18 Revised Budget[1]
Revenues					
Local property taxes	$ 1,524,202	$ 2,195,720	$ 2,547,131	$ 3,796,989	$ 4,052,926
Other local and county revenues	707,612	875,712	730,993	866,844	586,972
Revenues from state sources	26,996,969	27,155,481	28,006,813	28,171,879	27,936,493
Revenues from federal sources	595,460	479,055	297,524	404,876	437,620
Sales and other conversion of assets	124,627	89,466	79,777	108,212	77,819
Total Revenues	$ 29,948,870	$ 30,795,434	$ 31,662,238	$ 33,348,800	$ 33,091,830
Expenditures					
Administration	$ 1,384,564	$ 1,201,692	$ 1,223,649	$ 1,213,734	$ 1,257,375
District support services	1,040,818	1,198,650	1,090,699	1,112,297	1,143,167
Elementary & secondary regular instruction	14,073,576	14,328,422	14,206,511	14,651,135	14,609,050
Vocational education instruction	303,230	354,511	548,225	565,914	538,227
Special education instruction	5,362,341	5,419,483	5,478,736	5,919,465	6,227,437
Instructional support services	2,044,507	1,867,320	2,129,147	2,004,623	2,395,149
Pupil support services	2,499,436	2,641,336	2,788,122	2,657,369	2,848,553
Sites and buildings	3,180,214	3,140,846	3,174,128	2,988,703	3,199,322
Fiscal and other fixed cost programs	127,651	134,151	139,051	144,896	152,884
Capital Outlay	910,301	615,886	304,497	746,696	884,647
Total Expenditures	$ 30,926,638	$ 30,902,297	$ 31,082,765	$ 32,004,832	$ 33,255,811
Excess of revenues over (under) expenditures	$ (977,768)	$ (106,863)	$ 579,473	$ 1,343,968	$ (163,981)
Other Financing Sources (Uses)					
Operating transfers in	$ 0	$ 0	$ 0	$ 0	
Operating transfers out	0	0	0	0	
Total Other Financing Sources (Uses)	$ 0	$ 0	$ 0	$ 0	
Net Change in Fund Balances	$ (977,768)	$ (106,863)	$ 579,473	$ 1,343,968	
General Fund Balance July 1	6,378,345	5,400,577	5,293,714	5,873,187	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	$ 5,400,577	$ 5,293,714	$ 5,873,187	$ 7,217,155	
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	$ 150,410	$ 299,623	$ 224,902	$ 211,298	
Restricted	267,226	573,305	670,135	842,354	
Committed	293,551	420,423	524,720	549,743	
Assigned	627,104	568,941	626,570	516,924	
Unassigned	4,062,286	3,431,422	3,826,860	5,096,836	
Total	$ 5,400,577	$ 5,293,714	$ 5,873,187	$ 7,217,155	

Note: In November of 2015, District voters approved two referendum questions. The first question provided an increase in operating referendum authority for 10 years, resulting in an increase in general fund revenue of approximately $1.5 million beginning in fiscal year 2016-2017. The second question provided for revenue dedicated to annually finance $400,000 in technology costs for 10 years, also beginning in fiscal year 2016-2017. The 2017-2018 budgeted deficit in the general fund is a result of estimated spend downs in restricted and assigned fund balances; the unassigned fund balance, or fund balance available for operations, is projected to increase by approximately $470,000.

[1] The 2017-18 budget was revised on November 16, 2017.

GENERAL INFORMATION

LOCATION

The District, with a 2010 U.S. Census population of 17,313 and a current population estimate of 18,029, and comprising an area of 39 miles, northwest 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
I.S.D. No. 727 (Big Lake)	Elementary and secondary education	337
Cargill, Inc	Food manufacturing and processing	183
Lisi Medical Remmele	Machine shop	100
City of Big Lake	Municipal government and services	71
Windstream Communications	Cable/wire Installation	70
McDonald's	Restaurant	68
Vision of Big Lake	Charter and rental buses	55
Coborn's	Grocery	50
Options	Employment opportunities for people with disabilities	47
Russell's on the Lake	Restaurant	40
Peterson Brothers Potato Co	Potato wholesale	40

Source: *ReferenceUSA, written and telephone survey (November 2017), 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.

U.S. CENSUS DATA

Population Trend: Independent School District No. 727 (Big Lake), Minnesota

2000 U.S. Census population		12,528
2010 U.S. Census population		17,313
2015 Population Estimate		18,029
Percent of Change 2000 - 2010	+	38.19%

Income and Age Statistics

	Big Lake School District	Sherburne County	State of Minnesota	United States
2015 per capita income	$28,903	$29,923	$32,157	$28,930
2015 median household income	$72,281	$74,170	$61,492	$53,889
2015 median family income	$79,125	$83,267	$77,055	$66,011
2015 median gross rent	$864	$925	$848	$928
2015 median value owner occupied units	$174,300	$190,600	$186,200	$178,600
2015 median age	34.8 yrs.	35.3 yrs.	37.7 yrs.	37.6 yrs.

	State of Minnesota	United States
District % of 2015 per capita income	89.88%	99.91%
District % of 2015 median family income	102.69%	119.87%

Source: *2000 and 2010 Census of Population and Housing, and 2015 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.

	Average Employment	Average Unemployment	
Year	**Sherburne County**	**Sherburne County**	**State of Minnesota**
2013	45,808	6.2%	4.9%
2014	46,402	5.3%	4.2%
2015	47,130	4.5%	3.7%
2016	47,809	4.0%	3.8%
2017, October	49,487	2.5%	2.4%

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

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. 727
Big Lake, Minnesota

Financial Statements

June 30, 2017

bergankDV
CPAS | ADVISORS

bergankdv

Independent Auditor's Report

To the School Board
Independent School District No. 727
Big Lake, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 727, Big Lake, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

BerganKDV, Ltd.
bergankdv.com

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 727, Big Lake, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 74 and GASB 75

As discussed in Note 9 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

bergankdv

Other Matters (Continued)

Other Information (Continued)

The accompanying supplementary information identified in the Table of Contents and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
October 31, 2017

This section of the District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

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

- Net Position decreased from $(1,754,807) to $(9,561,026), mainly due to an increase in the District's proportionate share in TRA's Net Pension Liability and implementation of GASB 73 and 75 pension standards.
- General Fund revenues were $33,348,800 as compared to expenditures of $32,004,832 for an excess of revenues over expenditures of $1,343,968.
- Total General Fund Balance increased $1,343,968. Unassigned General Fund Balance increased by $1,213,299, due to the first year of additional property tax levy dollars from the November 2015 operating levy referendum. Restricted and Committed/Assigned Fund Balances increased by $144,273. Nonspendable Fund Balance decreased by $13,604.
- The District increased its long-term liabilities by $5,315,214 due to issuance of 2016B and 2017A General Obligation School Building Bonds from the successful May 2016 bond referendum election.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.

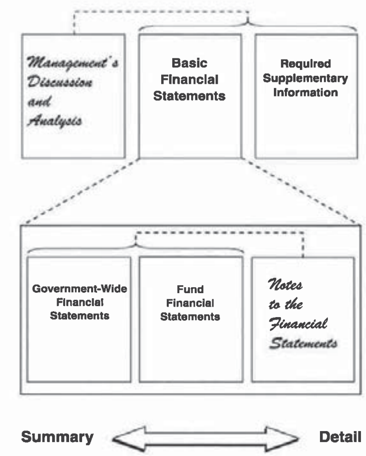
Independent School District No. 727
Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1
Annual Report Format



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

		Fund Statements		
Type of Statements	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds) and the Districts Component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures & changes in fund balances	• Statement of net position • Statement of changes in net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

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 liabilities. 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. Net Position: the difference between the District's assets and liabilities are one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's Net Position are an indicator of whether its financial position is improving or deteriorating, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

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

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

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District may establish other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two types of funds:

- **Governmental Funds**: Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position
The District's combined Net Position was ($9,561,026) on June 30, 2017, a decrease of $7,806,219. (See Table A-1) This decrease is mainly the result of increased net pension liabilities as a result of TRA's change of actuarial assumptions. Long-Term Liabilities increased 94.24% to $111,351,202 due to issuance of 2016B and 2017A General Obligation School Building Bonds and increase in net pension liabilities.

Table A-1

	Governmental Activities		Percentage
	2017	2016	Change
Current and other assets	$ 31,464,704	$ 25,937,964	21.31%
Capital and noncurrent assets	47,546,069	44,043,454	7.95%
Total assets	79,010,773	69,981,418	12.90%
Deferred outflows of resources	42,277,666	3,928,138	976.28%
Current liabilities	9,191,560	7,133,271	28.85%
Long-term liabilities	111,351,202	57,326,474	94.24%
Total liabilities	120,542,762	64,459,745	87.00%
Deferred inflows of resources	10,306,703	11,204,618	-8.01%
Net position			
Invested in capital assets, net of related debt	13,068,308	11,691,848	11.77%
Restricted	2,394,529	1,962,783	22.00%
Unrestricted	(25,023,863)	(15,409,438)	-62.39%
Net position	$ (9,561,026)	$ (1,754,807)	-444.85%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position
The District's total revenues were $43,012,818 for the year ended June 30, 2017. Property taxes, unrestricted state formula aid, and other revenue accounted for 75% of total revenue for the year (See Figure A-3). The remaining 25% came from other program revenues (charges for services and operating and capital grants and contributions).The large increase in investment earnings is the result of increased cash and investments due to issuance of 2016B and 2017A general obligation debt and increased investment returns. Property tax revenue increased 20.17% due to first year of property tax collections from the November 2015 operating levy referendum.

Table A-2 Change in Net Position

	Governmental Activities for the Fiscal Year Ended June 30,		Total Percentage
	2017	2016	Change
Revenues			
Program revenues			
Charges for services	$ 3,035,950	$ 2,829,715	7.29%
Operating grants and contributions	6,987,882	6,953,853	0.49%
Capital grants and contributions	774,164	557,727	38.81%
General revenues			
Property taxes	8,302,174	6,908,708	20.17%
Unrestricted state aid	23,734,069	23,033,338	3.04%
Investment earnings	128,421	46,767	174.60%
Other	50,158	36,560	37.19%
Total revenues	43,012,818	40,366,668	6.56%
Expenses			
Administration	1,628,166	1,262,514	28.96%
District support services	1,172,768	1,109,114	5.74%
Regular instruction	21,610,236	15,429,517	40.06%
Vocational education instruction	778,477	510,291	52.56%
Special education instruction	7,553,713	5,509,041	37.11%
Instructional support services	2,705,461	2,284,751	18.41%
Pupil support services	2,903,816	2,781,783	4.39%
Sites and buildings	4,078,747	3,376,243	20.81%
Fiscal and other fixed cost programs	144,896	139,051	4.20%
Food service	1,619,704	1,641,238	-1.31%
Community service	2,423,507	1,932,666	25.40%
Interest and fiscal charges on Long-term liabilities	1,276,383	1,530,423	-16.60%
Total expenses	47,895,874	37,506,632	27.70%
Increase (decrease) in net position	(4,883,056)	2,860,036	-270.73%
Beginning net position	(1,754,807)	(4,614,843)	
Change in accounting principle	(2,923,163)	-	
Ending net position	$ (9,561,026)	$ (1,754,807)	

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-3 Sources of District Revenue for Fiscal 2017

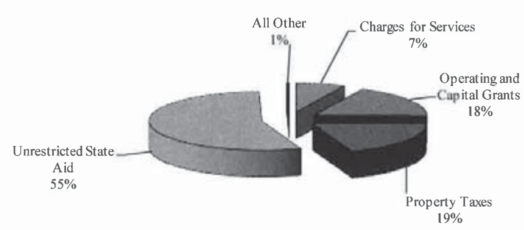
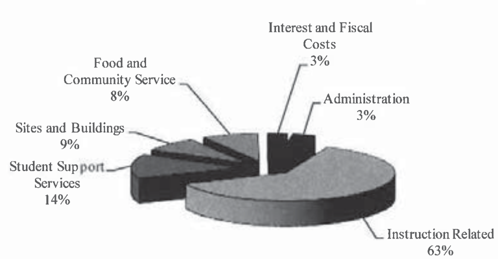


Figure A-4 District Expenses for Fiscal 2017



The total cost of all programs and services was $47,895,874 for fiscal year 2017. The District's expenses are predominately related to educating and caring for students (77%). (See Figure A-4). Another 3% of expenses are related to interest and fiscal costs for the District's bonds. Another 9% supports the facilities maintenance needs of the entire District. Only 3% of costs are for administration. Finally, 8% of total expenses are for food and community service programs.

Independent School District No. 727
Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all governmental activities this year was $47,895,874.

- Some of the cost was paid by the users of the District's programs ($3,035,950).
- The federal and state governments subsidized certain programs with grants and contributions ($7,762,046).
- Most of the District's costs ($32,214,822); however, were paid for by District taxpayers and taxpayers of the State of Minnesota.

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 77% of those resources are spent on instruction and support services associated with education.

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		%	Net Cost of Services		%
	2017	2016	Change	2017	2016	Change
Administration	$ 1,628,166	$ 1,262,514	28.96%	$ 1,628,166	$ 1,262,514	28.96%
District support services	1,172,768	1,109,114	5.74%	1,172,768	1,109,046	5.75%
Regular instruction	21,610,236	15,429,517	40.06%	18,037,867	11,759,057	53.40%
Vocational education instruction	778,477	510,291	52.56%	723,176	437,535	65.28%
Special education instruction	7,553,713	5,509,041	37.11%	4,606,107	2,843,228	62.00%
Instructional support services	2,705,461	2,284,751	18.41%	2,274,018	1,863,421	22.03%
Pupil support services	2,903,816	2,781,783	4.39%	2,890,731	2,768,546	4.41%
Sites and buildings	4,078,747	3,376,243	20.81%	3,811,949	3,281,547	16.16%
Fiscal and other fixed cost programs	144,896	139,051	4.20%	144,896	139,051	4.20%
Food service	1,619,704	1,641,238	-1.31%	3,574	98,198	-96.36%
Community service	2,423,507	1,932,666	25.40%	528,243	72,771	625.90%
Interest and fiscal charges on Long-term liabilities	1,276,383	1,530,423	-16.60%	1,276,383	1,530,423	-16.60%
Total	$ 47,895,874	$ 37,506,632	27.70%	$ 37,097,878	$ 27,165,337	36.56%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $18,212,984. Revenues for the District's governmental funds were $42,276,217 while total expenditures were $46,464,617, for a decrease of $4,188,400. After other financing sources of $9,217,532, the combined fund balance increased $5,029,132. Most of the increase occurred in the Capital Projects fund due to the issuance of 2016B and 2017A General Obligation School Building Bonds with not all projects expended at June 30, 2017. The second largest increase occurred in the General Fund due to the first year of receiving November 2015 operating referendum funds.

GENERAL FUND

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

The majority of General Fund revenue is generated by state general education aid. The basic formula allowance in 2017 was $6,067 per adjusted marginal cost per pupil unit (AMCPU). Other factors that influence the general education aid formula include operating referendum allowance, age of school buildings, transportation sparsity index, percent of eligible free and reduced students, number of English Learner (EL) students, number of Gifted and Talented students, and number of open enrolled students in and out of the District. Total general education aid was $24,922,724, which represents 75% of total General Fund revenue. The other major General Fund revenue is state special education aid. Total special education aid in 2017 was $2,651,413, 8% of total General Fund revenue. Other state formulas then determine what portion of the general fund revenue will be provided by property taxes. Property taxes totaled $3,796,989, 11% of total General Fund revenue. After factoring in general education aid, special education aid and property taxes, which are all formula driven, only 6% of General Fund revenues are generated by other miscellaneous state aids, aid from the federal government and local revenues such as fees or sales.

GENERAL FUND - ENROLLMENT

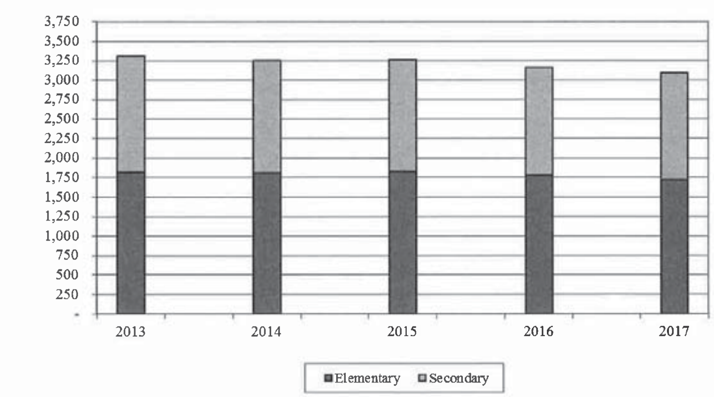
Enrollment is a critical factor in determining revenue with approximately 86% of General Fund revenue being determined by student counts. The chart on the next page indicates that after a year of slight increase in enrollment in 2015, enrollment has declined for the past two years. School choice, such as open enrollment, charter schools, and home schooling are negatively impacting enrollment. A local early graduation policy is also a detriment to enrollment, which is currently being addressed by District administration.

GENERAL FUND – ENROLLMENT (CONTINUED)

Table A-4
Five Year Enrollment Trend
Average Daily Membership (ADM)

	2013	2014	2015	2016	2017
Elementary	1,812	1,803	1,827	1,773	1,718
Secondary	1,493	1,449	1,432	1,394	1,379
	3,305	3,252	3,259	3,167	3,097
		-1.60%	0.22%	-2.83%	-2.20%

Big Lake Public Schools
Student Enrollment (in ADM's)



GENERAL FUND – REVENUES/EXPENDITURES

The table below presents a summary of General Fund Revenues:

Table A-5
General Fund Revenues

Fund	Year Ended June 30, 2017	Year Ended June 30, 2016	Change Increase (Decrease)	Change Percent
Local sources				
Property taxes	$ 3,796,989	$ 2,547,131	$ 1,249,858	49.07%
Investment earnings	45,887	19,463	26,424	135.77%
Other	929,169	791,307	137,862	17.42%
State sources	28,171,879	28,006,813	165,066	0.59%
Federal sources	404,876	297,524	107,352	36.08%
	$ 33,348,800	$ 31,662,238	$ 1,686,562	5.33%

Revenues from the General Fund totaled $33,348,800, an increase of 5.33% from last year. Property taxes increased due to the first year of property tax revenue from the November, 2015 operating levy referendum. Investment earnings increased as a result of improved cash flow and more favorable investment rates of return. The state sources increase includes an inflationary increase on the general education formula. Increased federal special education revenue from the District's special education cooperative resulted in the increase in federal funds.

The following schedule presents a summary of General Fund Expenditures:

Table A-6
General Fund Expenditures

	Year Ended June 30, 2017	Year Ended June 30, 2016	Change Increase (Decrease)	Change Percent
Salaries	$ 18,521,574	$ 17,722,281	$ 799,293	4.51%
Employee benefits	6,794,237	6,773,309	20,928	0.31%
Purchased services	4,665,831	4,877,263	(211,432)	-4.34%
Supplies and materials	1,121,989	1,127,152	(5,163)	-0.46%
Capital expenditures	689,655	304,497	385,158	126.49%
Other expenditures	$ 211,546	$ 278,263	$ (66,717)	-23.98%
Total	$ 32,004,832	$ 31,082,765	$ 922,067	2.97%

GENERAL FUND – REVENUES/EXPENDITURES (CONTINUED)

Total General Fund expenditures increased 2.97% from the prior year. Employee salaries increased 4.51% due to the addition of instructional staff funded by the November 2015 operating referendum dollars. Purchased services costs went down due to less transportation routes for special education and care and treatment students. In addition, many deferred maintenance purchased services costs were funded from the Capital Projects Fund, instead of the General Fund, with proceeds from the 2016A Facilities Maintenance bonds. Capital expenditures increased due to technology purchases from the General Fund capital projects levy. Other expenditures decreased due to membership billing decreases from special education cooperatives.

Total General Fund Balance increased $1,343,968. Unassigned General Fund Balance increased by $1,213,299, due to the first year of extra property tax levy dollars from the November 2015 operating levy referendum. Restricted and Committed/Assigned Fund Balances, increased by $144,273. Nonspendable Fund Balance decreased by $13,604. The Unassigned Fund Balance, or fund balance available for operations, is 16% of total general fund expenditures.

Fund balance is the single best measure of overall financial health. It is the goal of the Big Lake Board of Education to maintain an unassigned fund balance of 5% of general fund operating expenditures. For the fiscal year ended June 30, 2017, the Big Lake School District is in compliance with that fund balance goal.

General Fund Budgetary Highlights
Actual revenues were $675,551 under the final budget, a 2% variance. Actual expenditures were $1,464,021 under budget, a 4.3% variance. Two abnormalities occurred with the 16-17 budget, affecting both revenues and expenditures. First, the TRA/PERA revenue and expenditure entry to record the District's proportionate share of net pension liability at the fund level was overstated by $745,000. The budget was prepared using information provided by the state pension plans, which was found to be incorrect during the audit. Second, the District received e-rate funding in fiscal year 16-17 which was budgeted as a revenue and expense. Subsequent to year end, it was learned the e-rate revenue was to be accounted for as a net deduction to the project expense. As a result, revenues and expenditures were overstated by $245,000. After factoring in the two accounting anomalies, revenues exceeded budget by $314,449, or .9% variance, and expenditures were under budget by $474,021, or a 1.49% variance.

The General Fund budget is adjusted several times throughout the year for changes in enrollment, changes in special education funding assumptions, and expenditure changes such as staffing costs, transportation, and utilities. In fiscal year 2017, the major change in the General Fund revenue and expenditure budget was for the TRA fund level entry, as mentioned previously, which later proved to be incorrect. Revenue was also adjusted for less than expected enrollment, which affected general education aid. As for expenditures, the budget was changed throughout the year for changes in staffing and benefit assumptions. In addition, the expenditure budget was decreased for projects budgeted in the current fiscal but expected to be completed in the following fiscal year.

DEBT SERVICE FUND

The Debt Service Fund revenues and other financing sources exceeded expenditures by $94,186 in 2016-2017. Bond covenants require a property tax levy of 5% over and above principal and interest payments that are due. The State of Minnesota regulates the Debt Service fund balance with any excess funds returned to District taxpayers in future property tax levies. The surplus occurred as a result of a portion of the $9,080,000 School Building Bond proceeds deposited in the Debt Service fund for future interest payments on long-term debt.

CAPITAL PROJECTS FUND

In February, 2016, the District issued $5,120,000 General Obligation Facilities Maintenance Bonds to fund deferred maintenance projects for the next 2 years, as identified in the District's ten year facilities plan. 2016-2017 represented the first year of projects funded by the facilities maintenance bonds. Major projects included roof replacements, reclaim parking lots, and rebuilding the high school tennis courts.

Also in 2016-2017, the District issued $9,080,000 in General Obligation School Building Bonds to fund various improvements throughout the District. The largest project included the addition of and upgrades to athletic fields and concession stands. Other projects include establishing secured entrances at all four school buildings, improving sound and lighting in the high school auditorium, replace flooring at two buildings, pool upgrades, adding parking lots to the athletic fields, and playground expansion at both elementary sites. The improvements are a result of the successful May 2016 referendum.

OTHER NON-MAJOR FUNDS

The Post Employment Benefits Debt Service fund was created in 2008-2009 to account for the levy revenues and repayment of OPEB bonds that were issued in June 2009. These revenues and expenditures are required by the State of Minnesota to be reported in a separate fund. Any surplus in this fund is held for future reductions in the debt service levy at the end of the bond payment period.

The Food Service Fund experienced a $40,691 increase in 2016-2017 resulting in an ending fund balance of $204,696. The ending fund balance represents slightly over one month of expenditures. 2016-2017 represented the first year the District partnered with a food service management company (FSMC) to operate the food service program. The surplus was a result of a significant investment made by the FSMC in the District's program.

The Community Service fund balance increased $19,608 in 2016-2017 for a combined fund balance of $573,205. The increase is the result of improved enrollment in the District's school age care, or Kid's Club, program as well as increased enrollment in preschool programs. The fund balance will be used to further expand early childhood and preschool programming as well as to keep community education program fees stable.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets
By the end of 2017, the District had invested approximately $82.5 million in a broad range of capital assets, including school buildings, athletic facilities and fields, computers, and other technology equipment. (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was $1.79 million.

Table A-7
Capital Assets (Net of Accumulated Depreciation)

	2017	2016	Percentage Change
Land	$ 784,389	$ 784,389	0.00%
Construction on progress	2,511,882	15,750	15848.46%
Land improvements	410,358	449,744	-8.76%
Buildings and improvements	41,737,860	41,765,024	-0.07%
Equipment	2,101,580	1,028,547	104.33%
Total	$ 47,546,069	$ 44,043,454	7.95%

Each year, departments review their machinery & equipment capital inventories. Disposals are then accounted for accordingly as items are sold or deemed obsolete. The overall increase in capital assets is a result of construction in progress from the District's $9,080,000 School Building Bonds, as discussed previously. In addition, several purchases of equipment were made from the School Building Bonds as well as the District's General Fund capital projects levy.

Construction – Next Five Years
With the passage of the new long-term facilities maintenance revenue (LTFM) program by the Minnesota Legislature in June, 2015, the District anticipates the issuance of facilities maintenance bonds every two years for the next 6-8 years. The first set of bonds were issued in February 2016, and the second set of facilities maintenance bonds is scheduled for January 2018. The bond proceeds will be used for roofing projects, replace windows and doors at two buildings, upgrade lighting at one building, and carpet and flooring replacement across the District.

On May 24, 2016, District voters successfully passed a $9 million bond referendum to improve facilities districtwide, focusing on safety and security, playgrounds, and fine arts/athletics. The District expects to substantially complete the referendum projects started in 2016-2017 by the end of fiscal year 2017-2018.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities
At year-end, the District had $44,940,637 in total long-term debt, an increase of 13.41% from last year, as shown in Table A-8. Included in this total, the District has $407,961 in severance liabilities.

Table A-8
Long-Term Liabilities

	Total Cost of Services 2017	Total Cost of Services 2016	Percentage Change
General obligation bonds	$ 42,105,000	$ 36,600,000	15.04%
Premium	2,306,563	2,529,186	-8.80%
Severance payable	407,961	366,975	11.17%
Compensated absences payable	121,113	129,262	-6.30%
Total	$ 44,940,637	$ 39,625,423	13.41%

As previously mentioned, the District issued $9,080,000 in General Obligation School Building Bonds in fiscal 2017. After principal repayments of general obligation bonds and new bond issuance, general obligation bonds increased 15.04%. The decrease in premium is a result of the amortization of bond premiums for the fiscal year. Last, the increase in severance payable resulted from the reclassification of a retirement plan for two administrators.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2016-2017 General Fund Balance closed the year at $7,217,155, with the Unassigned General Fund Balance, or fund balance available for operations, closing at $5,096,836. While the Unassigned Fund Balance is a healthy 16% of General Fund expenditures, concern remains about future enrollment of the District. Because of declining enrollment and less than inflationary increases from the State of Minnesota, the District expects the General Fund balance to start declining in the next 2-5 years, without expenditure adjustments.

Since general education aid is a critical component of District funding, measures have been taken to improve student enrollment. A scientific open enrollment survey is being conducted late fall of 2017 to determine the main reasons why resident students are leaving the District for other public schools or charter schools. The District is examining its local early graduation policy, which results in a loss of students after second trimester each year. Course offerings are being examined and compared to neighboring districts with strategic additions in certain course areas. Last, the District has begun a local marketing campaign to educate prospective and current resident families as they shop around for the best school district for their students.

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

Another key factor bearing on the District's future is the inadequacy of state special education funding. The state special education funding formula changed significantly in fiscal 2015-2016, with finalized amounts not available until April, 2017. As a result of the funding formula change, many districts like Big Lake are at the funding formula growth limit. This means the revenue is capped no matter how much expenditures increase. This is a problem in Big Lake since the special education population is growing, resulting in mandated additions of staff. Expenditures are increasing but revenue is not increasing at the same pace. As a result, the general education cross subsidy of special education will continue to increase. District administration remains engaged with Minnesota Department of Education staff and state legislators in seeking a solution to this funding problem.

Despite these challenges, the District remains committed to strive to maintain its long-standing commitment to academic excellence and educational opportunities for students within a framework of financial fiduciary responsibility.

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 Director of Business Services, Independent School District 727, 501 Minnesota Avenue, Big Lake, Minnesota, 55309-9246.

Independent School District No. 727
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	
(including cash equivalents)	$ 23,038,869
Current property taxes receivable	4,196,566
Delinquent property taxes receivable	237,217
Accounts receivable	195,954
Interest receivable	50,541
Due from Department of Education	3,107,614
Due from Federal Government through Department of Education	153,492
Due from other Minnesota school districts	27,189
Due from other governmental units	194,080
Inventory	45,595
Prepaid items	212,298
Equity interest in joint venture	5,289
Capital assets, not being depreciated	
Land	784,389
Construction in progress	2,511,882
Capital assets, net of accumulated depreciation	
Land improvements	410,358
Buildings	41,737,860
Machinery and equipment	2,101,580
Total assets	79,010,773
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	42,277,666
Total assets and deferred outflows of resources	$ 121,288,439
Liabilities	
Accounts and contracts payable	$ 1,539,822
Salaries and benefits payable	2,758,099
Interest payable	622,035
Due to other Minnesota school districts	70,012
Due to other governmental units	4,071
Unearned revenue	163,091
Bond principal payable	
Payable within one year	4,020,000
Payable after one year	40,391,563
Compensated absences payable	
Payable after one year	121,113
Severance payable	
Payable within one year	14,430
Payable after one year	407,961
Net other post employment benefits (OPEB) liability	1,386,941
Net pension liability	69,043,624
Total liabilities	120,542,762
Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	1,817,655
Deferred inflows of resources related to OPEB	29,359
Property taxes levied for subsequent year's expenditures	8,459,689
Total deferred inflows of resources	10,306,703
Net Position	
Net investment in capital assets	13,068,308
Restricted for	
Debt service	797,858
Capital projects	60,088
Other purposes	1,536,583
Unrestricted	(25,023,863)
Total net position	(9,561,026)
Total liabilities, deferred inflows of resources, and net position	$ 121,288,439

See notes to financial statements.

Independent School District No. 727
Statement of Activities
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 (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 1,628,166	$ -	$ -	$ -	$ (1,628,166)
District support services	1,172,768	-	-	-	(1,172,768)
Elementary and secondary regular instruction	21,610,236	474,814	2,559,070	538,485	(18,037,867)
Vocational education instruction	778,477	-	55,301	-	(723,176)
Special education instruction	7,553,713	175,753	2,771,853	-	(4,606,107)
Instructional support services	2,705,461	-	431,443	-	(2,274,018)
Pupil support services	2,903,816	1,644	11,441	-	(2,890,731)
Sites and buildings	4,078,747	15,508	15,611	235,679	(3,811,949)
Fiscal and other fixed cost programs	144,896	-	-	-	(144,896)
Food service	1,619,704	828,554	787,576	-	(3,574)
Community education and services	2,423,507	1,539,677	355,587	-	(528,243)
Interest and fiscal charges on long-term debt	1,276,383	-	-	-	(1,276,383)
Total governmental activities	$ 47,895,874	$ 3,035,950	$ 6,987,882	$ 774,164	(37,097,878)

General revenues	
Taxes	
Property taxes, levied for general purposes	3,784,175
Property taxes, levied for community service	271,920
Property taxes, levied for debt service	4,246,079
State aid-formula grants	23,734,069
Other general revenues	50,158
Investment income	128,421
Total general revenues	32,214,822
Change in net position	(4,883,056)
Net position - beginning	(1,754,807)
Change in accounting principle (see note 9)	(2,923,163)
Net position - beginning, as restated	(4,677,970)
Net position - ending	$ (9,561,026)

See notes to financial statements.

Independent School District No. 727
Balance Sheet - Governmental Funds
June 30, 2017

	General	Capital Projects	Debt Service	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 8,309,236	$ 10,307,998	$ 3,180,099	$ 1,241,536	$ 23,038,869
Current property taxes receivable	1,886,224	-	1,972,875	337,467	4,196,566
Delinquent property taxes receivable	88,198	-	127,848	21,171	237,217
Accounts receivable	90,860	300	-	104,794	195,954
Interest receivable	23,189	27,352	-	-	50,541
Due from Department of Education	2,993,703	-	77,341	36,570	3,107,614
Due from Federal Government through Department of Education	124,368	-	-	29,124	153,492
Due from other Minnesota school districts	18,663	-	-	8,526	27,189
Due from other governmental units	149,918	-	33,848	10,314	194,080
Inventory	-	-	-	45,595	45,595
Prepaid items	211,298	-	-	1,000	212,298
Total assets	$ 13,895,657	$ 10,335,650	$ 5,392,011	$ 1,836,097	$ 31,459,415
Liabilities					
Accounts and contracts payable	$ 72,455	$ 1,396,292	$ -	$ 71,075	$ 1,539,822
Salaries and benefits payable	2,638,381	-	-	119,718	2,758,099
Due to other Minnesota school districts	70,012	-	-	-	70,012
Due to other governmental units	3,579	468	-	24	4,071
Unearned revenue	103,203	-	-	59,888	163,091
Severance payable	14,430	-	-	-	14,430
Total liabilities	2,902,060	1,396,760	-	250,705	4,549,525
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	88,198	-	127,848	21,171	237,217
Property taxes levied for subsequent year's expenditures	3,688,244	-	4,074,479	696,966	8,459,689
Total deferred inflows of resources	3,776,442	-	4,202,327	718,137	8,696,906
Fund Balances					
Nonspendable	211,298	-	-	46,595	257,893
Restricted	842,354	8,938,890	1,189,684	820,660	11,791,588
Committed	549,743	-	-	-	549,743
Assigned	516,924	-	-	-	516,924
Unassigned	5,096,836	-	-	-	5,096,836
Total fund balances	7,217,155	8,938,890	1,189,684	867,255	18,212,984
Total liabilities, deferred inflows of resources, and fund balances	$ 13,895,657	$ 10,335,650	$ 5,392,011	$ 1,836,097	$ 31,459,415

See notes to financial statements.

Independent School District No. 727
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2017

Total fund balances - governmental funds	$ 18,212,984
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	82,541,815
Less accumulated depreciation	(34,995,746)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable (net of premiums)	(44,411,563)
Compensated absences payable	(121,113)
Severance payable	(407,961)
Net pension liability	(69,043,624)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	42,277,666
Deferred inflows of resources related to pensions	(1,817,655)
Deferred inflows of resources related to OPEB	(29,359)
Net OPEB asset created through treatment of General Obligation (G.O.) Taxable OPEB Bonds as employer contribution to defined benefit OPEB plan is not recognized in the governmental funds.	(1,386,941)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	237,217
Equity interest in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.	
Equity interest in joint venture - Wright Technical Center	5,289
Governmental funds do not report a liability for accrued interest on bonds until due and payable.	(622,035)
Total net position - governmental activities	$ (9,561,026)

See notes to financial statements.

Independent School District No. 727
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General	Capital Projects	Debt Service	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 3,796,989	$ -	$ 3,897,647	$ 658,607	$ 8,353,243
Other local and county revenues	866,844	60,088	15,521	1,680,080	2,622,533
Revenue from state sources	28,171,879	-	775,883	399,318	29,347,080
Revenue from federal sources	404,876	-	-	599,207	1,004,083
Sales and other conversion of assets	108,212	-	-	841,066	949,278
Total revenues	33,348,800	60,088	4,689,051	4,178,278	42,276,217
Expenditures					
Current					
Administration	1,213,734	-	-	-	1,213,734
District support services	1,112,297	-	-	-	1,112,297
Elementary and secondary regular instruction	14,651,135	-	-	-	14,651,135
Vocational education instruction	565,914	-	-	-	565,914
Special education instruction	5,919,465	-	-	-	5,919,465
Instructional support services	2,004,623	-	-	-	2,004,623
Pupil support services	2,657,369	-	-	-	2,657,369
Sites and buildings	2,988,703	875,420	-	-	3,864,123
Fiscal and other fixed cost programs	144,896	-	-	-	144,896
Food service	-	-	-	1,491,301	1,491,301
Community education and services	-	-	-	2,127,284	2,127,284
Capital outlay					
Administration	350	-	-	-	350
District support services	1,197	-	-	-	1,197
Elementary and secondary regular instruction	306,604	-	-	-	306,604
Special education instruction	4,144	-	-	-	4,144
Instructional support services	433,174	-	-	-	433,174
Pupil support services	1,227	-	-	-	1,227
Sites and buildings	-	4,558,659	-	-	4,558,659
Food service	-	-	-	85,072	85,072
Community education and services	-	-	-	27,304	27,304
Debt service					
Principal	-	-	3,260,000	315,000	3,575,000
Interest and fiscal charges	-	142,900	1,504,196	72,649	1,719,745
Total expenditures	32,004,832	5,576,979	4,764,196	4,118,610	46,464,617
Excess of revenues over (under) expenditures	1,343,968	(5,516,891)	(75,145)	59,668	(4,188,400)
Other Financing Sources					
Bond issuance	-	8,913,479	166,521	-	9,080,000
Bond premium	-	134,722	2,810	-	137,532
Total other financing sources	-	9,048,201	169,331	-	9,217,532
Net change in fund balances	1,343,968	3,531,310	94,186	59,668	5,029,132
Fund Balances					
Beginning of year	5,873,187	5,407,580	1,095,498	807,587	13,183,852
End of year	$ 7,217,155	$ 8,938,890	$ 1,189,684	$ 867,255	$ 18,212,984

See notes to financial statements.

Independent School District No. 727
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2017

Net change in fund balances - total governmental funds	$ 5,029,132
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	5,312,315
Depreciation expense	(1,793,899)
Loss on disposal	(15,801)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	12,368
Severance payments are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	16,817
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on the full accrual perspective.	
Pension expense	(8,063,456)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	3,575,000
OPEB obligations are recognized when paid in the governmental funds but recognized when incurred in the Statement of Activities.	(46,285)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	83,207
Proceeds from the sale of bonds are recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net position in the Statement of Activities.	(9,080,000)
Governmental funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized asset or liability in the government-wide financial statements.	
Debt issuance premium	222,623
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	(84,008)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(51,069)
Change in net position - governmental activities	$ (4,883,056)

See notes to financial statements.

Independent School District No. 727
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 3,780,218	$ 3,779,445	$ 3,796,989	$ 17,544
Other local and county revenues	526,956	726,729	866,844	140,115
Revenue from state sources	28,071,778	28,773,113	28,171,879	(601,234)
Revenue from federal sources	399,824	654,910	404,876	(250,034)
Sales and other conversion of assets	55,050	90,154	108,212	18,058
Total revenues	32,833,826	34,024,351	33,348,800	(675,551)
Expenditures				
Current				
Administration	1,258,808	1,246,406	1,213,734	(32,672)
District support services	1,176,891	1,101,908	1,112,297	10,389
Elementary and secondary regular Instruction	14,678,257	15,074,110	14,651,135	(422,975)
Vocational education instruction	608,508	595,491	565,914	(29,577)
Special education instruction	5,986,605	6,223,026	5,919,465	(303,561)
Instructional support services	2,117,175	2,116,670	2,004,623	(112,047)
Pupil support services	2,879,804	2,734,099	2,657,369	(76,730)
Sites and buildings	2,964,355	3,066,782	2,988,703	(78,079)
Fiscal and other fixed cost programs	146,130	146,130	144,896	(1,234)
Capital outlay				
Administration	2,500	350	350	-
District support services	39,948	3,925	1,197	(2,728)
Elementary and secondary regular Instruction	371,650	315,752	306,604	(9,148)
Special education instruction	800	3,795	4,144	349
Instructional support services	541,500	783,474	433,174	(350,300)
Pupil support services	450	450	1,227	777
Sites and buildings	78,794	56,485	-	(56,485)
Total expenditures	32,852,175	33,468,853	32,004,832	(1,464,021)
Excess of revenues over (under) expenditures	$ (18,349)	$ 555,498	1,343,968	$ 788,470
Fund Balance				
Beginning of year			5,873,187	
End of year			$ 7,217,155	

See notes to financial statements.

Independent School District No. 727
Statement of Fiduciary Net Position
Year Ended June 30, 2017

	Agency Fund		Scholarship Trust Fund		Other Post Employment Benefits Irrevocable Trust Fund	
Assets						
Current						
Deposits	$	2,840	$	11,600	$	1,266,160
Investments						
Certificates of deposit		-		-		140,390
Government obligations		-		-		60,000
Exchange traded funds		-		-		416,045
MNTrust investment shares portfolio		-		-		33,564
Total investments		-		-		649,999
Interest receivable		-		-		17,222
Total assets	$	2,840	$	11,600	$	1,933,381
Liabilities						
Accounts payable	$	2,840	$	-		74,533
Benefits payable		-		-		58,127
Unearned revenue		-		11,600		-
Total liabilities	$	2,840	$	11,600	$	132,660
Net Position						
Held in trust for OPEB					$	1,800,721

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

	Scholarship Trust Fund		Other Post Employment Benefits Irrevocable Trust Fund	
Additions				
Contributions	$	10,700	$	-
Investment income		-		80,250
Total additions		10,700		80,250
Deductions				
Scholarships		10,700		-
Benefit payments		-		132,659
Miscellaneous expense		-		250
Total deductions		10,700		132,909
Change in net position		-		(52,659)
Net Position				
Beginning of year		-		1,853,380
End of year	$	-	$	1,800,721

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a six member board elected by the voters of the District to serve four-year terms.

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

A. Reporting Entity

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

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

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

The student activity accounts of the District are under the School Board's control; therefore, separate audited financial statements have not been issued.

B. Basic Financial Statement Information

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement of Focus and Basis of Accounting (Continued)

Description of Funds:

Major Funds:

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

Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, G.O. bond principal, interest, and related costs.

Capital Projects Fund – This Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

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

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs, or other similar services.

OPEB Debt Service Fund – This Fund is used to account for the financial resources relating to the bond issued for post employment benefits.

Fiduciary Funds:

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

OPEB Irrevocable Trust Fund – This Fund is used to account for the financial resources relating to post employment benefits.

Agency Fund – This Fund is used to account for assets held by a governmental unit as an agent for individuals, private organization, other governmental units, and other funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described on the following page.

District Funds Other than OPEB Trust Fund

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

Minnesota Statutes requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the government and the District to invest in obligations of the U.S. Treasury, corporate bonds, commercial paper, and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

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

The District's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

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

Cash and investments at June 30, 2017 were comprised of deposits, negotiable certificates of deposit, shares in the Minnesota Trust (MNTrust) Term Series, shares in the MNTrust Investment Shares Portfolio, and shares in the MNTrust Limited Term Duration. In accordance with GASB Statement No. 79, the various MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from MNTrust. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

OPEB Trust Fund
These funds represent investments administered by the District's OPEB Trust Fund investment managers. As of June 30, 2017, they were comprised of shares in the MN Trust Investment Shares Portfolio, negotiable certificates of deposit, government obligations and Vanguard Total Stock Market Exchange Traded Funds. The District's investment policy, discussed previously, extends to the OPEB Trust Fund investments.

Minnesota Statutes authorize the OPEB Trust Fund to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

The OPEB Trust Agreement indicates permitted investments include one or more series of MN Trust shares relating to a separate portfolio of investments, or from multi-class shares of MN Trust within the same portfolio.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Prepaid Items

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

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Sherburne County is the collecting agency for the levy and remits the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 20 years for equipment.

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. A deferred outflows of resources related to pensions is recorded in the government-wide Statement of Net Position for various estimate differences that will be amortized and recognized over future years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position and fund balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item, deferred inflows relating to pensions, is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years. Deferred inflows of resources related to OPEBs is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

L. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium.

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. Issuance costs, whether or not withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Compensated Absences

District employees earn vacation days based upon the number of completed years of service. The District compensates employees for unused vacation upon termination of employment.

The District maintains various sick leave plans for its employee groups. All District employees are entitled to sick leave at various rates. Sick leave may be accumulated to a maximum of 120 days for all employee groups. Unused sick leave is a factor in the calculation of an employee's severance pay upon retirement under some collective bargaining agreements. The amount of compensated absences is recorded in the Statement of Net Position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Severance Benefits

The District maintains various severance plans for its employee groups. Severance benefits consist of lump sum early retirement incentive payments, severance based upon experience and sick leave balances.

O. Post Employment Health Benefits

Under the terms of certain collectively bargained employment contracts, the District is required to pay the hospital/medical insurance premiums and dental insurance premiums for retired employees until they reach specified age requirements such as Medicare eligibility. The amount to be paid is equal to the full monthly premium cost for insurance coverage available under the appropriate current employment contract.

P. Pensions

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

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

Q. Postemployment Benefits Other Than Pensions (OPEB)

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

R. Risk Management

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Equity

1. Classification
In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- Restricted Fund Balances – These are amounts that are restricted to specific purposes either by constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through enabling legislation.
- Committed Fund Balances – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) through resolution.
- Assigned Fund Balances – The School Board delegates to the Director of Business Services, after consultation with the Finance Committee, the authority to assign fund balances for specific purposes.
- Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

The District's policy is to spend resources from fund balance classifications in the following order (first to last) if resources from more than one fund balance classification could be spent: restricted, committed, assigned, and unassigned.

2. Minimum Fund Balance Policy
The District will strive to maintain a General Fund unassigned minimum fund balance of 5% of General Fund operating expenditures. When the District is projected to drop below its minimum fund balance, District administration shall initiate measures to either generate additional revenue or to reduce expenditures through a budget reduction plan, or a combination of both.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

V. Budgetary Information
The District follows these procedures in establishing the budgetary data reflected in the financial statements:

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

District Funds Other than OPEB Trust Fund
Custodial Credit Risk – Deposits: For deposits, this is the risk in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy that requires the District's deposits be collateralized by obtaining collateral or bond for all uninsured amounts on deposit and by obtaining necessary documentation to show compliance with state law and a perfected security interest under federal law.

The District's pooled deposits had a book balance as follows:

Checking	$ 231,909
Certificates of deposit	3,075,400
Total deposits	$ 3,307,309

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

Bond Proceeds
The District's nonpooled deposits related to the 2016A, 2016B, and 2017A Bonds had a book balance as follows:

Certificates of deposit	$ 2,920,600

OPEB Trust Fund

As of June 30, 2017, the District's OPEB Trust Fund has the following non pooled deposits:

Certificates of deposit	$ 1,266,160

B. Investments

Credit Risk: As of June 30, 2017, the District's investments were rated in the table on following page.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy refers to *Minnesota Statutes* governing investments. Statutes limits investments in the top two ratings issued by nationally recognized statistical rating organizations. The policy also states the District will prequalify the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's policy states the District will diversify the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized. Diversification strategies shall be determined and revised periodically by the investment officer for all funds as allowed by law. More than 5% of the Districts OPEB investments were in Ally Bank CD (60.01%) and ISD 166 Cook County Bond (25.65%).

Interest Rate Risk: This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's policy states interest rate risk will be managed by structuring the investment portfolio, so securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter term securities, money market mutual funds or similar investment pools and limiting the average maturity of the portfolio.

Independent School District No. 727
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)
Custodial Credit Risk – Investments: For an investment, this is the risk in the event of the failure of the counterparty; the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states an annual review of the financial condition and registration of all qualified financial institutions and broker/dealers will be conducted by the investment officer. In addition, the School Board shall annually designate one or more official depositories for District funds. The Finance Manager of the District may also exercise the power of the School Board to designate a depository.

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

		Investment Maturities		
Investment Type	Fair Value	Less Than 1 Year	1 to 3 Years	S & P Credit Ratings
Pooled				
MN Trust Term Series	$ 4,000,000	$ 4,000,000	$ -	AAA
Negotiable CDs	1,103,026	1,103,026	-	NR
MN Trust Limited Term Duration	999,900	999,900	-	AAA
MN Trust Investment Shares Portfolio	3,314,110	3,314,110	-	AAA
Total Pooled Investments	9,417,036	9,417,036	-	
Non Pooled				
Bond Proceeds Investments				
MN Trust Investment Shares Portfolio	3,601,533	3,601,533	-	AAA
MN Trust Term Series	3,800,000	3,800,000	-	AAA
Total 2015A, 2015B and 2017B Bonds	7,401,533	7,401,533	-	
OPEB Investments				
Equity	416,045	416,045	-	N/A
Negotiable CD's	140,390	-	140,390	NR
Government Obligations	60,000	20,000	40,000	NR
MN Trust Investment Shares Portfolio	33,564	33,564	-	AAA
Total OPEB Investments	649,999	469,609	180,390	
Total Non-Pooled Investments	8,051,532	7,871,142	180,390	
Total Investments	$ 17,468,568	$ 17,288,178	$ 180,390	

The District has the following recurring fair value measurements as of June 30, 2017:

- $416,045 of investments are valued using quoted market prices (Level 1 inputs)
- $1,303,416 of investments are valued using a significant other observable (Level 2 inputs)

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments

The following is a summary of total deposits and investments:

District Governmental Funds and Private Purpose Trust Fund	
Deposits- pooled (Note 3A)	$ 3,307,309
Deposits- non pooled (Note 3A)	2,920,600
Deposits - non pooled (Note 3A)	1,266,160
Petty cash	6,831
Investments - pooled	9,417,036
Investments - non pooled	7,401,533
Investments - non pooled	649,999
Total Deposits and Investments	$ 24,969,468
Statement of Net Position	
Cash and investments	$ 23,038,869
Statement of Fiduciary Net Position	
Cash - Agency Fund	2,840
Cash - Scholarship Trust Fund	11,600
Cash and investments - OPEB Irrevocable Trust Fund	1,916,159
Total	$ 24,969,468

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 784,389	$ -	$ -	$ 784,389
Construction in progress	15,750	2,695,813	199,681	2,511,882
Total capital assets not being depreciated	800,139	2,695,813	199,681	3,296,271
Capital assets being depreciated				
Land improvements	2,547,132	16,696	-	2,563,828
Buildings	70,525,840	1,418,145	15,226	71,928,759
Machinery and equipment	3,595,929	1,381,342	224,314	4,752,957
Total capital assets being depreciated	76,668,901	2,816,183	239,540	79,245,544
Less accumulated depreciation for				
Land improvements	2,097,388	56,082	-	2,153,470
Buildings	28,760,816	1,444,091	14,008	30,190,899
Machinery and equipment	2,567,382	293,726	209,731	2,651,377
Total accumulated depreciation	33,425,586	1,793,899	223,739	34,995,746
Total capital assets being depreciated, net	43,243,315	1,022,284	15,801	44,249,798
Governmental activities, capital assets, net	$ 44,043,454	$ 3,718,097	$ 215,482	$ 47,546,069

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

Administration	$ 25,523
District support services	5,041
Elementary and secondary regular instruction	1,180,538
Vocational instruction	155
Special education instruction	30,190
Instructional support services	139,879
Pupil support services	17,250
Sites and buildings	257,679
Food service	116,271
Community service	21,373
Total depreciation expense	$ 1,793,899

NOTE 4 – LONG TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds including refunding bonds						
G.O. OPEB Bonds, Series 2009A	02/02/09	5.27%	$ 2,960,000	02/01/20	$ 1,055,000	$ 335,000
G.O. School Building Refunding Bonds, Series 2010B	11/22/10	2.00%-3.33%	11,500,000	02/02/21	5,625,000	1,325,000
G.O. Refunding Bonds, Series 2012B	04/25/12	5.00%	8,730,000	02/01/25	8,730,000	-
G.O. School Building Refunding Bonds, Series 2015A	11/03/15	2.00%-4.00%	14,490,000	02/01/22	12,580,000	2,075,000
G.O. Facilities Maintenance Bonds, Series 2016A	02/18/16	3.00%-5.00%	5,120,000	02/01/31	5,035,000	285,000
G.O. School Building Bonds Series 2016B	07/27/16	2.00%-2.75%	4,000,000	02/01/33	4,000,000	-
G.O. School Building Bonds Series 2017A	02/16/17	2.50%-3.00%	5,080,000	02/01/33	5,080,000	-
Total G.O. bonds					42,105,000	4,020,000
Plus net bond premium					2,306,563	-
Net bonds payable					44,411,563	4,020,000
Severance payable					407,961	14,430
Compensated absences payable					121,113	-
Total all long-term liabilities					$ 44,940,637	$ 4,034,430

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues or to pay OPEB. Other long-term liabilities, such as severance and compensated absences, are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds and Loans

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

Year Ending June 30,	G.O. Bonds Principal	Interest	Total
2018	$ 4,020,000	$ 1,500,463	$ 5,520,463
2019	4,160,000	1,370,446	5,530,446
2020	4,290,000	1,230,098	5,520,098
2021	4,050,000	1,088,213	5,138,213
2022	4,285,000	961,913	5,246,913
2023-2027	12,715,000	2,270,812	14,985,812
2028-2032	7,375,000	673,000	8,048,000
2033	1,210,000	31,550	1,241,550
Total	$ 42,105,000	$ 9,126,495	$ 51,231,495

NOTE 4 – LONG TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 36,600,000	$ 9,080,000	$ 3,575,000	$ 42,105,000
Premium	2,529,186	137,532	360,155	2,306,563
Severance payable	366,975	91,086	50,100	407,961
Compensated absences payable	129,262	197,331	205,480	121,113
Total long-term liabilities	$ 39,625,423	$ 9,505,949	$ 4,190,735	$ 44,940,637

NOTE 5 – FUND BALANCES/NET POSITION

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

A. Fund Balances

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

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

	General Fund	Capital Projects Fund	Debt Service Fund	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	$ -	$ -	$ -	$ 45,595	$ 45,595
Prepaid items	211,298	-	-	1,000	212,298
Total nonspendable	211,298	-	-	46,595	257,893
Restricted/reserved for					
Staff development	94,777	-	-	-	94,777
Basic skills programs	61,755	-	-	-	61,755
Long-term facilities maintenance	4,286	2,562,223	-	-	2,566,509
Area Learning Center	11,985	-	-	-	11,985
Operating capital	477,187	-	-	-	477,187
Capital projects levy	52,145	-	-	-	52,145
Medical assistance	140,219	-	-	-	140,219
Community education	-	-	-	373,609	373,609
Early childhood and family education	-	-	-	115,960	115,960
School readiness	-	-	-	82,405	82,405
Community service	-	-	-	231	231
Debt service	-	-	1,189,684	89,354	1,279,038
Capital projects	-	6,376,667	-	-	6,376,667
Food service	-	-	-	159,101	159,101
Total restricted/reserved	842,354	8,938,890	1,189,684	820,660	11,791,588
Committed for					
Separation/retirement	535,627	-	-	-	535,627
Ballfield Lights at Four-Plex	14,116	-	-	-	14,116
Total committed	549,743	-	-	-	549,743
Assigned for					
Q Comp	270,498	-	-	-	270,498
Moving costs	11,438	-	-	-	11,438
Athletics and activities	123,671	-	-	-	123,671
Student activities	111,317	-	-	-	111,317
Total assigned	516,924	-	-	-	516,924
Unassigned for					
General purposes	5,102,332	-	-	-	5,102,332
Health and safety	(5,496)	-	-	-	(5,496)
Total unassigned	5,096,836	-	-	-	5,096,836
Total fund balances	$7,217,155	$8,938,890	$1,189,684	$ 867,255	$ 18,212,984

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Codes 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subdivision 1).

Restricted/Reserved for Basic Skills Programs – This balance represents resources available for the basic skills uses listed in *Minnesota Statutes* 126C.15, subd.1.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at lease 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Capital Projects Levy – This balance represents available resources from the capital projects levy to be used for building construction and other projects under *Minnesota Statues* 126C.10, subd. 14. All interest income attributable to the capital projects levy must be credited to this account.

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)
Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Restricted/Reserved for Community Service – This balance represents the positive fund balance of the Community Service Fund.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the Debt Service Fund.

Restricted/Reserved for Capital Projects – This balance represents available resources in the Capital Projects Fund for projects.

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund.

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

Committed for Ballfield Lights at Four-Plex – This balance represents resources segregated from the unassigned fund balance for a donation dedicated to installation of ballfield lights.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balance for unspent Q Comp, or quality compensation, tax levy, and state aids.

Assigned for Moving Costs – This balance represents resources segregated from unassigned fund balance to be used for GLC July and August moving costs.

Assigned for Athletics and Activities – This balance represents resources segregated from unassigned fund balance for athletics and activity programming.

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)
Assigned for Student Activities – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or received donations for specific purposes.

Unassigned for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. This balance is classified as unassigned as the balance was negative at year-end. This negative balance will be eliminated at June 30, 2018 after 2017 and 2018 levy adjustments.

B. Restricted Net Position
Net position restricted for other purposes is comprised of the total positive restricted fund balances within the General Fund plus the total fund balances in the Community Service and Food Service Funds.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2017, was $10,439,829. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

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

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

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

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

Teachers' Retirement Association (Continued)

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

Tier 1 Benefits

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

With these provisions:

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

Tier II Benefits

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

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

Independent School District No. 727
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

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

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

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

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

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

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

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

Teachers' Retirement Association (Continued)

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
Cost of living adjustment	2.00%
Mortality Assumption	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

Independent School District No. 727
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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
Unallocated cash	2	0.50
Total	100 %	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is 6 years. The "Difference Between Expected and Actual Experience", "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.

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

F. Net Pension Liability
On June 30, 2017, the District reported a liability of $61,825,385 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2592% at the end of the measurement period and 0.2673% for the beginning of the year.

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

Teachers' Retirement Association (Continued)

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

District's proportionate share of net pension liability	$ 61,825,385
State's proportionate share of the net pension liability associated with the District	6,205,287

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 $9,475,772. It recognized $866,466 as an increase to this pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 698,501	$ 1,725
Net difference between projected and actual earnings on plan investment	2,419,240	-
Changes of assumptions	35,285,561	-
Changes in proportion	24,879	1,034,910
Contributions to TRA subsequent to the measurement date	1,070,404	-
Total	$ 39,498,585	$ 1,036,635

$1,070,404 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

2017	$ 7,258,639
2018	7,258,644
2019	8,290,186
2020	7,811,302
2021	6,772,775
Total	$ 37,391,546

G. Pension Liability Sensitivity
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1 percent lower and 1 percent higher.

District Proportionate Share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
$ 79,646,548	$ 61,825,385	$ 47,310,628

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

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

Public Employees' Retirement Association

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

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

A. Plan Description (Continued)

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

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

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

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

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

General Employees Plan Benefits

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

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

General Employees Plan Contributions
Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The District's contributions to the General Employees Plan for the year ended June 30, 2017, were $411,415. The District's contributions were equal to the required contributions as set by state statute.

Independent School District No. 727
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Plan Pension Costs

At June 30, 2017, the District reported a liability of $7,218,239 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $94,209. 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 0.0889%, which was a decrease of 0.003% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $857,170 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $28,091 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 General Employees Plan's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 22,829	$ 591,601
Changes in actuarial assumptions	1,566,644	-
Difference between projected and actual investments earnings	778,193	-
Changes in proportion	-	189,419
District's contributions to PERA subsequent to the measurement date	411,415	-
Total	$ 2,779,081	$ 781,020

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

$411,415 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2018	$ 420,097
2019	243,958
2020	661,859
2021	260,732
Total	$ 1,586,646

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

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

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

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (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 increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

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

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

F. Discount Rates

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

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

Public Employees' Retirement Association (Continued)

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 10,252,039	$ 7,218,239	$ 4,719,214

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

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

B. Benefit Provided
Certain teachers, principals and administrators who apply for early retirement shall remain eligible to receive subsidized health insurance benefits until the end of the school year in which the retiree becomes Medicare eligible. Other retirees are eligible to remain on the District's plan. Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy.

C. Members

As of June 30, 2017, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	30
Active employees	353
Total	383

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Contributions
Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements.

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Investment rate of return	2.35%, net of investment expense long-term
Salary increases	3.00%
Inflation	2.50%
Healthcare cost trend increases	6.75% initially, decreasing to 5.0% over 7 years
Mortality Assumption	RP 2014 white collar mortality tables with MP 2015 generational improvement scale

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

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Fixed income	75 %	2 %
Domestic Equity	20	4
Cash	5	1
Total	100 %	2.35 %

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)
The details of the investments and the investment policy are described in Note 2. of the District's financial statements. For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investments expenses, was 2.35 percent.

F. Discount Rate
The discount rate used to measure the total OPEB liability was 2.9%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

G. Changes in Net Other Post Employment Benefit Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at July 1, 2016	$ 3,186,695	$ 1,853,380	$ 1,333,315
Changes for the year			
Service cost	192,545	-	192,545
Interest	93,888	-	93,888
Employer contributions	-	152,807	(152,807)
Projected investment income	-	43,551	(43,551)
Differences between expected and actual economic experience	-	36,699	(36,699)
Benefit payments	(285,466)	(285,466)	-
Administrative expense	-	(250)	250
Other charges	-	-	-
Net changes	967	(52,659)	53,626
Balances at June 30, 2017	$ 3,187,662	$ 1,800,721	$ 1,386,941
Plan fiduciary net position as a percentage of the total OPEB liability			56.49%

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. Other Post Employment Benefit Liability Sensitivity
The following presents the District's net OPEB liability calculated using the discount rate of 2.9% as well as the liability measured using 1 percent lower and 1 percent higher than the current discount rate.

	1% decrease (1.9%)	Current (2.9%)	1% increase (3.9%)
Net OPEB Liability	$ 1,571,986	$ 1,386,941	$ 1,206,309

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percent lower and 1 percent higher than the current healthcare cost trend rates. The decrease in healthcare cost trend rates is over 7 years.

	1% decrease (5.75% decreasing to 4.0%)	Current (6.75% decreasing to 5.0%)	1% increase (7.75% decreasing to 6.0%)
Net OPEB Liability	$ 1,118,471	$ 1,386,941	$ 1,701,438

I. Other Post Employment Benefit Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Other Post Employment Benefit
For the year ended June 30, 2017, the District recognized OPEB expense of $235,792. At June 30, 2017, the Distract 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
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 29,359

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

I. Other Post Employment Benefit Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Other Post Employment Benefit (Continued)
Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Total
2018	$ (7,340)
2019	(7,340)
2020	(7,340)
2021	(7,339)
Total	$ (29,359)

J. Payable from the OPEB Plan
At June 30, 2017, the OPEB plan reported a payable of $74,533 to the District. The amount is reported as a payable on the OPEB Trust Fund Statement of Fiduciary Net Position.

NOTE 8 – JOINT POWERS AGREEMENT

The District entered into a joint powers agreement in February 1998 between and among eight other area independent school districts and Wright Technical Center No. 996 (WTC), a cooperative center for vocational education, to finance the acquisition and betterment of an addition to the existing WTC facilities.

The addition is being financed through capital lease agreements. Each participating district annually authorizes a leasing levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing capital costs for the addition based on the current cost allocation formula.

Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North, Buffalo, Minnesota 55313-1936.

NOTE 9 – CHAGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2017, the District implemented GASB Statement 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This resulted in an adjustment to the beginning net position on the Statement of Activities of $2,923,163 to add the beginning net OPEB liability.

NOTE 10 – COMMITMENTS

Description	Contract Amount	Expended through June 30, 2017	Remaining Commitment
MS roof	$ 1,039,370	$ -	$ 1,039,370
Tennis courts	357,440	191,211	166,229
Athletics field upgrades	3,528,000	887,100	2,640,900
Secured entrances	272,000	49,075	222,925
Camera interior and exterior	316,000	246,819	69,181
Auditorium project - audio visual	182,400	-	182,400
Auditorium project - theatrical lighting	196,200	-	196,200
County road 43 parking lot surface	346,000	-	346,000
VFD drives on HVAC units	99,901	17,000	82,901
Playground equipment	473,364	61,637	411,727
Total	$ 6,810,675	$ 1,452,842	$ 5,357,833

Independent School District No. 727
Schedule of Changes in Net OPEB Liability and Related Ratios

	June 30, 2017
Total OPEB Liability	
Service cost	$ 192,545
Interest	93,888
Benefit payments	(285,466)
Net change in total OPEB liability	967
Beginning of year	3,186,695
End of Year	$ 3,187,662
Plan Fiduciary Net Pension (FNP)	
Employer contributions	$ 152,807
Projected investment income	43,551
Differences beetween expected and actual experience	36,699
Benefit payments	(285,466)
Administrative expense	(250)
Net change in plan fiduciary net position	(52,659)
Beginning of year	1,853,380
End of year	$ 1,800,721
Net OPEB Liability	$ 1,386,941
Plan FNP as a percentage of the total OPEB liability	56.49%
Covered-employee payroll	$ 18,668,133
Net OPEB liability as a percentage of covered-employee payroll	7.43%

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

Independent School District No. 727
Schedule of Employer Contributions - OPEB

	June 30, 2017
Actuarially determined contribution	$ 152,807
Contributions in relation to the actuarially determined contribution	152,807
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 18,668,133
Contributions as a percentage of covered-employee payroll	0.82%

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

Independent School District No. 727
Schedule of Investment Returns

	June 30, 2017
Annual money-weighted rate of return, net of investment expense	2.35%

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

Independent School District No. 727
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Funds

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0950%	$ 4,462,624	$ -	$ -	$ 4,986,276	89.5%	78.7%
2015	0.0919%	4,762,735	-	-	5,459,160	87.2%	78.2%
2016	0.0889%	7,218,239	94,209	7,312,448	5,513,720	130.9%	68.9%

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

Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years TRA Retirement Funds

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.2996%	$ 13,805,352	$ 971,259	$14,776,611	$ 13,677,649	100.9%	81.5%
2015	0.2673%	16,535,149	2,028,282	18,563,431	13,729,307	120.4%	76.8%
2016	0.2592%	61,825,385	6,205,287	68,030,672	13,481,080	458.6%	44.9%

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

See notes to required supplementary information.

Independent School District No. 727
Schedule of District Contributions
General Employees Retirement Funds
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 361,505	$ 361,505	$ -	$ 4,986,276	7.25%
2015	409,437	409,437	-	5,459,160	7.50%
2016	413,529	413,529	-	5,513,720	7.50%
2017	411,415	411,415	-	5,485,533	7.50%

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

Schedule of District Contributions
TRA Retirement Funds
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 957,435	$ 957,435	$ -	$ 13,677,649	7.00%
2015	1,029,698	1,029,698	-	13,729,307	7.50%
2016	1,011,081	1,011,081	-	13,481,080	7.50%
2017	1,070,404	1,070,404	-	14,272,053	7.50%

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

See notes to required supplementary information.

TRA Retirement Funds

2016 Changes
Changes in Actuarial Assumptions
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

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

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

General Employees Fund

2016 Changes
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

Independent School District No. 727
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2016 Changes (Continued)
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

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

Independent School District No. 727
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Funds				
	Food Service	Community Service	Total Special Revenue	Other Post Employment Benefits Debt Service Fund	Total Nonmajor Funds
Assets					
Cash and investments (including cash equivalents)	$ 152,270	$ 802,857	$ 955,127	$ 286,409	$ 1,241,536
Current property taxes receivable	-	148,679	148,679	188,788	337,467
Delinquent property taxes receivable	-	8,164	8,164	13,007	21,171
Accounts receivable	82,385	22,409	104,794	-	104,794
Due from Department of Education	2,178	34,324	36,502	68	36,570
Due from Federal Government through Department of Education	29,124	-	29,124	-	29,124
Due from other Minnesota school districts	-	8,526	8,526	-	8,526
Due from other governmental units	-	6,330	6,330	3,984	10,314
Inventory	45,595	-	45,595	-	45,595
Prepaid items	-	1,000	1,000	-	1,000
Total assets	$ 311,552	$ 1,032,289	$ 1,343,841	$ 492,256	$ 1,836,097
Liabilities					
Accounts payable	$ 63,226	$ 7,849	$ 71,075	$ -	$ 71,075
Salaries and benefits payable	5,412	114,306	119,718	-	119,718
Due to other governmental units	-	24	24	-	24
Unearned revenue	38,218	21,670	59,888	-	59,888
Total liabilities	106,856	143,849	250,705	-	250,705
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	-	8,164	8,164	13,007	21,171
Property taxes levied for subsequent year's expenditures	-	307,071	307,071	389,895	696,966
Total deferred inflows of resources	-	315,235	315,235	402,902	718,137
Fund Balances					
Nonspendable	45,595	1,000	46,595	-	46,595
Restricted	159,101	572,205	731,306	89,354	820,660
Total fund balances	204,696	573,205	777,901	89,354	867,255
Total liabilities, deferred inflows of resources, and fund balances	$ 311,552	$ 1,032,289	$ 1,343,841	$ 492,256	$ 1,836,097

Independent School District No. 727
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2017

	Special Revenue Funds				
	Food Service	Community Service	Total Special Revenue	Other Post Employment Benefits Debt Service Fund	Total Nonmajor Funds
Revenues					
Local property taxes	$ -	$ 273,789	$ 273,789	$ 384,818	$ 658,607
Other local and county revenues	99,863	1,578,698	1,678,561	1,519	1,680,080
Revenue from state sources	89,440	309,197	398,637	681	399,318
Revenue from federal sources	599,207	-	599,207	-	599,207
Sales and other conversion of assets	828,554	12,512	841,066	-	841,066
Total revenues	1,617,064	2,174,196	3,791,260	387,018	4,178,278
Expenditures					
Current					
Food service	1,491,301	-	1,491,301	-	1,491,301
Community education and services	-	2,127,284	2,127,284	-	2,127,284
Capital outlay	85,072	27,304	112,376	-	112,376
Debt service					
Principal	-	-	-	315,000	315,000
Interest and fiscal charges	-	-	-	72,649	72,649
Total expenditures	1,576,373	2,154,588	3,730,961	387,649	4,118,610
Excess of revenues over expenditures	40,691	19,608	60,299	(631)	59,668
Fund Balances					
Beginning of year	164,005	553,597	717,602	89,985	807,587
End of year	$ 204,696	$ 573,205	$ 777,901	$ 89,354	$ 867,255

Independent School District No. 727
Detailed Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues				
Local property taxes	$ 3,780,218	$ 3,779,445	$ 3,796,989	$ 17,544
Other local and county revenues	526,956	726,729	866,844	140,115
Revenue from state sources	28,071,778	28,773,113	28,171,879	(601,234)
Revenue from federal sources	399,824	654,910	404,876	(250,034)
Sales and other conversion of assets	55,050	90,154	108,212	18,058
Total revenues	32,833,826	34,024,351	33,348,800	(675,551)
Expenditures				
Current				
Administration				
Salaries	864,190	857,728	859,262	1,534
Employee benefits	300,964	293,740	295,558	1,818
Purchased services	24,874	20,717	16,955	(3,762)
Supplies and materials	19,465	9,777	9,543	(234)
Capital expenditures	2,500	350	350	-
Other expenditures	49,315	64,444	32,416	(32,028)
Total administration	1,261,308	1,246,756	1,214,084	(32,672)
District support services				
Salaries	633,001	661,712	653,956	(7,756)
Employee benefits	297,766	236,032	234,383	(1,649)
Purchased services	127,750	173,408	196,064	22,656
Supplies and materials	27,450	5,850	3,825	(2,025)
Capital expenditures	39,948	3,925	1,197	(2,728)
Other expenditures	90,924	24,906	24,069	(837)
Total district support services	1,216,839	1,105,833	1,113,494	7,661
Elementary and secondary				
Regular instruction				
Salaries	9,935,835	9,838,861	9,781,717	(57,144)
Employee benefits	3,341,484	3,354,456	3,395,052	40,596
Purchased services	781,558	653,313	743,987	90,674
Supplies and materials	586,919	596,593	628,353	31,760
Capital expenditures	371,650	315,752	306,604	(9,148)
Other expenditures	32,461	630,887	102,026	(528,861)
Total elementary and secondary regular instruction	15,049,907	15,389,862	14,957,739	(432,123)

Independent School District No. 727
Detailed Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Over (Under)
Expenditures				
Current (continued)				
Vocational education instruction				
Salaries	$ 222,226	$ 242,971	$ 221,601	$ (21,370)
Employee benefits	95,032	91,968	94,893	2,925
Purchased services	253,050	212,976	213,448	472
Supplies and materials	38,200	34,399	34,399	-
Other expenditures	-	13,177	1,573	(11,604)
Total vocational education instruction	608,508	595,491	565,914	(29,577)
Special education instruction				
Salaries	4,079,612	4,146,356	4,022,308	(124,048)
Employee benefits	1,584,235	1,685,399	1,645,349	(40,050)
Purchased services	271,643	189,958	204,167	14,209
Supplies and materials	36,115	33,589	28,072	(5,517)
Capital expenditures	800	3,795	4,144	349
Other expenditures	15,000	167,724	19,569	(148,155)
Total special education instruction	5,987,405	6,226,821	5,923,609	(303,212)
Instructional support services				
Salaries	1,269,421	1,278,052	1,239,771	(38,281)
Employee benefits	437,085	424,465	425,413	948
Purchased services	127,826	96,390	78,978	(17,412)
Supplies and materials	224,167	250,803	246,631	(4,172)
Capital expenditures	541,500	783,474	433,174	(350,300)
Other expenditures	58,676	66,960	13,830	(53,130)
Total instructional support services	2,658,675	2,900,144	2,437,797	(462,347)
Pupil support services				
Salaries	767,530	698,019	687,615	(10,404)
Employee benefits	270,669	254,523	256,483	1,960
Purchased services	1,827,860	1,750,083	1,702,974	(47,109)
Supplies and materials	9,050	7,203	3,261	(3,942)
Capital expenditures	450	450	1,227	777
Other expenditures	4,695	24,271	7,036	(17,235)
Total pupil support services	2,880,254	2,734,549	2,658,596	(75,953)

Independent School District No. 727
Detailed Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Over (Under)
Expenditures				
Current (continued)				
Sites and buildings				
Salaries	$ 1,094,580	$ 1,042,863	$ 1,055,344	$ 12,481
Employee benefits	433,631	442,925	447,106	4,181
Purchased services	1,290,819	1,386,893	1,307,321	(79,572)
Supplies and materials	133,525	184,096	167,905	(16,191)
Capital expenditures	78,794	56,485	-	(56,485)
Other expenditures	11,800	10,005	11,027	1,022
Total sites and buildings	3,043,149	3,123,267	2,988,703	(134,564)
Fiscal and other fixed cost programs				
Purchased services	146,130	146,130	144,896	(1,234)
Total expenditures	32,852,175	33,468,853	32,004,832	(1,464,021)
Excess of revenues over (under) expenditures	$ (18,349)	$ 555,498	1,343,968	$ 788,470
Fund Balance				
Beginning of year			5,873,187	
End of year			$ 7,217,155	

Independent School District No. 727
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2017

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues				
Other local and county revenues	$ 2,200	$ 25,200	$ 99,863	$ 74,663
Revenue from state sources	95,000	94,600	89,440	(5,160)
Revenue from federal sources	666,660	656,160	599,207	(56,953)
Sales and other conversion of assets	1,051,805	866,780	828,554	(38,226)
Total revenues	1,815,665	1,642,740	1,617,064	(25,676)
Expenditures				
Current				
Food service	1,740,665	1,626,254	1,491,301	(134,953)
Capital outlay				
Food service	25,000	44,550	85,072	40,522
Total expenditures	1,765,665	1,670,804	1,576,373	(94,431)
Excess of revenues over (under) expenditures	$ 50,000	$ (28,064)	40,691	$ 68,755
Fund Balance				
Beginning of year			164,005	
End of year			$ 204,696	

Independent School District No. 727
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Community Service Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Over (Under)
Revenues				
Local property taxes	$ 270,535	$ 272,187	$ 273,789	$ 1,602
Other local and county revenues	1,180,605	1,443,753	1,578,698	134,945
Revenue from state sources	301,629	319,424	309,197	(10,227)
Sales and other conversion of assets	1,000	10,700	12,512	1,812
Total revenues	1,753,769	2,046,064	2,174,196	128,132
Expenditures				
Current				
Community education and services	1,779,018	2,059,142	2,127,284	68,142
Capital outlay				
Community education and services	22,175	34,450	27,304	(7,146)
Total expenditures	1,801,193	2,093,592	2,154,588	60,996
Excess of revenues over (under) expenditures	$ (47,424)	$ (47,528)	19,608	$ 67,136
Fund Balance				
Beginning of year			553,597	
End of year			$ 573,205	

Independent School District No. 727
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2017

	Audit	UFARS	Audit-UFARS
01 General Fund			
Total revenue	$ 33,348,800	$ 33,348,800	$ -
Total expenditures	32,004,832	32,004,828	4
Nonspendable:			
460 Nonspendable fund balance	211,298	211,297	1
Restricted/reserved:			
403 Staff Development	94,777	94,777	-
406 Health and Safety	(5,496)	(5,496)	-
407 Capital Projects Levy	52,145	52,145	-
408 Cooperative Programs	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	477,187	477,187	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	11,985	11,985	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluation	-	-	-
441 Basic Skills Programs	61,755	61,755	-
445 Career Technical Programs	-	-	-
446 First Grade Preparedness	-	-	-
448 Achievement and Integration	-	-	-
449 Safe School Crime	-	-	-
450 Transition to Pre-kindergarten	-	-	-
451 QZAB and QSCB Payments	-	-	-
452 OPEB Liabilities not Held in Trust		-	-
453 Unfunded Severance and Retirement Levy	-	-	-
467 Long-term Facilities Maintenance	4,286	4,286	-
472 Medical Assistance	140,219	140,219	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Committed for separation	535,627	535,627	-
461 Committed	14,116	14,116	-
Assigned:			
462 Assigned fund balance	516,924	516,924	-
Unassigned:			
422 Unassigned fund balance (net position)	5,102,332	5,102,336	(4)
02 Food Services Fund			
Total revenue	$ 1,617,064	$ 1,617,065	$ (1)
Total expenditures	1,576,373	1,576,376	(3)
Nonspendable:			
460 Nonspendable fund balance	45,595	45,595	-
Restricted/Reserved:			
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	159,101	159,100	1
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ 2,174,196	$ 2,174,193	$ 3
Total expenditures	2,154,588	2,154,585	3
Nonspendable:			
460 Nonspendable fund balance	1,000	1,000	-
Restricted/reserved:			
426 $25 Taconite	-	-	-
431 Community Education	373,609	373,609	-
432 ECFE	115,960	115,960	-
440 Teacher Development and Evaluation	-	-	-
444 School Readiness	82,405	82,405	-
447 Adult Basic Education	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted fund balance	231	232	(1)
Unassigned:			
463 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 Building Construction Fund			
Total revenue	$ 60,088	$ 60,088	$ -
Total expenditures	5,576,979	5,576,979	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	-	-	-
467 LTFM	2,562,223	2,562,223	-
Restricted:			
464 Restricted fund balance	6,376,667	6,376,667	-
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ 4,689,051	$ 4,689,052	$ (1)
Total expenditures	4,764,196	4,764,197	(1)
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
425 Bond refunding	-	-	-
451 QZAB and QSCB payments	-	-	-
Restricted:			
464 Restricted fund balance	1,189,684	1,189,683	1
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ 10,700	$ 10,700	$ -
Total expenditures	10,700	10,700	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
20 Internal Service Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
25 OPEB Revocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
45 OPEB Irrevocable Trust			
Total revenue	$ 80,250	$ 80,250	$ -
Total expenditures	132,909	132,909	-
Unassigned:			
422 Unassigned fund balance (net position)	1,800,721	1,800,721	-
47 OPEB Debt Service			
Total revenue	$ 387,018	$ 387,018	$ -
Total expenditures	387,649	387,649	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted:			
464 Restricted fund balance	89,354	89,354	-
Unassigned:			
463 Unassigned fund balance	-	-	-

Independent School District No. 727
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast	10.553	$ 61,028
Type A Lunch and Commodities Programs	10.555	494,044
Summer Food Service	10.559	44,136
Total Child Nutrition Cluster and U.S. Department of Agriculture		599,208
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	238,077
Title II, Part A - Teacher and Principal Training and Recruiting	84.367	46,359
Through Independent School District No. 882		
Special Education	84.027	120,440
Total U.S. Department of Education		404,876
Total Federal Expenditures		$ 1,004,084

See notes to the Schedule of Expenditures of Federal Awards.

Independent School District No. 727
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2017

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

NOTE 4 – INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 727
Big Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 727, Big Lake, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 31, 2017.

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

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

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Internal Control over Financial Reporting (Continued)
Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified a certain deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency in internal control, Audit Finding 2006-001.

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

District's Response to the Findings
The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Bergan KDV Ltd.

Minneapolis, Minnesota
October 31, 2017

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Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the School Board
Independent School District No. 727
Big Lake, Minnesota

Report on Compliance for Each Major Federal Program
We have audited the compliance of Independent School District No. 727, Big Lake, Minnesota with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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

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

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

BerganKDV, Ltd.
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Opinion on Each Major Federal Program
In our opinion, Independent School District No. 727 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 31, 2017

Independent School District No. 727
Schedule of Findings and Questioned Costs
in Accordance the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified	Yes, Audit Finding 2006-001
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies)	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No:	10.553, 10.555, and 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	Yes

Independent School District No. 727
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2006-001

Criteria or Specific Requirement:
Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:
During the year ended June 30, 2017, the District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. Although this meets the definition of a "significant deficiency," it may not be practical to correct since the costs of obtaining desirable segregation of accounting duties may exceed benefits that could be derived.

Cash Disbursement Process

- The Accounts Payable Specialist and/or the Accountant matches purchase orders to invoices, enters invoices into SMART, runs, prints, and mails checks. The Director of Business Services reviews check stubs and invoices if the Accountant has input invoices in the Accounts Payable Specialist's absence.

Cash Receipt

- The Administrative Assistant at each building can receipt cash, prepare deposit slips, and reconcile the deposit.
- The Community Education Director and Administrative Assistant can collect money, prepare the deposit, and also can perform the reconciliation to the deposit.

Payroll

- The Payroll Specialist reviews and inputs timesheets, calculates payroll, and generates payroll and also has access to change pay rates in the system. The Compensation Coordinator reviews payroll runs.

Context:
This finding impacts the internal control for all significant accounting functions.

Effect:
The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2006-001 (Continued)

Cause:
There are a limited number of office employees.

Recommendation:
Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

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

2. Actions Planned in Response to Finding
   The District has implemented mitigating controls to overcome the lack of segregation of accounting duties. Examples are provided on the following page for specific areas in which the District was cited.

   A. Cash Disbursement Process

   The Director of Business Services or Accountant reviews invoices with check stubs and purchase orders for unusual transactions or alterations. The Director of Business Services or Accountant also reviews for supervisor approval and proper documentation. The check stubs are initialed by the Director of Business Services or Accountant indicating such review has taken place.

   On a monthly basis, detailed budget reports are sent to building and program administrators for review. In addition, the Director of Business Services currently reviews detailed budgeted line items on at least a quarterly basis for significant variances.

   B. Cash Receipt Process

   The District operates on a decentralized cash receipts process in which each building reconciles and prepares the deposits for the bank. Copies of the deposit slips are forwarded to the District Accountant, who ensures all deposits are properly credited to the District bank account during the bank reconciliation process. The Director of Business Services and building and administrator budget managers monitor receipts and revenue for significant fluctuations or unusual variations.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2006-001 (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (Continued)

1. Actions Planned in Response to Finding

   C. Payroll Process

   The District Accountant posts the payroll to the general ledger and on a quarterly basis, reviews salary and benefit line item budgets with expected results based on the staffing budget. The District Accountant also reconciles all payroll liability accounts on a monthly basis and variations or fluctuations are communicated to the Payroll Specialist or Compensation Coordinator.

2. Official Responsible for Ensuring CAP
   Angie Manuel, Director of Business Services, is the official responsible for ensuring corrective action of the deficiency.

3. Planned Completion Date for CAP
   The planned completion date is ongoing.

4. Plan to Monitor Completion of CAP
   The School Board will be monitoring the corrective action plan.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings or questioned costs.

bergankdv

Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 727
Big Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 727, Big Lake, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated October 31, 2017.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 31, 2017

BerganKDV, Ltd.
bergankdv.com

APPENDIX B

FORM OF LEGAL OPINION

(See following page)

FORM OF LEGAL OPINION

Independent School District No. 727
Big Lake, Minnesota

[Original Purchaser]

Re: $4,000,000 General Obligation Facilities Maintenance Bonds, Series 2017B
Independent School District No. 727 (Big Lake)
Sherburne County, Minnesota

Ladies and Gentlemen:

As Bond Counsel in connection with the authorization, issuance and sale by Independent School District No. 727 (Big Lake), Sherburne County, Minnesota (the District), of the obligations described above, dated, as originally issued, as of December 28, 2017 (the Bonds), we have examined certified copies of certain proceedings taken, and certain affidavits and certificates furnished, by the District in the authorization, sale and issuance of the Bonds, including the form of the Bonds. As to questions of fact material to our opinion, we have assumed the authenticity of and relied upon the proceedings, affidavits and certificates furnished to us without undertaking to verify the same by independent investigation. From our examination of such proceedings, affidavits and certificates and on the basis of existing law, it is our opinion that:

1. The Bonds are valid and binding general obligations of the District, enforceable in accordance with their terms.

2. The principal of and interest on the Bonds are payable from ad valorem taxes heretofore duly levied on all taxable property in the District, but if necessary for payment thereof, additional ad valorem taxes are required by law to be levied on all such property, which taxes are not subject to any limitation as to rate or amount.

3. The resolution authorizing the issuance of the Bonds obligates the District to be bound by the provisions of Minnesota Statutes, Section 126C.55. We express no opinion as to the enforceability of the provisions of such law against the State of Minnesota in the absence of legally appropriated and available funds to pay the obligations of the State thereunder.

4. Interest payable on the Bonds (a) 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; (b) is includable in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax; (c) is not an item of tax preference for federal or Minnesota alternative minimum tax purposes; and (d) is includable in adjusted current earnings of corporations for federal alternative minimum tax purposes.

5. The District has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the Code), and financial institutions described in Section 265(b)(5) of the Code may treat the Bonds for purposes of Sections 265(b)(2) and 291(e)(1)(B) of the Code as if they were acquired on August 7, 1986.

The opinions expressed in paragraphs 1, 2, and 3 above are subject, as to enforceability, to the effect of any state or federal laws relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the application of equitable principles, whether considered at law or in equity.

The opinions expressed in paragraphs 4 and 5 above are subject to the condition of the District's compliance with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest payable thereon may be, and continue to be, excluded from gross income for federal income tax purposes, and that the Bonds may be, and continue to be, qualified tax-exempt obligations. The District has covenanted to comply with these continuing requirements. Its failure to do so could result in the inclusion of interest on the Bonds in federal gross income and in Minnesota taxable net income, 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 to holders of the Bonds.

We have not been asked, and have not undertaken, to review the accuracy, completeness or sufficiency of any offering materials relating to the Bonds, and, accordingly, we express no opinion with respect thereto.

Dated this 28th day of December, 2017.

Very truly yours,

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 COVENANTS
(EXCERPTS FROM SALE RESOLUTION)

(See following page)

FORM OF CONTINUING DISCLOSURE

Continuing Disclosure. (a) Purpose and Beneficiaries. To provide for the public availability of certain information relating to the Bonds and the security therefor and to permit the Purchaser and other participating underwriters in the primary offering of the Bonds to comply with amendments to Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 C.F.R. § 240.15c2-12), relating to continuing disclosure (as in effect and interpreted from time to time, the Rule), which will enhance the marketability of the Bonds, the District hereby makes the following covenants and agreements for the benefit of the Owners (as hereinafter defined) from time to time of the outstanding Bonds. The District is the only obligated person in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made. If the District fails to comply with any provisions of this section, any person aggrieved thereby, including the Owners of any outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any agreement or covenant contained in this section, including an action for a writ of mandamus or specific performance. Direct, indirect, consequential and punitive damages shall not be recoverable for any default hereunder to the extent permitted by law. Notwithstanding anything to the contrary contained herein, in no event shall a default under this section constitute a default under the Bonds or under any other provision of this resolution. As used in this section, Owner or Bondowner means, in respect of a Bond, the registered owner or owners thereof appearing in the bond register maintained by the Registrar or any Beneficial Owner (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, Beneficial Owner means, in respect of a Bond, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes.

(b) Information To Be Disclosed. The District will provide, in the manner set forth in subsection (c) hereof, either directly or indirectly through an agent designated by the District, the following information at the following times:

(1) on or before twelve (12) months after the end of each fiscal year of the District, commencing with the fiscal year ending June 30, 2018, the following financial information and operating data in respect of the District (the Disclosure Information):

(A) the audited financial statements of the District for such fiscal year, prepared in accordance with generally accepted accounting principles in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under Minnesota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the District, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the fiscal officer of the District; and

(B) to the extent not included in the financial statements referred to in paragraph (A) hereof, the information for such fiscal year or for the period most recently available of the type contained in the Official Statement under the headings: Current Property Valuations; Direct Debt; Tax Levies and Collections; Student Body; and Employment/ Unemployment Data, which information may be unaudited.

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the District shall provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the District shall provide the audited financial statements. Any or all of the Disclosure Information may be incorporated by reference, if it is updated as required hereby, from other documents, including official statements, which have been submitted to the Municipal Securities Rulemaking Board (the MSRB) through its Electronic Municipal Market Access System (EMMA) or the SEC. The District shall clearly identify in the Disclosure Information each document so incorporated by reference. If any part of the Disclosure Information can no longer be generated because the operations of the District have materially changed or been discontinued, such Disclosure Information need no longer be provided if the District includes in the Disclosure Information a statement to such effect; provided, however, if such operations have been replaced by other District operations in respect of which data is not included in the Disclosure Information and the District determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations. If the Disclosure Information is changed or this section is amended as permitted by this paragraph (b)(1) or subsection (d), then the District shall include in the next Disclosure Information to be delivered hereunder, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

(2) In a timely manner, not in excess of 10 business days, to the MSRB through EMMA, notice of the occurrence of any of the following events (each a "Material Fact," as hereinafter defined):

(A) principal and interest payment delinquencies;
(B) non-payment related defaults, if material;
(C) unscheduled draws on debt service reserves reflecting financial difficulties;
(D) unscheduled draws on credit enhancements reflecting financial difficulties;
(E) substitution of credit or liquidity providers, or their failure to perform;
(F) 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 Bonds or other material events affecting the tax status of the Bonds;

(G) modifications to rights of Bond holders, if material;

(H) Bond calls, if material and tender offers;

(I) defeasances;

(J) release, substitution, or sale of property securing repayment of the Bonds if material;

(K) rating changes;

(L) bankruptcy, insolvency, receivership, or similar event of the obligated person;

(M) 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 actions, other than pursuant to its terms, if material; and

(N) appointment of a successor or additional trustee or the change of name of a trustee, if material.

As used herein, for those events that must be reported if material, a "Material Fact" is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a Material Fact is also a fact that would be deemed material for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

For the purposes of the event identified in (L) hereinabove, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

(3) In a timely manner, to the MSRB through EMMA, notice of the occurrence of any of the following events or conditions:

(A) the failure of the District to provide the Disclosure Information required under paragraph (b)(1) at the time specified thereunder;

(B) the amendment or supplementing of this section pursuant to subsection (d), together with a copy of such amendment or supplement and any explanation provided by the District under subsection (d)(2);

(C) the termination of the obligations of the District under this section pursuant to subsection (d);

(D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and

(E) any change in the fiscal year of the District.

(c) Manner of Disclosure.

(1) The District agrees to make available to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the information described in subsection (b).

(2) All documents provided to the MSRB pursuant to this subsection (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

(d) Term; Amendments; Interpretation.

(1) The covenants of the District in this section shall remain in effect so long as any Bonds are outstanding. Notwithstanding the preceding sentence, however, the obligations of the District under this section shall terminate and be without further effect as of any date on which the District delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the District to comply with the requirements of this section will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successory thereto or amendatory thereof.

(2) This section (and the form and requirements of the Disclosure Information) may be amended or supplemented by the District from time to time, without notice to (except as provided in paragraph (c)(2) hereof) or the consent of the Owners of any Bonds, by a resolution of this Board filed in the office of the recording officer of the District accompanied by an opinion of Bond Counsel, who may rely on certificates of the District and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the District or the type of operations conducted by the District, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) this section as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any

change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondowners under the Rule.

If the Disclosure Information is so amended, the District agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

(3) This section is entered into to comply with the continuing disclosure provisions of the Rule and should be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

APPENDIX E

TERMS OF PROPOSAL

$4,000,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2017B INDEPENDENT SCHOOL DISTRICT NO. 727 (BIG LAKE), MINNESOTA

Proposals for the purchase of $4,000,000* General Obligation Facilities Maintenance Bonds, Series 2017B (the "Bonds") of Independent School District No. 727 (Big Lake), 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 10:00 A.M., Central Time, and **ELECTRONIC PROPOSALS** will be received via **PARITY**, in the manner described below, until 10:00 A.M. Central Time, on December 14, 2017, 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 6:30 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 December 28, 2017, 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	$70,000	2024	$165,000	2029	$245,000
2020	105,000	2025	200,000	2030	255,000
2021	125,000	2026	235,000	2031	265,000
2022	135,000	2027	275,000	2032	705,000
2023	175,000	2028	315,000	2033	730,000

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 August 1, 2018, 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 (“BTSC”), to act as paying agent (the "Paying Agent"). BTSC 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, 2028 shall be subject to optional redemption prior to maturity on February 1, 2027 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 December 28, 2017, 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 in substantially the form attached hereto as Appendix B will be furnished by Dorsey & Whitney LLP, Minneapolis, Minnesota, bond counsel to the District.

SUBMISSION OF PROPOSALS

Proposals must not be for less than $3,960,000 plus accrued interest on the principal sum of $4,000,000 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 10:00 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 $80,000 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

In order to establish the issue price of the Bonds for federal income tax purposes, the District requires bidders to agree to the following, and by submitting a bid, each bidder agrees to the following.

If a bid is submitted by a potential underwriter, the bidder confirms that (i) the underwriters have offered or reasonably expect to offer the Bonds to the public on or before the date of the award at the offering price (the "initial offering price") for each maturity as set forth in the bid and (ii) the bidder, if it is the winning bidder, shall require any agreement among underwriters, selling group agreement, retail distribution agreement or other agreement relating to the initial sale of the Bonds to the public to which it is a party to include provisions requiring compliance by all parties to such agreements with the provisions contained herein. For purposes hereof, Bonds with a separate CUSIP number constitute a separate "maturity," and the public does not include underwriters (including members of a selling group or retail distribution group) or persons related to underwriters.

If, however, a bid is submitted for the bidder's own account in a capacity other than as an underwriter of the Bonds, and the bidder has no current intention to sell, reoffer, or otherwise dispose of the Bonds, the bidder shall notify the District to that effect at the time it submits its bid and shall provide a certificate to that effect in place of the certificate otherwise required below.

If the winning bidder intends to act as an underwriter, the District shall advise the winning bidder at or prior to the time of award whether (i) the competitive sale rule or (ii) the "hold-the-offering price" rule applies.

If the District advises the Purchaser that the requirements for a competitive sale have been satisfied and that the competitive sale rule applies, the Purchaser will be required to deliver to the District at or prior to closing a certification, in a form reasonably acceptable to bond counsel, as to the reasonably expected initial offering price as of the award date.

If the District advises the Purchaser that the requirements for a competitive sale have not been satisfied and that the hold-the-offering price rule applies, the Purchaser shall (1) upon the request of the District confirm that the underwriters did not offer or sell any maturity of the Bonds to any person at a price higher than the initial offering price of that maturity during the period starting on the award date and ending on the earlier of (a) the close of the fifth business day after the sale date or (b) the date on which the underwriters have sold at least 10% of that maturity to the public at or below the initial offering price; and (2) at or prior to closing, deliver to the District a certification as to such matters together with a copy of the pricing wire.

Any action to be taken or documentation to be received by the District pursuant hereto may be taken or received on behalf of the District by Ehlers & Associates, Inc.

Bidders should prepare their bids on the assumption that the Bonds will be subject to the "hold-the-offering-price" rule. Any bid submitted pursuant to the Terms of Proposal shall be considered a firm offer for the purchase of the Bonds, and bids submitted will not be subject to cancellation or withdrawal.

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. 727 (Big Lake), Minnesota

PROPOSAL FORM

The Board of Education **December 14, 2017**
Independent School District No. 727 (Big Lake), Minnesota

RE: **$4,000,000* General Obligation Facilities Maintenance Bonds, Series 2017B**
DATED: **December 28, 2017**

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 $3,960,000) 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 $80,000, 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 December 28, 2017.

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 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 December 28, 2017 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. 727 (Big Lake), Minnesota, on December 14, 2017.

By: ______________________________ By: ______________________________

Title: ______________________________ Title: ______________________________