

PRELIMINARY OFFICIAL STATEMENT DATED JUNE 7, 2018

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

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

New Issue

Credit Enhanced Rating Application Made: S&P Global Ratings

INDEPENDENT SCHOOL DISTRICT NO. 2907 (ROUND LAKE-BREWSTER PUBLIC SCHOOLS), MINNESOTA (Nobles and Jackson Counties)

(Minnesota School District Credit Enhancement Program)

\$1,000,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2018A

PROPOSAL OPENING: June 20, 2018, 10:00 A.M., C.T.

CONSIDERATION: June 20, 2018, 6:00 P.M., C.T.

PURPOSE/AUTHORITY/SECURITY: The \$1,000,000* General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds") are being issued pursuant to Minnesota Statutes, Chapter 475 and Section 123B.595 (long-term facilities maintenance revenue) by Independent School District No. 2907 (Round Lake-Brewster Public Schools), Minnesota (the "District") to provide funds for facility maintenance projects included in the ten-year facility plan of the District and approved by the Commissioner of Education. The Bonds will be general obligations of the District for which its full faith, credit and taxing powers are pledged. Delivery is subject to receipt of an approving legal opinion of Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota.

DATE OF BONDS: July 12, 2018

MATURITY: February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2020	\$55,000	2025	\$60,000	2030	\$70,000
2021	55,000	2026	65,000	2031	75,000
2022	55,000	2027	65,000	2032	75,000
2023	60,000	2028	70,000	2033	80,000
2024	60,000	2029	70,000	2034	85,000

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

TERM BONDS: See "Term Bond Option" herein.

INTEREST: February 1, 2019 and semiannually thereafter.

OPTIONAL REDEMPTION: Bonds maturing February 1, 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: \$987,500

GOOD FAITH DEPOSIT: A good faith deposit in the amount of \$20,000 shall be made by the winning bidder by wire transfer of funds.

PAYING AGENT: Bond Trust Services Corporation

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

MUNICIPAL ADVISOR: Ehlers and Associates, Inc.

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

This Preliminary Official Statement and the information contained herein are subject to completion and amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy these securities nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. This Preliminary Official Statement is in a form deemed final as of its date for purposes of SEC Rule 15c2-12(b) (1), but is subject to revision, amendment and completion in a Final Official Statement.



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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ROUND LAKE-BREWSTER PUBLIC SCHOOLS BOARD OF EDUCATION

		<u>Term Expires</u>
Jerry Luinenburg	Chairperson	January 2019
Trevor Wintz	Vice Chairperson	January 2021
Ronda Sammons	Clerk	January 2021
Jay Peterson	Treasurer	January 2019
Diane Larson	Director	January 2019
Robert Bohn	Director	January 2021
Pam Wendland	Director	January 2019
Brian Bosma	Director	January 2021

ADMINISTRATION

Raymond Hassing, Superintendent

Lori Grant, Business Manager

PROFESSIONAL SERVICES

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

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

INTRODUCTORY STATEMENT

This Preliminary Official Statement contains certain information regarding Independent School District No. 2907 (Round Lake-Brewster Public Schools), Minnesota (the "District") and the issuance of its \$1,000,000* General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds"). 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 authorizing the sale of the Bonds ("Award Resolution") to be adopted by the Board of Education on June 20, 2018.

Inquiries may be directed to Ehlers & Associates, Inc. ("Ehlers" or the "Municipal Advisor"), Roseville, Minnesota, (651) 697-8500, the District's Municipal Advisor. A copy of this Preliminary Official Statement may be downloaded from Ehlers' web site at www.ehlers-inc.com by connecting to the link to the Bond Sales 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 July 12, 2018. The Bonds will mature on February 1 in the years and amounts set forth on the cover of this Preliminary Official Statement. Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board ("MSRB"). **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from the date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

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

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

*Preliminary, subject to change.

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 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	\$1,000,000	
Original Issue Premium	<u>5,044</u>	
Total Sources		\$1,005,044
Uses		
Total Underwriter's Discount (1.250%)	\$12,500	
Costs of Issuance	26,875	
Deposit to Project Construction Fund	<u>965,669</u>	
Total Uses		\$1,005,044

*Preliminary, subject to change

SECURITY

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

RATING

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

The District currently does not have an underlying rating and will not be requesting an underlying rating on this issue.

STATE OF MINNESOTA CREDIT ENHANCEMENT PROGRAM FOR SCHOOL DISTRICTS

By resolution adopted for this issue on April 23, 2018 (the "Resolution"), the District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55, which provides for payment by the State of Minnesota in the event of a potential default of a school district obligation (herein referred to as the "State Payment Law" or the "Law"). The provisions of the State Payment Law shall be binding on the District as long as any obligations of the issue remain outstanding.

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

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

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

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

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

"As the date of this Official Statement, the total amount of principal on certificates of indebtedness and capital notes issued for equipment, certificates of participation and bonds, plus the interest on these obligations, through the year 2046, is approximately \$12.5 billion. Based upon these currently outstanding balances now enrolled in the program, during the Current Biennium the total amount of principal and interest outstanding as of the date of this Official Statement is \$1.9 billion, with the maximum amount of principal and interest payable in any one

month being \$760 million. However, more certificates of indebtedness, capital notes, certificates of participation and bonds are expected to be enrolled in the program and these amounts are expected to increase.

The State has not had to make any debt service payments on behalf of school districts or intermediate school districts under the program and does not expect to make any payments in the future. If such payments are made the State expects to recover all or substantially all of the amounts so paid pursuant to contractual agreements with the school districts and intermediate school districts."

CONTINUING DISCLOSURE

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

In the previous five years, the District has not had any prior undertakings subject to 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 as to the validity of the Bonds and the exemption from taxation of the interest thereon will be furnished by Knutson, Flynn & Deans, P.A., Mendota Heights, Minnesota, Bond Counsel to the District, and will be available at the time of delivery of the Bonds. The legal opinion will state that the Bonds are valid and binding general obligations of the District; provided that the rights of the owners of the Bonds and the enforceability of the Bonds may be limited by bankruptcy, insolvency, reorganization, moratorium, and other similar laws affecting creditors' rights and by equitable principles (which may be applied in either a legal or equitable proceeding). See "FORM OF LEGAL OPINION" found in Appendix B.

TAX EXEMPTION AND RELATED CONSIDERATIONS

In the opinion of Knutson, Flynn & Deans, P.A., as Bond Counsel, on the basis of laws in effect on the date of issuance of the Bonds, interest on the Bonds is not includible in gross income for federal income tax purposes or in taxable net income of individuals, estates and trusts for Minnesota income tax purposes. Interest on the Bonds is includible in taxable income of corporations and financial institutions for purposes of the Minnesota franchise tax. Certain provisions of the Internal Revenue Code of 1986, as amended (the Code), however, impose continuing requirements that must be met after the issuance of the Bonds in order for interest thereon to be and remain not

includible in federal gross income and in Minnesota taxable net income. Noncompliance with such requirements by the Issuer may cause the interest on the Bonds to be includible in federal gross income and in Minnesota taxable net income, retroactive to the date of issuance of the Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includible in federal gross income or Minnesota taxable net income.

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

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

QUALIFIED TAX-EXEMPT OBLIGATIONS

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

MUNICIPAL ADVISOR

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

MUNICIPAL ADVISOR AFFILIATED COMPANIES

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

INDEPENDENT AUDITORS

The basic financial statements of the District for the fiscal year ended June 30, 2017, have been audited by Meulebroeck, Taubert & Co., PLLP, Luverne, 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. In the event of delayed billing, collection or distribution of property taxes, sufficient funds may not be available to the District in time to pay debt service when due.

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

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

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

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

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

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

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

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

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

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

VALUATIONS

OVERVIEW

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

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

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

Type of Property	2015/16	2016/17	2017/18
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 \$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	First \$500,000 HGA - 1.00% Over \$500,000 HGA - 1.25% First \$1,940,000 - 0.50% ² Over \$1,940,000 - 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 \$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%	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 \$121,000 - .75% Over \$121,000 - .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%

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 Value¹

\$786,175,153²

2017/18 Assessor's Estimated Market Value

	Nobles County	Jackson County	Total
Real Estate	\$ 445,794,900	\$ 278,242,600	\$ 724,037,500
Personal Property	<u>8,906,100</u>	<u>1,854,500</u>	<u>10,760,600</u>
Total Valuation	<u><u>\$ 454,701,000</u></u>	<u><u>\$ 280,097,100</u></u>	<u><u>\$ 734,798,100</u></u>

2017/18 Net Tax Capacity

	Nobles County	Jackson County	Total
Real Estate	\$ 3,992,252	\$ 2,268,563	\$ 6,260,815
Personal Property	<u>176,156</u>	<u>32,302</u>	<u>208,458</u>
Net Tax Capacity	<u><u>\$ 4,168,408</u></u>	<u><u>\$ 2,300,865</u></u>	<u><u>\$ 6,469,273</u></u>

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

² According to the Minnesota Department of Revenue, the Assessor's Estimated Market Value (the "AEMV") for Independent School District No. 2907 (Round Lake-Brewster Public Schools) is about 96.54% 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 \$786,175,153.

2017/18 NET TAX CAPACITY BY CLASSIFICATION

	2017/18 Net Tax Capacity	Percent of Total Net Tax Capacity
Residential homestead	\$ 313,621	4.85%
Agricultural	5,174,017	79.98%
Commercial/industrial	632,689	9.78%
Public utility	8,791	0.14%
Railroad operating property	45,000	0.70%
Non-homestead residential	72,587	1.12%
Commercial & residential seasonal/rec.	14,110	0.22%
Personal property	208,458	3.22%
Total	<u><u>\$ 6,469,273</u></u>	<u><u>100.00%</u></u>

TREND OF VALUATIONS

Levy Year	Assessor's Estimated Market Value	Assessor's Taxable Market Value	Net Tax Capacity¹	Taxable Net Tax Capacity²	Percent +/- in Estimated Market Value
2013/14	\$795,105,100	\$779,705,200	\$7,128,744	\$6,696,782	N/A
2014/15	822,642,000	807,521,900	7,240,654	6,808,692	+ 3.46%
2015/16	755,241,900	740,653,399	6,558,478	6,148,532	- 8.19%
2016/17	762,148,800	747,123,883	6,682,240	6,682,240	+ 0.91%
2017/18	734,798,100	720,419,586	6,469,273	6,469,273	- 3.59%

¹ Net Tax Capacity includes tax increment values, if any.

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

LARGER TAXPAYERS

Taxpayer	Type of Property	2017/18 Net Tax Capacity	Percent of District's Total Net Tax Capacity
Minnesota Soybean Processors	Industrial	\$ 453,968	7.02%
Excel Energy	Utility	150,024	2.32%
Individual	Agricultural	125,691	1.94%
New Vision Co-op	Agricultural	115,550	1.79%
McCarvel Properties LLC	Agricultural	74,589	1.15%
Individual	Agricultural	72,964	1.13%
Individual	Agricultural	71,822	1.11%
Individual	Agricultural	50,456	0.78%
T & D Busch Family Limited	Agricultural	46,730	0.72%
Individual	Agricultural	44,366	0.69%
Total		<u><u>\$ 1,206,160</u></u>	<u><u>18.64%</u></u>

District's Total 2017/18 Net Tax Capacity \$6,469,273

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

DEBT

DIRECT DEBT¹

General Obligation Debt (see schedule following)

Total g.o. debt being paid from taxes (includes the Bonds)* \$ 1,150,000

*Preliminary, subject to change.

STATE AID FOR DEBT SERVICE

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

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 2907 (ROUND LAKE-BREWSTER PUBLIC SCHOOLS), MINNESOTA
Schedule of Bonded Indebtedness
General Obligation Debt Being Paid From Taxes
(As of 7/12/18)

Fiscal Year Ending	Capital Facilities Series 2014A		Facilities Maintenance Series 2018A		Total P & I	Principal Outstanding	% Paid	Fiscal Year Ending
	Dated Amount	Maturity	Principal	Interest				
2019	8/27/14	2/1	25,000	4,475	25,000	1,125,000	2.17%	2019
2020			25,000	3,788	80,000	1,045,000	9.13%	2020
2021			25,000	3,100	80,000	965,000	16.09%	2021
2022			25,000	2,350	80,000	885,000	23.04%	2022
2023			25,000	1,600	85,000	800,000	30.43%	2023
2024			25,000	800	85,000	715,000	37.83%	2024
2025					60,000	655,000	43.04%	2025
2026					65,000	590,000	48.70%	2026
2027					65,000	525,000	54.35%	2027
2028					70,000	455,000	60.43%	2028
2029					70,000	385,000	66.52%	2029
2030					70,000	315,000	72.61%	2030
2031					75,000	240,000	79.13%	2031
2032					75,000	165,000	85.65%	2032
2033					80,000	85,000	92.61%	2033
2034					85,000	0	100.00%	2034
			150,000	16,113	1,150,000	1,475,944		

*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	\$ 786,175,153
Multiply by 15%	<u>0.15</u>
Statutory Debt Limit	\$ 117,926,273
Less: Long-Term Debt Outstanding Being Paid Solely from Taxes (includes the Bonds)*	<u>(1,150,000)</u>
Unused Debt Limit*	<u><u>\$ 116,776,273</u></u>

*Preliminary, subject to change.

OVERLAPPING DEBT¹

	2017/18 Taxable Net Tax Capacity	% In District	Total G.O. Debt ²	District's Proportionate Share
Taxing District				
Nobles County	\$ 38,975,779	10.6949%	\$ 20,000,000	\$ 2,138,980
Jackson County	32,320,611	7.1189%	22,640,000	1,611,719
City of Brewster	740,299	100.0000%	50,000	<u>50,000</u>
District's Share of Total Overlapping Debt				<u><u>\$ 3,800,699</u></u>

DEBT PAYMENT HISTORY

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

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

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

DEBT RATIOS

	G.O. Debt	Debt/Economic Market Value (\$786,175,153)	Debt/ Current Population Estimate (1,705)
Direct G.O. Debt Being Paid From Taxes	\$ 1,150,000	0.15%	\$674.49
District's Share of Total Overlapping Debt	<u>\$ 3,800,699</u>	<u>0.48%</u>	<u>\$2,229.15</u>
Total*	<u><u>\$ 4,950,699</u></u>	<u><u>0.63%</u></u>	<u><u>\$2,903.64</u></u>

*Preliminary, subject to change.

FUTURE FINANCING

The District may issue a Lease Purchase financing in the next 12 months.

LEVY LIMITS

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

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

TAX RATES, LEVIES AND COLLECTIONS

TAX LEVIES AND COLLECTIONS

Tax Year	Net Tax Levy ¹	Total Collected Following Year	Collected to Date ²	% Collected
2013/14	\$686,020	\$675,441	\$684,936	99.84%
2014/15	490,525	483,278	489,831	99.86%
2015/16	644,350	634,293	642,015	99.64%
2016/17	563,335	555,725	555,725	98.65%
2017/18	700,230	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.

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

² Collections are through December 31, 2017.

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

TAX CAPACITY RATES¹

	2013/14	2014/15	2015/16	2016/17	2017/18
I.S.D. No. 2907 (Round Lake-Brewster Public Schools)	4.927%	3.437%	4.934%	3.040%	3.513%
Nobles County	29.993%	29.762%	35.481%	34.583%	34.928%
Jackson County	28.617%	31.351%	32.951%	32.660%	32.929%
City of Brewster	58.458%	59.441%	63.300%	28.445%	29.584%
City of Round Lake	75.614%	75.244%	77.165%	87.376%	110.890%
Town of Round Lake ²	6.153%	6.681%	6.835%	6.670%	6.683%
SWRDC	0.129%	0.119%	0.138%	0.131%	0.139%
Heron Lake Watershed	1.086%	1.154%	1.043%	1.348%	1.120%

Referendum Market Value Rates:

I.S.D. No. 2907 (Round Lake-Brewster Public Schools)	0.43115%	0.31332%	0.41382%	0.32228%	0.44010%
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Source: Tax Levies and Collections and Tax Capacity Rates have been furnished by Nobles and Jackson Counties.

¹ After reduction for state aids. Does not include the statewide general property tax against commercial/industrial, non-homestead resorts and seasonal recreational residential property.

² Representative town rate.

THE ISSUER

EMPLOYEES

The District is governed by an elected school board and employs a staff of 88, including 54 non-licensed employees and 34 licensed employees (33 of whom are teachers). The District provides education for 306 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
Teacher Union	June 30, 2019
ESP Union	June 30, 2018

POST EMPLOYMENT BENEFITS

The District has no liability for post employment benefits, other than pension benefits.

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	26	116	99	242
2014/15	25	133	113	272
2015/16	40	118	112	270
2016/17	30	130	112	272
2017/18	44	150	112	306

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

Year	Kindergarten	Grades 1-6	Grades 7-12	Total
2018/19	50	168	115	333
2019/20	40	180	114	334
2020/21	40	190	114	344

SCHOOL BUILDINGS

School Building	Year Constructed	Years of Additions/ Remodelings
Round Lake-Brewster School	1916	1952, 1961, 2014

FUNDS ON HAND (as of April 30, 2018)

Fund	Total Cash and Investments
General	\$ 1,880,460
Food Service	73,055
Community Service	58,752
Debt Service	14,798
Total Funds on Hand	<u><u>\$2,027,065</u></u>

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				2017-18 Adopted Budget ¹
	2014 Audited	2015 Audited	2016 Audited	2017 Audited	
Revenues					
Local property taxes	\$ 405,161	\$ 670,665	\$ 445,917	\$ 544,276	\$ 580,207
Other local and county revenues	16,654	71,974	41,805	32,238	30,416
Revenues from state sources	2,339,834	2,398,210	2,494,359	2,590,244	2,943,872
Revenues from federal sources	92,628	98,673	93,310	113,695	92,493
Sales and other conversion of assets	10,974	19,809	29,777	30,242	8,250
Total Revenues	\$ 2,865,251	\$ 3,259,331	\$ 3,105,168	\$ 3,310,695	\$ 3,655,238
Expenditures					
Current					
Administration	\$ 195,083	\$ 210,839	\$ 238,873	\$ 267,548	\$ 284,452
District support services	160,623	113,018	87,669	78,357	101,896
Elementary & secondary regular instruction	1,866,608	1,811,988	1,708,128	1,793,887	1,942,399
Exceptional instruction	279,528	250,888	245,020	199,733	326,126
Community education and services	0	53,273	85,061	0	0
Instructional support services	31,228	37,604	118,574	110,752	142,948
Pupil support services	242,922	234,615	280,262	336,812	418,458
Sites and buildings	445,562	227,400	187,940	186,482	386,005
Fiscal and other fixed cost programs	33,724	18,908	18,376	18,865	37,000
Capital Outlay	0	0	0	0	0
Debt Service	0	0	0	0	0
Total Expenditures	\$ 3,255,278	\$ 2,958,533	\$ 2,969,903	\$ 2,992,436	\$ 3,639,284
Excess of revenues over (under) expenditures	\$ (390,027)	\$ 300,798	\$ 135,265	\$ 318,259	\$ 15,954
Other Financing Sources (Uses)					
Sale of property and equipment	\$ 4,356	\$ 1,100	\$ 0	\$ 501	
Operating transfers in	0	0	0	0	
Operating transfers out	0	(51,631)	0	0	
Total Other Financing Sources (Uses)	\$ 4,356	\$ (50,531)	\$ 0	\$ 501	
Net Change in Fund Balances	\$ (385,671)	\$ 250,267	\$ 135,265	\$ 318,760	
General Fund Balance July 1	919,367	533,696	783,963	919,228	
Prior Period Adjustment	0	0	0	0	
Residual Equity Transfer in (out)	0	0	0	0	
General Fund Balance June 30	\$ 533,696	\$ 783,963	\$ 919,228	\$ 1,237,988	
DETAILS OF JUNE 30 FUND BALANCE					
Nonspendable	\$ 3,847	\$ 0	\$ 528	\$ 45,117	
Restricted	571,737	570,773	638,619	716,303	
Unassigned	(41,888)	213,190	280,081	476,568	
Total	\$ 533,696	\$ 783,963	\$ 919,228	\$ 1,237,988	

¹ The 2017-18 budget was adopted on May 21, 2018.

GENERAL INFORMATION

LOCATION

The District, with a current population estimate of 1,705, and comprising an area of 140.3 square miles, is located approximately 179 miles southwest of the Minneapolis-St. Paul metropolitan area.

LARGER EMPLOYERS¹

Larger employers in the District include the following:

Firm	Type of Business/Product	Estimated No. of Employees
I.S.D. No. 2907 (Round Lake-Brewster Public Schools)	Elementary and secondary education	88
Minnesota Soybean Processors	Grain broker	75
New Vision Co-op	Feed manufacturer	20
Ellenbecker Communications	Marketing programs and services	10
Eastside Acres Campground	RV park and campground	10
Sunset Grill	Restaurant	8
Kunerth Farms	Farm supplies merchant wholesaler	6
Farmers Cooperative Association	Cooperative	6
Rolling Hills Bank & Trust	Bank	6
Bedrock Holding	Holding company	6

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

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

U.S. CENSUS DATA

Population Trend: Independent School District No. 2907 (Round Lake-Brewster Public Schools), Minnesota

2010 U.S. Census population	1,681 ¹
2016 Population Estimate	1,705
Percent of Change 2000 - 2010	+ 1.43%

Income and Age Statistics

	Round Lake- Brewster Public School District	Nobles County	State of Minnesota	United States
2016 per capita income	\$27,601	\$24,188	\$33,225	\$29,829
2016 median household income	\$53,289	\$53,269	\$63,217	\$55,322
2016 median family income	\$71,136	\$61,153	\$79,595	\$67,871
2016 median gross rent	\$575	\$640	\$873	\$928
2016 median value owner occupied units	\$103,700	\$113,100	\$191,500	\$184,700
2016 median age	43.3 yrs.	35.8 yrs.	37.8 yrs.	37.7 yrs.

	State of Minnesota	United States
District % of 2016 per capita income	83.07%	92.53%
District % of 2016 median family income	89.37%	104.81%

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

EMPLOYMENT/UNEMPLOYMENT DATA

Rates are not compiled for individual communities within counties.

Year	<u>Average Employment</u>		<u>Average Unemployment</u>	
	Nobles County	Nobles County	State of Minnesota	
2014	10,805	3.4%	4.2%	
2015	11,070	3.2%	3.7%	
2016	10,931	3.8%	3.8%	
2017	10,866	3.3%	3.5%	
2018, April	11,103	2.7%	3.1%	

Source: Minnesota Department of Employment and Economic Development.

¹ The U.S. Census population figure for 2010 reflects the combined total of Independent School District No. 513 (Brewster Public Schools) and Independent School District No. 516 (Round Lake Public Schools) prior to their consolidation on June 13, 2013.

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 AUDITOR'S REPORT
INDEPENDENT SCHOOL DISTRICT NO. 2907
BREWSTER, MINNESOTA 56119
FOR THE YEAR ENDING JUNE 30, 2017

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
P.O. Box 685
Luverne, Minnesota 56156

MEULEBROECK, TAUBERT & CO., PLLP
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INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District No. 2907
Brewster, Minnesota

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Independent School District No. 2907, Brewster, Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Managements 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.

Auditors 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 *Governmental 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Independent School District No. 2907, Brewster, Minnesota as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparison for the General Fund, the Major Special Revenue Funds (Food Service Fund and Community Service Fund), and Debt Service Fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

The financial statements include partial prior-year comparative information, which does not include all of the information required in a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2016, from which it was derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6-11, the schedule of Employers Proportionate Share of the Net Pension Liability on page 59, and the Schedule of Employer's Contributions on page 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the 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 Independent School District No. 2907, Brewster, Minnesota basic financial statements. The introductory section and combining and individual non-major fund financial statements and schedules as listed in the table of contents as supplemental information are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated November 7, 2017, on our consideration of the Independent School District No. 2907's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of this 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 the 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 Independent School District No. 2907, Brewster, Minnesota internal control over financial reporting and compliance.

Meulebroeck, Taubert + Co, PLLP

Meulebroeck, Taubert Co., PLLP
Certified Public Accountants
Luverne, Minnesota

November 7, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2017

This section of the Independent School District No. 2907's annual financial report presents management's 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 other components of the District's annual financial report.

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

Financial Highlights

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

- Governmental Net Position decreased by \$650,666, or 41.0% over June 30, 2017.
- Governmental Fund Balance increased by \$359,580 or 36.5% over June 30, 2017.
- Total governmental expenditures decreased by \$12,989 or .3%, in comparison to fiscal year 2017, while total governmental revenues increased by \$166,418 or 4.8% in comparison to fiscal year 2017.

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 management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include District-wide financial statements and fund financial statements and the notes to the financial statements.

District-Wide Statements

The District-wide statements (statement of net position and statement of activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net position includes all of the District's assets 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 District-wide statements report the District's net position and how they have changed. Net Position -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, pupil enrollment, and the condition of school facilities.

Fund Financial Statements

The fund financial statements include more detailed information about a District's individual funds. The District maintains only one type of fund:

Governmental Funds - The District's services are included in this type of fund, which generally focuses 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 provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Financial Analysis of the District As A Whole

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the Independent School District No. 2907, assets exceeded liabilities by \$935,846 at the close of the most recent fiscal year.

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

Table 1
Statement of Net Position
As of June 30, 2017

	2017	2016
Assets		
Current and other assets	2,232,989	1,909,699
Capital assets, net of depreciation	<u>2,106,067</u>	<u>2,191,694</u>
Total Assets	4,339,056	4,103,393
Deferred Outflows of Resources		
Related to Pensions	<u>3,401,670</u>	<u>389,420</u>
Total Assets and Deferred Outflows of Resources	7,740,726	4,492,813
Liabilities		
Current and other liabilities	310,369	313,813
Long-term liabilities	<u>5,788,197</u>	<u>1,945,144</u>
Total Liabilities	6,098,566	2,258,957
Deferred Inflows of Resources		
Unearned Revenue	62,073	31,423
Property Taxes Levied for Subsequent Year	510,049	572,018
Related to Pensions	<u>134,192</u>	<u>43,903</u>
Total Deferred Inflows of Resources	706,314	647,344
Net Position		
Net Investment in Capital Assets	2,106,067	2,191,694
Restricted	<u>813,384</u>	<u>702,694</u>
Unrestricted	<u>(1,983,605)</u>	<u>(1,309,876)</u>
Net Position	935,846	1,586,512
Total Liabilities, Deferred Inflows of Resources and Net Position	7,740,726	4,492,813

The District's financial position is the product of numerous factors. Therefore, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net position of the District.

	<u>2017</u>	<u>2016</u>
Revenues		
Program Revenues:		
Charges for Services	39,209	94,960
Operating Grants and Contributions	730,077	724,076
General Revenues:		
Property Taxes	606,638	506,654
Unrestricted Federal and State Aid	2,196,193	2,070,794
Earnings on Investment	10,200	3,046
Other	53,396	68,536
Total revenues	3,635,713	3,468,066
Expenses		
District and School Administration	268,833	240,157
District Support Services	78,357	87,669
Regular Instruction	2,720,806	2,577,072
Exceptional Instruction	200,985	246,427
Instructional Support Services	112,870	120,807
Pupil Support Services	337,203	311,002
Site, Buildings, and Equipment	259,808	241,266
Fiscal and Other Fixed Cost Programs	44,915	44,826
Food Service	177,805	161,695
Community Service	84,797	221,090
Total expenses	4,286,379	4,252,011
Change in net position	(650,666)	(783,945)

The District's total revenue consisted of program revenues of \$769,286, property taxes of \$606,638, federal and state aids of \$2,196,193, investment earnings of \$10,200, and other miscellaneous revenues of \$53,396.

The cost of all governmental activities this year was \$4,286,379.

- The users of the district programs paid for 14.2%, or \$606,638 of the costs.
- The federal and state government subsidized certain programs with grants and contributions. This totaled 769,286, or 17.9%, of the total costs.
- The state and federal government subsidized certain programs with aid not restricted for specific purposes. This totaled \$2,196,193 or 51.2% of total costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

Figure A - Sources of Revenues for Fiscal Year 2017

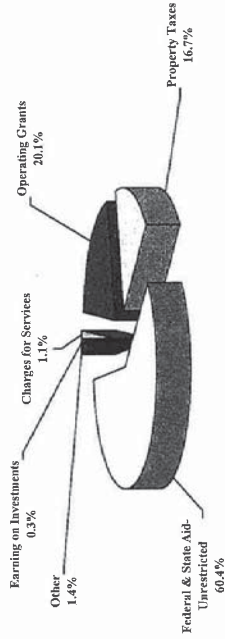
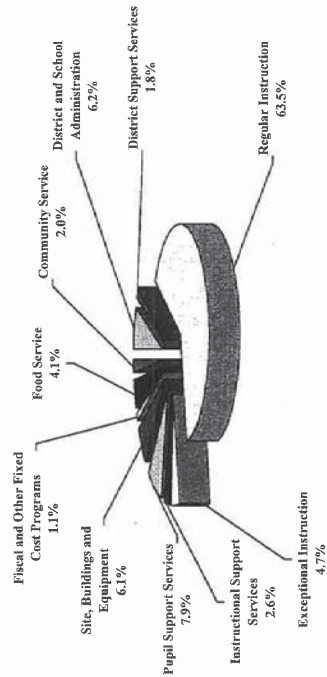


Figure B - Expenses for Fiscal Year 2017



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 fiscal year, the governmental funds reported a combined fund balance of \$1,343,204, which is an increase from the prior year balance of \$359,580.

Revenues and Expenditures

Revenues of the District's governmental funds totaled \$3,636,739 while expenditures totaled \$3,277,660. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	3,310,695	2,992,436	501	318,760
Food Service Fund	205,551	177,805	-0-	27,746
Community Service Fund	86,629	81,369	-0-	5,260
Debt Service Fund	33,864	26,050	-0-	7,814
Total	<u>3,636,739</u>	<u>3,277,660</u>	<u>501</u>	<u>359,580</u>

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. There were revisions to the budget for the current fiscal year.

- Actual revenues were under budget by \$326,025.
- Actual expenditures were under budget by \$167,946.

Capital Assets

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2017.

**Table 3
Capital Assets**

	2017	2016	Increase (Decrease)
Land	2,497	2,497	
Land Improvements	227,352	227,352	
Buildings and Improvements	3,161,944	3,161,944	
Equipment	643,846	721,526	(77,680)
Pupil Transportation Vehicles	458,189	454,484	3,705
Less: Accumulated Depreciation	(2,387,761)	(2,374,109)	(13,652)
Total	<u>2,106,067</u>	<u>2,193,694</u>	<u>(87,627)</u>
Depreciation Expense	<u>117,776</u>	<u>120,054</u>	<u>-2,278</u>

Long-Term Liabilities

In fiscal year 2015 the District issued General Obligation Capital Facility Bonds of \$240,000 in order to provide funds for major capital improvement on the facility. The District made principal payments of \$25,000 in 2017. Severance Liability for the District decreased by \$3,682 from fiscal year 2016. The District implemented the Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) during fiscal year 2015. Total pension benefits payable total \$5,593,605. More detailed information about the district's long-term liabilities is presented in Note 10.

Factors Bearing on the District's Future

With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for the vast majority of its funding. Recent experience shows that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

Contacting the District's Management

This financial report is designed to provide 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 Independent School District No. 2907, 915 4th Ave., PO Box 309, Brewster, Minnesota 56119.

STATEMENT OF NET POSITION
JUNE 30, 2017

<u>Assets and Deferred Outflows of Resources</u>	2017	2016
<u>Assets</u>		
Cash and Investments	1,818,276	1,342,144
Receivables:		
Property Taxes	275,334	320,257
Governmental Units	88,989	243,164
Other	1,550	2,172
Inventory	3,723	1,434
Prepaid Expenses	45,117	528
Capital Assets:		
Non-Depreciable	2,497	2,497
Depreciable-Net of Accumulated Depreciation	<u>2,103,570</u>	<u>2,191,197</u>
Total Assets	<u>4,339,056</u>	<u>4,103,393</u>
 <u>Deferred Outflows of Resources</u>		
Related to Pensions	<u>3,401,670</u>	<u>389,420</u>
 Total Assets and Deferred Outflows of Resources	 <u><u>7,740,726</u></u>	 <u><u>4,492,813</u></u>
 <u>Liabilities, Deferred Inflows of Resources and Net Position</u>		
<u>Liabilities</u>		
Salaries Payable	14,419	12,801
Accounts Payable	11,827	16,772
Payroll Deductions	8,108	7,385
Due to Other Governmental Units	276,014	276,855
Certificates of Indebtedness		
Long Term Liabilities:		
Portion Due Within One Year	33,558	26,848
Portion Due in More Than One Year	161,034	191,426
Pension Liability	<u>5,593,605</u>	<u>1,726,870</u>
Total Liabilities	<u>6,098,565</u>	<u>2,258,957</u>
 <u>Deferred Inflows of Resources</u>		
Unearned Revenue	62,073	31,423
Property Taxes Levied for Subsequent Year	510,049	572,018
Related to Pensions	<u>134,192</u>	<u>43,903</u>
Total Deferred Inflows of Resources	<u>706,314</u>	<u>647,344</u>
 <u>Net Position</u>		
Net Investment in Capital Assets	2,106,067	2,193,694
Restricted for:		
General Fund State Mandated Purposes	716,303	638,619
Food Service	60,735	32,989
Community Service	36,346	31,086
Unrestricted	<u>(1,983,604)</u>	<u>(1,309,876)</u>
Total Net Position	<u>935,847</u>	<u>1,586,512</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>7,740,726</u></u>	<u><u>4,492,813</u></u>

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Functions	Expenses	Program Revenues			Net (Expense)	
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Position	
					Total Governmental Activities	
					2017	2016
Governmental Activities						
District and School Administration	268,833				(268,833)	(240,157)
District Support Services	78,357				(78,357)	(87,669)
Regular Instruction	2,720,806		507,746		(2,213,060)	(2,060,197)
Exceptional Instruction	200,985				(200,985)	(246,427)
Instructional Support Services	112,870				(112,870)	(120,807)
Pupil Support Services	337,203				(337,203)	(311,002)
Site, Buildings and Equipment	259,808				(259,808)	(241,266)
Fiscal and Other Fixed Cost Programs	44,915		1,560		(43,355)	(43,108)
Food Service	177,805	35,689	169,613		27,497	32,271
Community Service	84,797	3,520	51,158		(30,119)	(114,613)
Total	4,286,379	39,209	730,077	-0-	(3,517,093)	(3,432,975)
<u>General Revenues</u>						
Property Taxes Levied for:						
General Purposes					542,749	443,005
Community Service					31,663	38,067
Debt Service					32,226	25,582
Federal and State Aid Not Restricted to Specific Purposes					2,196,193	2,070,794
Earnings on Investments					10,200	3,046
Miscellaneous					53,396	68,536
Total General Revenues					2,866,427	2,649,030
Change in Net Position					(650,666)	(783,945)
Net Position - Beginning					1,586,512	2,370,457
Net Position - Ending					935,846	1,586,512

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017

	<u>Major Funds</u>				<u>Total Governmental Funds</u>	
	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>	<u>Debt Service</u>	<u>2017</u>	<u>2016</u>
<u>Assets</u>						
Cash	1,678,159	59,067	55,810	25,240	1,818,276	1,342,144
Accounts Receivable	1,550				1,550	2,172
Current Property Taxes Receivable	237,943		15,753	14,343	268,039	311,436
Delinquent Property Taxes Receivable	6,638		365	292	7,295	8,821
Due From Other Governmental Unit	1,171				1,171	
Due From Other Minnesota Districts	80,789		892		81,681	39,242
Due From Federal Government						
Thru Department of Education						8,353
Due From Department of Education	4,639		1,342	156	6,137	195,569
Inventory		3,723			3,723	1,434
Prepaid Expenses	45,117				45,117	528
Total Assets	<u>2,056,006</u>	<u>62,790</u>	<u>74,162</u>	<u>40,031</u>	<u>2,232,989</u>	<u>1,909,699</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>						
<u>Liabilities</u>						
Salaries Payable	13,133	1,111	176		14,420	12,801
Accounts Payable	11,230	171	426		11,827	16,772
Payroll Deductions	8,108				8,108	7,385
Due to Other Governmental Units	98				98	110
Due to Other Minnesota School Districts	272,646		3,270		275,916	276,745
Total Liabilities	305,215	1,282	3,872		310,369	313,813
<u>Deferred Inflows of Resources</u>						
Unavailable Revenue - Other	61,300	773			62,073	31,423
Unavailable Revenue - Delinquent Taxes	6,638		365	291	7,294	8,821
Property Taxes Levied for Subsequent Years	444,865		33,579	31,605	510,049	572,018
Total Deferred Inflows of Resources	512,803	773	33,944	31,896	579,416	612,262
<u>Fund Balances</u>						
Fund Balance-Non Spendable	45,117	3,723			48,840	1,962
Fund Balance-Restricted	716,303	57,012	36,346	8,135	817,796	701,581
Fund Balance-Unassigned	476,568				476,568	280,081
Total Fund Balances	<u>1,237,988</u>	<u>60,735</u>	<u>36,346</u>	<u>8,135</u>	<u>1,343,204</u>	<u>983,624</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>2,056,006</u>	<u>62,790</u>	<u>74,162</u>	<u>40,031</u>	<u>2,232,989</u>	<u>1,909,699</u>

See accompanying notes to the financial statements.

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2017

	2017		2016	
Total Governmental Fund Balances	1,343,204		983,624	
Amounts reported in Governmental Activities in The Statement of Net Position are Different Because:				
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds				
Cost of Capital Assets	4,493,828		4,567,803	
Less: Accumulated Depreciation	<u>(2,387,761)</u>	2,106,067	<u>(2,374,109)</u>	2,193,694
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue.				
		7,294		8,821
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.				
Deferred Outflow of Resources - Related to Pensions	3,401,670		389,420	
Deferred Inflow of Resources - Related to Pensions	<u>(134,192)</u>	3,267,478	<u>(43,903)</u>	345,517
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:				
Severance Payable	(19,592)		(23,274)	
Bond Payable	(175,000)		(195,000)	
Pension Benefits Payable	<u>(5,593,605)</u>	(5,788,197)	<u>(1,726,870)</u>	(1,945,144)
Net Position of Governmental Activities	935,846		1,586,512	

See accompanying notes to the financial statements.

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

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2017	2016
<u>Revenues</u>						
Local Property Tax Levies	544,276		31,663	32,226	608,165	508,909
Other Local and County Revenues	32,238	249	3,808	78	36,373	98,543
Revenue from State Sources	2,590,244	17,268	51,158	1,560	2,660,230	2,558,650
Revenue from Federal Sources	113,695	152,345			266,040	236,220
Sales and Other Conversion of Assets	30,242	35,689			65,931	67,999
Total Revenues	3,310,695	205,551	86,629	33,864	3,636,739	3,470,321
<u>Expenditures</u>						
District and School Administration	267,548				267,548	238,873
District Support Services	78,357				78,357	87,669
Regular Instruction	1,793,887				1,793,887	1,708,128
Exceptional Instruction	199,733				199,733	245,020
Community Education and Services			81,369		81,369	217,662
Instructional Support Services	110,752				110,752	118,574
Pupil Support Services	336,812	177,805			514,617	441,957
Site, Buildings and Equipment	186,482				186,482	187,940
Fiscal and Other Fixed Cost Programs	18,865			26,050	44,915	44,826
Total Expenditures	2,992,436	177,805	81,369	26,050	3,277,660	3,290,649
Excess Revenues (Expenditures)	318,259	27,746	5,260	7,814	359,079	179,672
<u>Other Financing Sources (Uses)</u>						
Sale of Property and Equipment	501				501	
Total Other Financing Sources (Uses)	501	-0-	-0-	-0-	501	-0-
Net Change in Fund Balance	318,760	27,746	5,260	7,814	359,580	179,672
Fund Balance-Beginning	919,228	32,989	31,086	321	983,624	803,952
Fund Balance-Ending	1,237,988	60,735	36,346	8,135	1,343,204	983,624

See accompanying notes to the financial statements.

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

	2017	2016
Net Change in Governmental Fund Balances	359,580	179,672

Amounts reported for the governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$5,000.00 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital Outlay	30,149	
Depreciation Expense	(117,776)	(87,627) (120,054) (120,054)

Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:

Net Severance Payments	3,682	12,224
Payment of Bond Principal	20,000	23,682 20,000 32,224

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Pension Expense	(3,866,735)	(310,037)
Other Post Employment Benefit	2,921,961	(944,774) (563,495) (873,532)

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, and therefore are unavailable in the funds.

	(1,527)	(2,255)
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Change in Net Position of Governmental Activities	(650,666)	(783,945)
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See accompanying notes to the financial statements.

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Tax Levies	583,876	521,150	544,276	23,126
Other Local and County Revenues	37,989	19,214	32,238	13,024
Revenue from State Sources	2,670,368	2,949,712	2,590,244	(359,468)
Revenue from Federal Sources	55,900	124,272	113,695	(10,577)
Sales and Other Conversion of Assets	20,600	22,372	30,242	7,870
Total Revenues	3,368,733	3,636,720	3,310,695	(326,025)
<u>Expenditures</u>				
District and School Administration	279,263	267,123	267,548	(425)
District Support Services	133,922	88,296	78,357	9,939
Regular Instruction	1,804,112	1,883,491	1,793,887	89,604
Exceptional Instruction	213,851	170,279	199,733	(29,454)
Community Education Services	89,850			
Instructional Support Services	84,008	116,102	110,752	5,350
Pupil Support Services	246,486	327,543	336,812	(9,269)
Site, Building and Equipment	293,462	270,548	186,482	84,066
Fiscal and Other Fixed Cost Programs	35,750	37,000	18,865	18,135
Total Expenditures	3,180,704	3,160,382	2,992,436	167,946
Excess Revenues (Expenditures)	188,029	476,338	318,259	(158,079)
<u>Other Financing Sources (Uses)</u>				
Sale of Property			501	501
Total Other Financing Sources (Uses)	-0-	-0-	501	501
Net Change in Fund Balance	188,029	476,338	318,760	(157,578)
Fund Balance-Beginning			919,228	
Fund Balance-Ending			<u>1,237,988</u>	

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Revenue from State Sources	10,750	16,383	17,268	885
Revenue from Federal Sources	115,800	128,000	152,345	24,345
Other Local and County Revenues			249	249
Sales and Other Conversion of Assets	<u>38,490</u>	<u>36,100</u>	<u>35,689</u>	<u>(411)</u>
Total Revenues	<u>165,040</u>	<u>180,483</u>	<u>205,551</u>	<u>25,068</u>
<u>Expenditures</u>				
Pupil Support Services	<u>188,178</u>	<u>193,823</u>	<u>177,805</u>	<u>16,018</u>
Total Expenditures	<u>188,178</u>	<u>193,823</u>	<u>177,805</u>	<u>16,018</u>
Net Change in Fund Balance	<u>(23,138)</u>	<u>(13,340)</u>	27,746	<u>41,086</u>
Fund Balance-Beginning			<u>32,989</u>	
Fund Balance-Ending			<u>60,735</u>	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Tax Levies	30,953	31,508	31,663	155
Other Local and County Revenues	23,000	3,250	3,808	558
Revenue from State Sources	51,458	50,921	51,158	237
Total Revenues	105,411	85,679	86,629	950
<u>Expenditures</u>				
Community Education and Services	107,456	88,576	81,369	7,207
Total Expenditures	107,456	88,576	81,369	7,207
Net Change in Fund Balance	<u>(2,045)</u>	<u>(2,897)</u>	5,260	<u>8,157</u>
Fund Balance-Beginning			31,086	
Fund Balance-Ending			<u>36,346</u>	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Tax Levies	25,320	25,320	32,226	6,906
Other Local and County Revenues			78	78
Revenues from State Sources	1,560	1,560	1,560	
Total Revenues	<u>26,880</u>	<u>26,880</u>	33,864	6,984
<u>Expenditures</u>				
Fiscal and Other Cost Programs	26,050	26,050	26,050	
Total Expenditures	<u>26,050</u>	<u>26,050</u>	26,050	-0-
Net Change in Fund Balance	<u>830</u>	<u>830</u>	7,814	<u>6,984</u>
Fund Balance-Beginning			321	
Fund Balance-Ending			<u>8,135</u>	

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 **Summary of Significant Accounting Policies**
Basis of Presentation

A. The financial statements of Independent School District No. 2907 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Independent School District 2907, Brewster, was formed and operates pursuant to applicable Minnesota laws and statutes. The Round Lake-Brewster District currently operates under an elected twelve member Board of Education form of government that will eventually be reduced to six thru the orderly reduction plan. The Board has control over all activities related to the public school education in the Round Lake-Brewster District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 **Summary of Significant Accounting Policies - continued**
Financial Reporting Entity - continued

The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board has a fiduciary responsibility in establishing policies and ensuring that appropriate financial records are maintained for student activities. The District's School Board has elected to control and exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are included in the financial statements under the General Fund activity.

C. Basic Financial Statement Presentation

The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the Fiduciary Funds. The Fiduciary Funds are only reported in the Statements of 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 not properly included among program revenues are reported instead as general revenues.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 **Summary of Significant Accounting Policies - continued**
C. Basic Financial Statement Presentation - continued

The District applies restricted resources first when an expense is incurred for 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 each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter fund activity has been removed from the District-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: expendable trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements. No activities of the District were determined to be fiduciary funds, so no fiduciary funds are present in the financial statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

D. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary 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. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 **Summary of Significant Accounting Policies - continued**
D. Basis of Accounting and Measurement Focus - continued

Property taxes are considered to be available if collected within 60 days of fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

The District reports unavailable revenue on its balance sheet.

Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurring qualified expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for unavailable revenue is removed and revenue is recognized.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Governmental Funds
General Fund

The General Fund includes all financial transactions relating to the administration, instruction, maintenance, transportation, and capital expenditures of the District which are not accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of federal and state revenue sources that are legally restricted for expenditures for specified purposes. These funds include the Food Service and Community Service funds.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued
D. Basis of Accounting and Measurement Focus - continued
Debt Service Fund

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

E. Budgets and Budgetary Accounting

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by the school personnel and approved by the school board. Encumbrances are not considered in the budget process nor in the regular district accounting.

Once a budget is approved, it can be amended by school personnel with approval by the school board. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

The school District uses the average cash balance method of allocating investment income to the various funds.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued
G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

H. Inventories

Inventories consist of expendable supplies held for consumption and are stated at moving, weighted average cost. Inventory of the General Fund is recorded as expenditure when items are issued from central stores. Accordingly, inventory items on hand at the school are not included in inventory. Inventory of the Food Service Fund is recorded as expenditure when items are used. United States Department of Agriculture (USDA) commodities received are recorded at cost determined using the USDA standard price list and are included in the Food Service Fund inventory when received. Revenue is recognized and the expenditure is recorded when commodities are used.

I. Prepaid Items

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

J. Property Tax Recognition

The levy certification is made in December of each year. The tax levy is collectible as of January 2nd of the following year and the taxes are due to the county treasurer in May and October of each year. The taxes levied during the fall of the year are recognized in the subsequent fiscal year for the school district.

Current taxes receivable includes the amount of Homestead Market Value Credit Aid and Disparity Reduction Aid to be received after July 1, 2017, and will be recognized as revenue during the fiscal year ending June 30, 2017. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued
K. Capital Assets

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

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

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.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenditure/expense) until then. The District has only one type, related to pensions, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resource, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as inflows of resources (revenue) until this time.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued
L. Deferred Outflows/Inflows of Resources-continued

The District has three types, unearned revenue, property taxes levied for subsequent years, and related to pensions, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, unearned revenue and property taxes levied for subsequent years are reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

M. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are unearned and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are also reported as unearned charges and amortized over the term of the related debt.

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 or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Fund Equity

In the fund financial statements, governmental funds report fund balances as non-spendable, restricted, committed, assigned or unassigned. (see Note 11).

O. Net Position

Net position represents the difference between assets and liabilities in the government-wide and Fiduciary Fund 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 imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 1 Summary of Significant Accounting Policies - continued

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

Q. Subsequent Events

Subsequent events have been evaluated through November 7, 2017 which is the date the financial statements were available to be issued.

R. 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.

S.

Certain Comparative Data and Reclassifications

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the change in financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2 Deposits and Investments

A. Deposits

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2017, there were no deposits exposed to custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2 Deposits and Investments - continued

B. Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk," by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District's investments are potentially subject to various risks including the following:

Custodial Credit Risk

The risk that in the event of a failure of the counter party to an investment transaction, a district will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk

The risk that an issuer or other counter party to an investment will not fulfill its obligations to the holder of the investment.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 2 Deposits and Investments - continued

B. Investments - continued

Concentration of Credit Risk

The risk of loss that may be caused by the District's investment in a single issuer.

Interest Rate Risk

The risk that changes in the market interest rates will adversely affect the fair value of an investment.

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

Investment Pools	Credit Rating	Credit Risk Agency	Concentration Risk Over 5% of Portfolio	Interest Rate Risk Maturity Date	Carrying Value
Minnesota School District Liquid					
Asset Fund Plus					
Liquid Class	AAA	S & P	N/A	N/A	566
Minnesota School District Liquid					
Asset Fund Plus					
MAX Class	AAA	S & P	N/A	N/A	1,755,697
Total Investment Pool					1,756,263
Deposits					62,013
Total Cash and Investments					1,818,276

The Minnesota School District Liquid Asset fund is regulated by Minnesota Statutes and is an external investment pool not registered with the SEC that follows the same regulatory rules of the SEC under rule 207. It is measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 3 **Due From Other Governmental Units**
Amounts due from other governmental units as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
General Fund		
Department of Health and Human Services	1,171	-0-
Total General Fund	<u>1,171</u>	<u>-0-</u>
Total All Funds	<u>1,171</u>	<u>-0-</u>

Note 4 **Due From Other Minnesota School Districts**
The amounts due from other Minnesota School Districts as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
General Fund		
Independent School District No. 330		
Heron Lake Okabena – Reimbursable Expenses	1,116	606
Independent School District No. 518		
Worthington – Reimbursable Expenses	42,578	6,316
Independent School District No. 505		
Fulda – Reimbursable Expenses		25,518
Independent School District No. 991		
SW/WC Service Coop – Reimbursable Expenses	<u>37,095</u>	<u>6,342</u>
Total General Fund	<u>80,789</u>	<u>38,872</u>

Community Service Fund		
Independent School District No. 518		
Worthington – Reimbursable Expenses	892	460
Total Community Services	<u>892</u>	<u>460</u>
Total Special Revenue Funds	<u>892</u>	<u>460</u>
Total All Funds	<u>81,681</u>	<u>39,242</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 5 **Due From Federal Government Through the Department of Education**
Amounts due from the federal government through the Department of Education as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
General Fund		
Federal Programs-Title 1, Part A	-0-	8,353
Total General Fund	<u>-0-</u>	<u>8,353</u>

Note 6 **Due From Department of Education**
Amounts due from the Department of Education for aids and reimbursements receivable as of June 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
General Fund		
General Education Aid	112,068	152,306
Homestead/Agricultural Credit	800	607
Other State Credits	4,192	5,179
Special Education	<u>(112,421)</u>	<u>36,188</u>
Total General Fund	4,639	194,280

Community Service Fund		
Other State Credits	1,342	1,117
Total Community Services	<u>1,342</u>	<u>1,117</u>

Debt Service Fund		
Other State Credits	156	172
Total Debt Service	<u>156</u>	<u>172</u>
Total Special Revenue Funds	<u>1,498</u>	<u>1,289</u>
Total All Funds	<u>6,137</u>	<u>195,569</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 7 Capital Assets
Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance 7/01/16	Additions	Retirements	Balance 6/30/17
Capital assets not depreciated	2,497			2,497
Land				
Capital assets depreciated	227,352			227,352
Land Improvements	3,161,944			3,161,944
Buildings	721,526	4,844	(82,524)	643,846
Equipment	454,484	25,305	(21,600)	458,189
Eligible Pupil Trans. Vehicles	4,565,306	30,149	(104,124)	4,491,331
Total capital assets depreciated				
Less accumulated depreciation for				
Land Improvements	(70,131)	(10,482)		(80,613)
Buildings	(1,327,592)	(55,638)		(1,383,230)
Equipment	(575,206)	(23,350)	82,524	(516,032)
Eligible Pupil Trans. Vehicles	(401,180)	(28,306)	21,600	(407,886)
Total accum. depreciation	(2,374,109)	(117,776)	104,124	(2,387,761)
Total capital assets depreciated-net	2,191,197	(87,627)	-0-	2,103,570
Net Capital Assets	<u>2,193,694</u>	<u>(87,627)</u>	<u>-0-</u>	<u>2,106,067</u>

Depreciation expense of \$117,776 for the year ended June 30, 2017 was charged to the following governmental functions:

District and School Administration	1,285
Regular Instruction	5,827
Special Education Instruction	1,252
Community Education	3,428
Instruction Support Services	2,118
Pupil Support Services	30,540
Sites, Buildings, and Equipment	<u>73,326</u>
Total	<u>117,776</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 8 Due To Other Governmental Units
The amounts due to other governmental units as of June 30, 2017 and 2016 are as follows.

	June 30 2017	2016
General Fund		
Minnesota Department of Revenue	98	110
Total General Fund	<u>98</u>	<u>110</u>
Total All Funds	<u>98</u>	<u>110</u>

Note 9 Due To Other Minnesota School Districts
The amounts due to other Minnesota School Districts as of June 30, 2017 and 2016 are as follows.

	June 30 2017	2016
General Fund		
Independent School District No. 991	10,977	8,859
SW/WC Service Coop-Reimbursements		
Independent School District No. 505	19,213	25,518
Fulda-Reimbursements		
Independent School District No. 330	197,426	241,968
Heron Lake Okabena-Reimbursements		
Independent School District No. 622	1,467	
North St. Paul-Reimbursements		
Independent School District No. 518		
Worthington-Reimbursements	43,563	276,345
Total General Fund	<u>272,646</u>	<u>276,345</u>
Special Revenue Funds		
Community Service Fund		
Independent School District No. 330		
Heron Lake Okabena-Reimbursements	3,270	400
Total Community Service Fund	<u>3,270</u>	<u>400</u>
Total Special Revenue Funds	<u>3,270</u>	<u>400</u>
Total All Funds	<u>275,916</u>	<u>276,745</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 10 Long-Term Liabilities

A. General Obligation Capital Facility Bonds, Series 2014A
The District issued General Obligation Capital Facility Bonds, Series 2014A of \$240,000, to provide funds for the improvement of a major capital facility. General obligation bonds are direct obligations and pledge the full faith and credit of the District, and are paid from the debt service fund. The bonds are due at annual installments of \$20,000 to \$25,000, with interest rates of 2.0% to 3.2%, from February 1, 2015 to February 1, 2024.

The annual requirements to amortize the bonds outstanding as of June 30, 2017, including interest payments, are listed below.

Year Ended	Principal	Interest	Total
June 30			
2018	25,000	5,100	30,100
2019	25,000	4,475	29,475
2020	25,000	3,788	28,788
2021	25,000	3,100	28,100
2022	25,000	1,975	26,975
2023-2024	50,000	2,775	52,775
Total	<u>175,000</u>	<u>21,213</u>	<u>196,213</u>

B. Severance Payable

Contract employees who have completed 25 years of service with Independent School District 2907 are eligible to receive an early retirement incentive payment. The maximum payment amount is limited to 72 days of pay calculated at the daily rate of pay during the last year of service, excluding pay for additional assignments. Beginning in fiscal year 2001-2002, a 403-B annuity matching plan began replacing the previously calculated severance payment. Any amounts contributed to the new 403-B plan are deducted from the previous severance pay calculated amount. Teachers with hire dates after July of 1999 are not eligible for the previous severance pay, which will ultimately be phased out and replaced solely by the 403-B annuity matching plan. Yearly contributions to the 403-B annuity matching plan are based on year of service with the district, ranging from \$300 to \$900 each year.

The District currently has three employees who have qualified for severance benefits and estimates its severance pay obligations to be \$19,592 at June 30, 2017. The General Fund has been used to reduce the liability for severance.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 10 Long-Term Liabilities-continued

C. Changes in Long Term Debt
The following is a schedule of the changes in Long-Term Debt:

	Balance 7/1/16	Additions	Reductions	Balance Due Within 6/30/17	One Year 25,000
General Obligation Bond	195,000	-0-	20,000	175,000	25,000
Severance Payable	23,274	-0-	3,682	19,592	8,558
Totals	<u>218,274</u>	<u>-0-</u>	<u>23,682</u>	<u>194,592</u>	<u>33,558</u>

Note 11 Fund Balances

The District has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. Following are the fund balance categories used by the District:

Non-Spendable Fund Balance
Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

The District has the following non spendable fund balances as of June 30, 2017:

General Fund	
Non-Spendable	45,117
Total General Fund	<u>45,117</u>
Special Revenue	
Food Service Fund	3,723
Non-Spendable	3,723
Total Food Service	<u>3,723</u>
Total Special Revenue	<u>3,723</u>
Total All Funds	<u>48,840</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 11 **Fund Balances - continued**

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

Negative restricted fund balance amounts were offset and shown as unassigned fund balance. (See also, Schedule 10)

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2017.

General Fund	
Staff Development	41,256
Health and Safety	(31,251)
Operating Debt	(61,300)
Operating Capital	427,414
Gifted & Talented	101
Basic Skills	301,553
Safe Schools	19,296
LTFM	19,234
Total General Fund	<u>716,303</u>
Special Revenue	
Food Service Fund	
Restricted	<u>57,012</u>
Total Food Service	<u>57,012</u>
Community Service Fund	
Community Education	3,413
Early Childhood and Family Education	28,886
Restricted	<u>4,047</u>
Total Community Service Fund	<u>36,346</u>
Debt Service Fund	
Restricted	<u>8,135</u>
Total Debt Service Fund	<u>8,135</u>
Total Special Revenue	<u>101,493</u>
Total All Funds	<u>817,796</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 11 **Fund Balances - continued**

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

The District has no committed fund balances as of June 30, 2017.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the district finance director and superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

The District has no assigned fund balances as of June 30, 2017.

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The District has the following unassigned fund balances as of June 30, 2017:

General Fund	476,568
Total All Funds	<u>476,568</u>

Stabilization Amounts

Amounts formally set aside by the governmental unit for use in emergency situations such as revenue shortages or budgetary imbalances.

The District has no stabilization amounts as of June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans

A. Public Employees Retirement Association (PERA)

1. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (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.

1. General Employees Retirement Plan (GERF)

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

2. Benefits Provided

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

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

The benefit provisions 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.

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

2. Benefits Provided-continued

accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

3. Contributions

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

1. GERF Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2017; the District was required to contribute 7.50 percent for Coordinated Plan members. The District contributions to the General Employees Fund for the year ended June 30, 2017 were \$36,041. The District's contributions were equal to the required contributions as set by state statute.

4. Pension Costs

At June 30, 2017, the District reported a liability of \$584,604 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by 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 0.0072%, which was a decrease of 0.0001% from its proportion measured as of June 30, 2015.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
A. Public Employees Retirement Association (PERA) - continued

4. **Pension Costs-continued**
For the year ended June 30, 2017, the District recognized pension expense of \$79,733 for its proportionate share of GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$55	\$47,665
Changes in actuarial assumptions	\$117,349	
Difference between projected and actual investment earnings	\$111,329	\$46,328
Changes in proportion	\$7,774	\$(1,182)
Contributions paid to PERA subsequent to the measurement date	\$36,041	
Total	\$272,548	\$92,812

\$36,041 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Year ended June 30:	Pension Expense Amount
2018	\$32,524
2019	\$29,589
2020	\$60,463
2021	\$21,117
2022	\$0

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
A. Public Employees Retirement Association (PERA) - continued

5. **Actuarial Assumptions**
The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

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

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

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
A. Public Employees Retirement Association (PERA) - continued

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

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

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

6. Discount Rate

The discount rate used to measure the total pension liability was 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 employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension 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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
A. Public Employees Retirement Association (PERA) - continued

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the GERS net pension liability:	\$830,311	\$584,604	\$382,209

8. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

B.

Teachers Retirement Association

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

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued

1. **Plan Description-continued**
elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.
2. **Benefits Provided**
TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Tier I	Step Rate Formula	Percentage
Basic	1 st ten years if service years	2.2 percent per year
	1 st ten years if service years	2.7 percent per year
Coordinated	1 st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if Service years are July 1, 2006 or after	1.9 percent per year

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued

2. **Benefits Provided - continued**
With these provisions:
 - (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
 - (b) 3 percent per year early retirement reduction factors for all years under normal retirement age.
 - (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued

2. Benefits Provided - continued

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 provisions in effect at the time they last terminated their public service.

3. Contribution Rate

Minnesota Statute, Chapter 354 sets the contribution rates for employers and employees. Contribution rates can only be modified by the state legislature. 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 the Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocations	(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	<u>\$390,131,928</u>

Amounts reported in the allocation schedules may not precisely agree with the 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued

4. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2016
Experience Study	June 5, 2015
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	4.66%
Price Inflation	2.75%
Wage Growth Rate	3.5%
Projected Salary Increase	3.5-9.5%
Cost of living adjustment	2.0%
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 the rates. Generational projection uses the MP-2015 scale.
Post-Disability	RP 2014 disabled retiree mortality table, without adjustment.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expenses 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued

4. Actuarial Assumptions - continued

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

Asset Class	Target Allocation	Long-Term Expected 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%

The TRA actuary had determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The "Difference between expected and actual experience" and "changes of assumptions" use the amortization period of 6 years in the schedules 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.

5. Discount Rate

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued

6. Net Pension Liability

On June 30, 2017, the District reported a liability of \$5,009,001 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 0.0210% at the end of the measurement period and 0.0218% for the beginning of the year.

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

District's proportionate share of net pension liability	\$5,009,001
State's proportionate share of the net pension liability associated with the District	\$502,602

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 at 2.0 percent annually. While in the previous measurement, the COLA increased to 2.3 percent in 2034.

For the year ended June 30, 2017, the District recognized pension expense of \$733,995. It also recognized \$70,180 as an increase to pension expense for the support provided by direct aid.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued

6. Net Pension Liability-continued
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 economic experience		\$140
Net Difference between projected and actual investment earnings on pension plan investments	\$272,195	
Changes of assumptions	\$2,777,573	
Changes in proportion		\$41,240
Contributions paid to TRA subsequent to measurement date	\$79,354	
Total	\$3,129,122	\$41,380

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

2018	\$617,548
2019	\$617,548
2020	\$617,548
2021	\$617,548
2022	\$617,550

7. Pension Liability Sensitivity

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

	1% Decrease (3.66%)	Discount Rate (4.66%)	1% Increase (5.66%)
District's proportionate share of NPL:	\$6,452,845	\$5,009,001	\$3,833,037

The Employer'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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 12 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued

8. Pension Plan Fiduciary Net Position
Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report may be accessed at the TRA Web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-4000
(651) 296-2409
(800) 657-3669

C. Postemployment Benefits Other Than Pension Benefits (OPFB)
The district has no liability for postemployment benefits other than pension benefits.

Note 13 Vacation and Sick Leave

The District has a policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from services with the District. Vacation leave is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees. A liability for these amounts is reported only if they have matured as a result of employee resignation and retirement. All unused vacation leave expires at June 30, 2017.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2017

Note 14

Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

The Minnesota School Boards Association Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for member school districts. The district pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

Note 15

Consolidation

Fiscal year 2013-2014 was the initial year of the Independent School District No. 2907. A special election was held on June 11, 2013 and the voters approved the consolidation of Independent School District No. 516 (Round Lake) and Independent School District No. 513 (Brewster).

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
DEFINED BENEFIT PENSION PLANS
JUNE 30, 2017

Valuation Fiscal Year Ending	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA:					
June 30, 2014	0.0076%	\$357,010	\$412,276	86.6%	78.7%
June 30, 2015	0.0073%	\$378,324	\$419,960	90.1%	78.2%
June 30, 2016	0.0072%	\$384,604	\$445,067	131.4%	68.9%
TRA:					
June 30, 2014	0.0230%	\$1,059,823	\$1,050,512	100.9%	81.5%
June 30, 2015	0.0218%	\$1,348,546	\$1,108,320	121.7%	76.8%
June 30, 2016	0.0210%	\$5,009,001	\$1,090,813	459.2%	44.88%

See Note 12, Defined Benefit Pension Plans, for more information

Governmental Accounting Standards Board Statement 68 was implemented in fiscal year 2015. The District will report the above RSI information prospectively as the information becomes available.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S CONTRIBUTIONS
DEFINED BENEFIT PENSION PLANS
JUNE 30, 2017

Valuation Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
PERA:					
June 30, 2014	\$28,848	\$28,848	\$0	\$412,276	7.25%
June 30, 2015	\$31,497	\$31,497	\$0	\$419,960	7.50%
June 30, 2016	\$33,380	\$33,380	\$0	\$445,067	7.50%
TRA:					
June 30, 2014	\$73,536	\$73,536	\$0	\$1,050,512	7.0%
June 30, 2015	\$83,124	\$83,124	\$0	\$1,108,320	7.50%
June 30, 2016	\$81,811	\$81,811	\$0	\$1,090,813	7.50%

See Note 12, Defined Benefit Pension Plans, for more information

Governmental Accounting Standards Board Statement 68 was implemented in fiscal year 2015. The District will report the above RSI information prospectively as the information becomes available.

**GENERAL FUND
BALANCE SHEET
JUNE 30, 2017**

	2017	2016
Assets		
Cash	1,678,159	1,246,463
Accounts Receivable	1,550	2,172
Current Property Taxes Receivable	237,943	283,266
Delinquent Property Taxes Receivable	6,638	7,586
Due from Other Governmental Units	1,171	
Due From Other Minnesota Districts	80,789	38,782
Due From Department of Education	4,639	194,280
Due From Federal Government		8,353
thru Department of Education	45,117	528
Prepaid Expenses	2,056,006	1,781,430
Total Assets		
Liabilities, Deferred Inflows of Resources and Fund Balances		
Liabilities		
Salaries Payable	13,133	11,357
Accounts Payable	11,230	16,605
Payroll Deductions	8,108	7,385
Due to Other Governmental Units	98	110
Due to Other Minnesota School Districts	272,646	276,345
Total Liabilities	305,215	311,802
Deferred Inflows of Resources		
Unavailable Revenue - Other	61,300	30,650
Unavailable Revenue - Delinquent Taxes	6,638	7,586
Property Taxes Levied for Subsequent Years	444,865	512,164
Total Deferred Inflows of Resources	512,803	550,400
Fund Balances		
Fund Balance-Non Spendable	45,117	528
Fund Balance-Restricted	716,303	638,619
Fund Balance-Unassigned	476,568	280,081
Total Fund Balances	1,237,988	919,228
Total Liabilities, Deferred Inflows of Resources and Fund Balances	2,056,006	1,781,430

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

	Year Ended June 30		Variance with Budget	2016 Actual
	2017 Budget	2017 Actual		
Revenues				
Local Property Tax Levy	521,150	544,276	23,126	445,917
Total Local Property Tax Levy	521,150	544,276	23,126	445,917
Other Local and County Revenues				
County Apportionment	8,000	7,870	(130)	10,257
Interest Income	5,500	9,585	4,085	3,046
Other Revenues	5,714	14,783	9,069	28,502
Total Other Local and County Revenues	19,214	32,238	13,024	41,805
Revenue From State Sources				
General Education	2,946,633	2,644,855	(301,778)	2,427,159
Special Education	(100,000)	(148,609)	(48,609)	(6,348)
Endowment Fund Apportionment	9,532	9,647	115	9,138
Disparity Reduction Aid	3,659	3,659		3,300
Market Value Credit	7,999	7,999		6,072
Other State Aids	81,889	72,693	(9,196)	54,589
Consolidation Aid				449
Total Revenue From State Sources	2,949,712	2,590,244	(359,468)	2,494,359
Revenue From Federal Sources				
Federal Aid Programs	124,272	113,695	(10,577)	93,310
Sales and Other Conversions of Assets				
Insurance Recovery	4,372	7,323	2,951	7,393
Resale Items	18,000	22,919	4,919	22,384
Total Sales and Other Conversions of Assets	22,372	30,242	7,870	29,777
Total Revenues	3,656,720	3,310,695	(326,025)	3,105,168
Expenditures				
District and School Administration	114,357	123,836	(9,479)	104,060
School Administration	23,112	20,400	2,712	22,018
Board of Education	35,533	35,661	(128)	34,562
Instructional Administration	94,121	87,651	6,470	78,213
Superintendent's Office	267,123	267,548	(425)	238,873
Total District and School Administration				

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

	2017		Variance with Budget	2016	
	Budget	Actual		Budget	Actual
Expenditures - continued					
District Support Services					
Business Services	59,950	57,816	2,134	55,857	
General Administrative Support	28,000	20,194	7,806	23,049	
Other Administrative Support	346	347	(1)	8,763	
Total District Support Services	88,296	78,357	9,939	87,669	
Regular Instruction					
Elementary Education (PreK)	135,495	141,357	(5,862)	90,278	
Elementary Education (K)	93,165	92,196	969	572,574	
Elementary Education (1-6)	527,412	506,231	21,181	789,851	
Secondary-General	845,939	771,408	74,531	6,388	
Gifted and Talented	3,499	6,104	(2,605)		
English Learner	20,000	20,942	(942)		
Health, Physical Education, Recreation	48,018	48,427	(409)	37,445	
Limited English Proficiency	57,061	56,688	373	54,261	
Computer Science	10,943	10,574	369	11,748	
Music	36,039	35,129	910	44,383	
Title I Improving the Academics	48,727	48,905	(178)	44,126	
Title II Part A	22,452	17,777	4,675	18,036	
Title II Part D	9,126	9,126	0	6,791	
Boys and Girls Athletics	4,928	5,506	(578)	4,968	
Extra-Curricular Activities	20,687	23,517	(2,830)	27,279	
Total Regular Instruction	1,883,491	1,793,887	89,604	1,708,128	
Exceptional Instruction					
Special Educational-General	4,821	11,071	(6,250)	5,902	
Special Educational-Aggregate	17,366	33,917	(16,551)	23,592	
Autistic Spectrum Disorders				4,128	
Developmentally Delayed	4,666	10,134	(5,468)	3,683	
Development Cognitive Disabilities	21,610	21,910	(300)	16,178	
Deaf-Hard of Hearing	9,077	8,821	256	8,433	
Other Health Disorders	16,849	17,770	(921)	6,964	
Specific Learning Disability	32,953	32,788	165	82,742	
Physically Impaired	3,588	7,999	(4,411)	12,576	
Speech/Language Impaired	25,540	18,693	6,847	34,811	
Emotional/Behavioral Disorder	33,809	36,630	(2,821)	46,211	
Total Exceptional Instruction	170,279	199,733	(29,454)	245,020	
Community Education Services					
School Readiness				85,061	
Total Community Education Services	-0-	-0-	-0-	85,061	

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

	2017		Variance with Budget	2016	
	Budget	Actual		Budget	Actual
Expenditures - continued					
Instructional Support Services					
Curriculum Consultant and Development	41,720	45,130	(3,410)	11,133	
Instruction Related Technology	27,736	23,244	4,492	38,523	
Library Media Center	45,146	41,095	4,051	26,975	
Staff Development	1,500	1,283	217	1,283	
Total Instructional Support Services	116,102	110,752	5,350	118,574	
Pupil Support Services					
Health Services	10,300	10,600	(300)	9,439	
Social Work Services	1,767	1,663	104	478	
Pupil Transportation	274,476	283,605	(9,129)	216,126	
Other Pupil Support Services	41,000	40,944	56	54,219	
Total Pupil Support Services	327,543	336,812	(9,269)	280,262	
Site, Building and Equipment					
Salaries	53,698	50,295	3,403	61,838	
Supplies	31,850	21,832	10,018	25,695	
Utilities	53,600	47,690	5,910	41,564	
Repair and Maintenance Service	59,350	45,704	13,646	27,795	
Equipment	5,000	2,250	2,750	15,102	
Building Improvement	32,650	5,576	27,074	2,657	
Professional Services	300	358	(58)	2,672	
Fuel	30,000	11,727	18,273	9,520	
Travel	4,100	1,050	3,050	1,097	
Total Site, Building and Equipment	270,548	186,482	84,066	187,940	
Fixed Cost Programs					
Insurance	37,000	18,865	18,135	18,376	
Total Fixed Cost Programs	37,000	18,865	18,135	18,376	
Total Expenditures	3,160,382	2,992,436	167,946	2,969,903	
Excess Revenues (Expenditures)	476,338	318,259	(158,079)	135,265	
Other Financing Sources (Uses)					
Sale of Property and Equipment	-0-	501	501	-0-	
Total Other Financing Sources (Uses)	-0-	501	501	-0-	
Excess Revenues and Other Financing Sources Over Expenditures and Other Uses	476,338	318,760	(157,578)	135,265	
Fund Balance-July 1		919,228		783,963	
Fund Balance-June 30		1,237,988		919,228	

**SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

	2017	2016	Total (Memo Only)
Revenues			
Local Property Tax Levy	31,663	37,939	
Other Local and County Revenues	4,057	56,738	
Revenue from State Sources	68,426	62,573	
Revenue from Federal Sources	152,345	142,910	
Other	35,689	38,222	
Total Revenues	292,180	338,382	
Expenditures			
Community Education and Services	81,369	132,601	
Pupil Support Services	177,805	161,695	
Total Expenditures	259,174	294,296	
Excess Revenues (Expenditures)	33,006	44,086	
Fund Balance-July 1	31,086	19,989	
Fund Balance-June 30	64,092	64,075	

**ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2017**

	2017	2016	Total (Memo Only)
Assets			
Cash	114,877	80,943	
Current Property Taxes Receivable	15,753	15,879	
Delinquent Property Taxes Receivable	365	706	
Due from Department of Education	1,342	1,117	
Due from Other Minnesota Districts	892	460	
Inventory	3,723	1,434	
Total Assets	136,952	100,539	
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
Accounts Payable	426	597	167
Salaries Payable	1,111	1,287	1,444
Due to Other Minnesota Districts	3,270	400	400
Total Liabilities	5,154	2,011	
Deferred Inflows of Resources			
Unavailable Revenue - Other	773	773	773
Unavailable Revenue - Delinquent Taxes	365	706	706
Property Taxes Levied for Subsequent Years	33,579	32,974	32,974
Total Deferred Inflows of Resources	34,717	34,453	
Fund Balances			
Fund Balance-Non Spendable	3,723	1,434	1,434
Fund Balance-Restricted	57,012	62,641	62,641
Total Fund Balances	60,735	64,075	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	136,952	100,539	

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	Year Ended June 30		Variance with Budget	2016	
	2017	Actual		Budget	Actual
Revenues					
Revenue From State Sources					
State Lunch Reimbursement	16,383	17,268	885		12,834
Revenue From Federal Sources					
Federal Lunch Reimbursement	128,000	141,027	13,027		122,939
Commodities		11,318	11,318		12,523
Other					7,448
Total Revenue From Federal Sources	128,000	152,345	24,345		142,910
Other Local and County Revenues					
Interest Income		249	249		
Total Other Local and County Revenues	-0-	249	249		-0-
Sales and Other Conversion of Assets					
Sale of Lunches	36,100	35,689	(411)		38,222
Total Revenues	180,483	205,551	25,068		193,966
Expenditures					
Pupil Support Services					
Food	86,700	83,034	3,666		82,325
Commodities	13,000	11,318	1,682		12,523
Salaries	69,573	67,171	2,402		60,110
Supplies	5,000	1,617	3,383		3,395
Repair and Maintenance	12,000	2,279	2,721		1,326
Equipment	2,000	1,961	1,985		
Utilities	550	410	140		1,745
Other					271
Total Expenditures	193,823	177,805	16,018		161,695
Excess Revenues (Expenditures)	(13,340)	27,746	41,086		32,271
Fund Balance-July 1		32,989			718
Fund Balance-June 30		60,735			32,989

COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017

	Year Ended June 30		Variance with Budget	2016	
	2017	Actual		Budget	Actual
Revenues					
Local Property Tax Levy	31,508	31,663	155		37,939
Local Tax Levy	31,508	31,663	155		37,939
Total Local Property Tax Levy					
Other Local and County Revenues					
Interest Income		288	288		
Fees from Patrons	3,250	3,520	270		56,738
Total Other Local and County Revenues	3,250	3,808	558		56,738
Revenue From State Sources					
Disparity Reduction Credit	457	457			709
Market Value Credit	1,009	1,009			1,312
Other State Aids	49,455	49,692	237		47,718
Total Revenue from State Sources	50,921	51,158	237		49,739
Total Revenues	83,679	86,629	950		144,416
Expenditures					
Community Education and Services					
Salaries	72,426	75,266	(2,840)		122,724
Supplies	6,690	4,694	1,996		4,241
Contracted Services	9,060	1,249	7,811		5,299
Travel	400	160	240		337
Total Expenditures	88,576	81,369	7,207		132,601
Excess Revenues (Expenditures)	(2,897)	5,260	8,157		11,815
Fund Balance-July 1		31,086			19,271
Fund Balance-June 30		36,346			31,086

**UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2017**

	Audit	UFARS	Difference
01 GENERAL FUND			
Total Revenues	3,310,695	3,310,695	
Total Expenditures	2,992,436	2,992,436	
Restricted/Reserve:			
4.03 Staff Development	41,256	41,256	
4.06 Health and Safety	(31,251)	(31,251)	
4.14 Operating Debt	(61,300)	(61,300)	
4.24 Operating Capital	427,414	427,414	
4.38 Gifted and Talented	101	101	
4.41 Basic Skills	301,553	301,553	
4.49 Safe Schools	19,296	19,296	
4.67 LTFM	19,234	19,234	
Non Spendable:			
4.60 Non Spendable	45,117	45,117	
Unassigned:			
4.22 Unassigned	476,568	476,568	
02 FOOD SERVICE			
Total Revenues	205,551	205,551	
Total Expenditures	177,805	177,805	
Non Spendable:			
4.60 Non Spendable	3,723	3,723	
Restricted/Reserve:			
4.64 Restricted	57,012	57,012	
04 COMMUNITY SERVICE			
Total Revenues	86,629	86,629	
Total Expenditures	81,369	81,369	
Restricted/Reserve:			
4.31 Community Education	3,413	3,413	
4.32 E.C.F.E.	28,886	28,886	
4.64 Restricted	4,047	4,047	
07 DEBT SERVICE			
Total Revenues	33,864	33,864	
Total Expenditures	26,050	26,050	
Restricted/Reserve:			
4.64 Restricted	8,135	8,135	

**DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

	Year Ended June 30		2016
	2017	2016	
Revenues			
<u>Local Property Tax Levy</u>			
Local Tax Levy	32,226	6,906	25,053
Total Local Property Tax Levy	32,226	6,906	25,053
<u>Other Local and County Revenues</u>			
Interest Income	78	78	-
Total Other Local and County Revenues	78	78	-
<u>Revenue From State Sources</u>			
Disparity Reduction Credit	349		455
Market Value Credit	1,211		1,263
Total Revenue from State Sources	1,560	-	1,718
Total Revenues	33,864	6,984	26,771
Expenditures			
<u>Fiscal and Other Cost Programs</u>			
Bond Principal	20,000		20,000
Bond Interest	5,600		6,000
Other	450		450
Total Expenditures	26,050	-	26,450
Excess Revenues (Expenditures)	7,814	6,984	321
Fund Balance-July 1	321		-
Fund Balance-June 30	8,135		321

MEULEBROECK, TAUBERT & CO., PLLP
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**INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To The Board of Education
Independent School District No. 2907
Brewster, 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 of Independent School District No. 2907, Brewster, Minnesota as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Independent School District No. 2907, Brewster, Minnesota's basic financial statements, and have issued our report thereon dated November 7, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Independent School District No. 2907, Brewster, Minnesota's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Independent School District No. 2907
Brewster, Minnesota
Page 2

A deficiency in internal control over financial reporting 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 over financial reporting such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2017-I and 2017-II to be material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and 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 Independent School District No. 2907 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

Independent School District No. 2907's Response to Findings

Independent School District No. 2907's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Recommendations. 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.

**SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2017**

**I. Financial Statement Audit-Internal Controls
Previously Reported Items Not Resolved
2017-I
Lack of Segregation of Duties**

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

Due to the limited number of office personnel within the accounting department, proper segregation of the accounting functions necessary to ensure adequate internal accounting control in the areas of bank reconciliation, receipts, disbursements, payroll, journal, entries and budgets are not possible. Although this is not unusual in small office situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

Mullerbroeck, Taubert + Co, PLLP
Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Luverne, Minnesota

November 7, 2017

The District has implemented internal control procedures which utilize the existing staff to provide for segregation of duties in accounting functions whenever possible.

We recommend that the District's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Corrective Action Plan (CAP)
Evaluation of disagreement with audit findings:
There is no disagreement with the audit findings.

Actions planned in response to the finding:
Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the district will implement an internal control policy that will address the areas of segregation the district is lacking, including bank reconciliations, receipts, disbursements, payroll, journal entries, and budget. The policy utilizes staff and board members as well as the SW/WC Service Cooperative to ensure that segregation of duties occurs in every area.

Official responsible for Ensuring CAP:
The District's Superintendent in conjunction with the Business Manager is the official responsible for ensuring corrective action.

Planned completion date for CAP:
December 31, 2017

Plan to monitor completion of CAP:
The Superintendent and Board of Education will monitor the internal control system.

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

I. Financial Statement Audit-Internal Controls – continued
Previously Reported Items Not Resolved
2017-II *GAAP Financial Statements*

District personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Corrective Action Plan (CAP):

Evaluation of disagreement with audit findings:
There is no disagreement with the audit findings.

Actions planned in response to the finding:

The District has studied the situation and found that it is economically infeasible to hire or provide adequate training required to adequately prepare financial statements in accordance with the generally accepted accounting principles. The cost benefit of providing the necessary training to acquire and maintain this expertise prohibits it. The District will continue to have the auditor prepare the financial statements; however, the district has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Business Manager are the officials responsible for ensuring corrective action.

Planned Completion Date for CAP:

December 31, 2017

Plan to Monitor Completion of CAP:

The Superintendent and Board of Education will monitor the internal control system to ensure it is functioning as the internal control policy states.

FORM OF LEGAL OPINION

(See following page)



KNUTSON, FLYNN & DEANS, P.A.

1155 Centre Pointe Drive, Suite 10

Mendota Heights, MN 55120

651.222.2811 fax 651.225.0600

www.kfdmn.com

\$1,000,000*

**GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2018A
INDEPENDENT SCHOOL DISTRICT NO. 2907
(ROUND LAKE-BREWSTER PUBLIC SCHOOLS)
NOBLES AND JACKSON COUNTIES, MINNESOTA**

We have acted as Bond Counsel in connection with the issuance by Independent School District No. 2907 (Round Lake-Brewster Public Schools), Nobles and Jackson counties, Minnesota (the "District"), of its General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds"), in the aggregate principal amount of \$1,000,000*, bearing a date of original issue of July 12, 2018. The Bonds are fully registered as to principal and interest and are originally issued using a global book-entry system.

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

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

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

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

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

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

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

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

DATED at Mendota Heights, Minnesota, this 12th day of July, 2018.

KNUTSON, FLYNN & DEANS
Professional Association

BOOK-ENTRY-ONLY SYSTEM

1. The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the securities (the "Securities"). The Securities will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Security certificate will be issued for [each issue of] the Securities, [each] in the aggregate principal amount of such issue, and will be deposited with DTC. [If, however, the aggregate principal amount of [any] issue exceeds \$500 million, one certificate will be issued with respect to each \$500 million of principal amount, and an additional certificate will be issued with respect to any remaining principal amount of such issue.]
2. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.
3. Purchases of Securities under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Securities are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Securities, except in the event that use of the book-entry system for the Securities is discontinued.
4. To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. [Beneficial Owners of Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.]
6. Redemption notices shall be sent to DTC. If less than all of the Securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.
7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).
8. Redemption proceeds, distributions, and dividend payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.
9. A Beneficial Owner shall give notice to elect to have its Securities purchased or tendered, through its Participant, to [Tender/Remarketing] Agent, and shall effect delivery of such Securities by causing the Direct Participant to transfer the Participant's interest in the Securities, on DTC's records, to [Tender/Remarketing] Agent. The requirement for physical delivery of Securities in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Securities are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Securities to [Tender/Remarketing] Agent's DTC account.
10. DTC may discontinue providing its services as depository with respect to the Securities at any time by giving reasonable notice to the District or Agent. Under such circumstances, in the event that a successor depository is not obtained, Security certificates are required to be printed and delivered.
11. The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Security certificates will be printed and delivered to DTC.
12. The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

APPENDIX D

FORM OF CONTINUING DISCLOSURE CERTIFICATE

(See following page)

CONTINUING DISCLOSURE CERTIFICATE
(Limited Disclosure)

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by Independent School District No. 2907 (Round Lake-Brewster Public Schools), State of Minnesota (the "District"), in connection with the issuance of its General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds"). The Bonds are being issued pursuant to a Resolution adopted by the School Board on June 20, 2018 (the "Resolution"). The District has covenanted and obligated itself to be bound by the provisions of Minnesota Statutes, Section 126C.55 (the "State Payment Law" described in the Official Statement for the Bonds) which provides for payment by the State of Minnesota in the event of a potential default of a District obligation. The District covenants and agrees as follows:

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

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

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

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

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

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

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

"MSRB" shall mean the Municipal Securities Rulemaking Board.

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

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

SECTION 3. Provision of Information.

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

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

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

SECTION 4. Reporting of Significant Events.

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

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if material;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such action, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

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

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

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

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, and any provision

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

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

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

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

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

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

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

SECTION 14. District Contact Information.

Title: Superintendent
Name of District: Independent School District No. 2907
(Round Lake-Brewster Public Schools)
Address: 915 4th Avenue - P.O. Box 309
Round Lake, MN 56119
Telephone No. (507) 842-5951

Dated as of this 12th day of July, 2018.

INDEPENDENT SCHOOL DISTRICT NO. 2907
(ROUND LAKE-BREWSTER PUBLIC SCHOOLS)
BREWSTER, MINNESOTA

By: _____
Chair

And: _____
Clerk

[Signature Page for Continuing Disclosure Certificate]

APPENDIX E

TERMS OF PROPOSAL

**\$1,000,000* GENERAL OBLIGATION FACILITIES MAINTENANCE BONDS, SERIES 2018A
INDEPENDENT SCHOOL DISTRICT NO. 2907
(ROUND LAKE-BREWSTER PUBLIC SCHOOLS), MINNESOTA**

Proposals for the purchase of \$1,000,000* General Obligation Facilities Maintenance Bonds, Series 2018A (the "Bonds") of Independent School District No. 2907 (Round Lake-Brewster Public Schools), Minnesota (the "District") will be received at the offices of Ehlers & Associates, Inc. ("Ehlers"), 3060 Centre Pointe Drive, Roseville, Minnesota 55113-1105, Municipal Advisors to the District, until 10:00 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 June 20, 2018, at which time they will be opened, read and tabulated. The proposals will be presented to the Board of Education for consideration for award by resolution at a meeting to be held at 6:00 P.M., Central Time, on the same date. The proposal offering to purchase the Bonds upon the terms specified herein and most favorable to the District will be accepted unless all proposals are rejected.

PURPOSE

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

DATES AND MATURITIES

The Bonds will be dated July 12, 2018, will be issued as fully registered Bonds in the denomination of \$5,000 each, or any integral multiple thereof, and will mature on February 1 as follows:

<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>	<u>Year</u>	<u>Amount*</u>
2020	\$55,000	2025	\$60,000	2030	\$70,000
2021	55,000	2026	65,000	2031	75,000
2022	55,000	2027	65,000	2032	75,000
2023	60,000	2028	70,000	2033	80,000
2024	60,000	2029	70,000	2034	85,000

ADJUSTMENT OPTION

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

TERM BOND OPTION

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

INTEREST PAYMENT DATES AND RATES

Interest will be payable on February 1 and August 1 of each year, commencing February 1, 2019, to the registered owners of the Bonds appearing of record in the bond register as of the close of business on the 15th day (whether or not a business day) of the immediately preceding month. Interest will be computed upon the basis of a 360-day year of twelve 30-day months and will be rounded pursuant to rules of the Municipal Securities Rulemaking Board. **The rate for any maturity may not be more than 2.00% less than the rate for any preceding maturity. (For example, if a rate of 4.50% is proposed for the 2020 maturity, then the lowest rate that may be proposed for any later maturity is 2.50%.)** All Bonds of the same maturity must bear interest from date of issue until paid at a single, uniform rate. Each rate must be expressed in an integral multiple of 5/100 or 1/8 of 1%.

BOOK-ENTRY-ONLY FORMAT

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

PAYING AGENT

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

OPTIONAL REDEMPTION

At the option of the District, the Bonds maturing on or after February 1, 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 July 12, 2018, the Bonds will be delivered without cost to the winning bidder at DTC. On the day of closing, the District will furnish to the winning bidder the opinion of bond counsel hereinafter described, an arbitrage certification, and certificates verifying that no litigation in any manner questioning the validity of the Bonds is then pending or, to the best knowledge of officers of the District, threatened. Payment for the Bonds must be received by the District at its designated depository on the date of closing in immediately available funds.

LEGAL OPINION

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

SUBMISSION OF PROPOSALS

Proposals must not be for less than \$987,500 plus accrued interest on the principal sum of \$1,000,000 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 \$20,000 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

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

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

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

“competitive sale requirements”) because:

- (1) The District shall disseminate this Terms of Proposal to potential underwriters in a manner that is reasonably designed to reach potential investors;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the District may receive proposals from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the District anticipates awarding the sale of the Bonds to the bidder who submits a firm offer to purchase the Bonds at the highest price (or lowest interest cost), as set forth in this Terms of Proposal.

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

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

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

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

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

The District acknowledges that in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Bonds to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail distribution agreement that was employed in connection with the initial sale of the Bonds to the public, the agreement of each broker-dealer that is party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail distribution agreement and the related pricing wires. The District

further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Bonds.

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

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

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

- (i) “public” means any person other than an underwriter or a related party,
- (ii) “underwriter” means (A) any person that agrees pursuant to a written contract with the District (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Bonds to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Bonds to the public (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Bonds to the public),
- (iii) a purchaser of any of the Bonds is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) at least 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) “sale date” means the date that the Bonds are awarded by the District to the winning bidder.

PRELIMINARY OFFICIAL STATEMENT

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

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

By Order of the Board of Education

Independent School District No. 2907
(Round Lake-Brewster Public Schools), Minnesota

PROPOSAL FORM

The Board of Education
Independent School District No. 2907 (Round Lake-Brewster Public Schools), Minnesota

June 20, 2018

RE: \$1,000,000* General Obligation Facilities Maintenance Bonds, Series 2018A
DATED: July 12, 2018

For all or none of the above Bonds, in accordance with the Terms of Proposal and terms of the Global Book-Entry System (unless otherwise specified by the Purchaser) as stated in this Official Statement, we will pay you \$ _____ (not less than \$987,500) plus accrued interest to date of delivery for fully registered Bonds bearing interest rates and maturing in the stated years as follows:

_____ % due	2020	_____ % due	2025	_____ % due	2030
_____ % due	2021	_____ % due	2026	_____ % due	2031
_____ % due	2022	_____ % due	2027	_____ % due	2032
_____ % due	2023	_____ % due	2028	_____ % due	2033
_____ % due	2024	_____ % due	2029	_____ % due	2034

* 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 2020 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 \$20,000, 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 July 12, 2018.

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

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

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

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

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

Account Manager: _____ By: _____
Account Members: _____

Award will be on a true interest cost basis. According to our computations (the correct computation being controlling in the award), the total dollar interest cost (including any discount or less any premium) computed from July 12, 2018 of the above proposal is \$ _____ and the true interest cost (TIC) is _____%.

The foregoing offer is hereby accepted by and on behalf of the Board of Education of Independent School District No. 2907 (Round Lake-Brewster Public Schools), Minnesota, on June 20, 2018.

By: _____ By: _____
Title: _____ Title: _____