

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2016

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
JUNE 30, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
JUNE 30, 2016

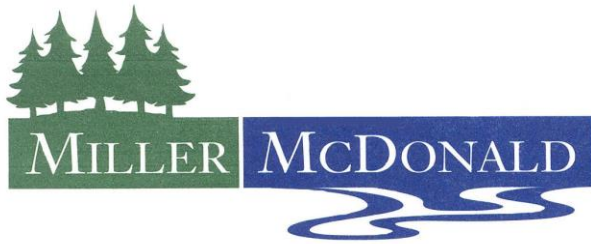
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INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
YEAR ENDED JUNE 30, 2016

OFFICIAL DIRECTORY
(Unaudited)

<u>School Board Members and Officers</u>	July 1, 2015 to December 31, 2015	January 1, 2016 to June 30, 2016
Chairperson	Carol L. Johnson	Melissa Bahr
Vice-Chairperson	Melissa Bahr	Richard (Bill) Faver
Clerk	Richard (Bill) Faver	Jeff Haack
Treasurer	Jeff Haack	Ann Long Voelkner
Director	Ann Long Voelkner	Carol L. Johnson
Director	John Pogleasa	John Pogleasa
<u>Administration</u>		
Superintendent	Dr. James Hess Ed.D.	Dr. James Hess Ed.D.
Business Manager	Chris Leinen, J.D.	Chris Leinen, J.D.



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INDEPENDENT AUDITOR'S REPORT

The Board of Education
 Independent School District No. 31
 Bemidji, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 - Bemidji, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Independent School District No. 31 - Bemidji, Minnesota's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

**Independent School District No. 31
Bemidji, Minnesota**

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 - Bemidji, Minnesota, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the Schedule of Funding Progress for Other Post-Employment Benefit Plans, the Schedule of Employer Contributions for Post-Employment Benefits, the Schedule of the District's and Non-Employer Proportionate Share of the Net Pension Liability and the Schedule of District's Contributions on pages 5 through 17 and 59 through 65, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States 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 Independent School District No. 31 - Bemidji, Minnesota's basic financial statements. The Official Directory, nonmajor fund financial statements, agency fiduciary fund financial statements, Fiscal Compliance Report and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The Official Directory and statistical section have not been subjected to the auditing procedures applied in the

Independent School District No. 31
Bemidji, Minnesota

audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of Independent School District No. 31 - Bemidji, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 31 - Bemidji, Minnesota's internal control over financial reporting and compliance.

Miller McDonald, Inc.

November 30, 2016
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

This section of Independent School District No. 31 – Bemidji, Minnesota’s annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District’s financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the year ended June 30, 2016 include the following:

- Net position increased by 12.3% from the prior year.
- District-wide revenues were \$70,371,539 and district-wide expenses were \$68,838,457.
- Total enrollment increased by 127.29 students or 3% from 4,967.50 to 5,094.79 ADM students.
- General fund balances increased by \$785,441.
- The District purchased new equipment in the amount of \$133,918, building improvements of \$59,686, vehicles in the amount of \$344,326, land and land improvements of \$329,129. The District also started the BMS HVAC system project, BMS Roof Replacement project and new 4th and 5th grade school building project for \$2,379,160, \$18,000, \$749,716, respectively.
- The District made payments of \$3,240,000 on its outstanding general obligation bonds and sold general obligation school building bonds for \$37,045,000.

OVERVIEW OF THE FINANCIAL STATEMENTS

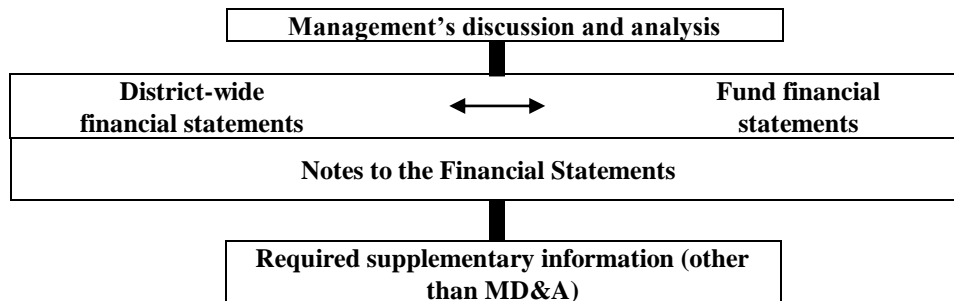
The financial section of the annual report consists of four parts – Independent Auditor’s Report, required supplementary information, which includes the management’s discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include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

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general and special revenue funds budgets for the year. The following diagram explains how the various parts of this annual report are arranged and related to one another.



The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire district except fiduciary funds	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the district administers resources on behalf of someone else, such as retiree benefits and student activities
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

District-wide Statements

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

The district-wide statements report the District's net position and how it changed. Net position – the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- **Governmental Activities** – The majority of the District's basic services are included within these activities; such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance the majority of these activities.

Fund Financial Statements

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

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

The District has two types of funds:

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

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that only those to whom the assets belong use the assets reported in these funds. The District's fiduciary activities (consisting of an irrevocable trust fund and two agency funds held for others) are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS)

Net Position

The District's combined net position was \$13,995,470 at June 30, 2016 (see the following table). At June 30, 2015 the net position was \$12,462,568 with an increase of \$1,532,902 from operating activities for the year ended June 30, 2016.

	2016	2015	Net Changes	
			Amount	Percent
Current and other assets	\$ 64,783,771	\$ 25,513,698	\$ 39,270,073	153.92%
Capital assets, net of depreciation	61,682,900	61,093,232	589,668	0.97%
Total assets	126,466,671	86,606,930	39,859,741	46.02%
Deferred outflows of resources	7,573,418	6,352,718	1,220,700	19.22%
Current payables	9,524,199	8,072,696	1,451,503	17.98%
Long-term liabilities:				
Due within one year	3,852,914	3,814,422	38,492	1.01%
Due after one year	92,594,109	49,508,397	43,085,712	87.03%
Total liabilities	105,971,222	61,395,515	44,575,707	72.60%
Deferred inflows of resources	14,073,397	19,101,565	(5,028,168)	-26.32%
Net position:				
Net investment in capital assets	47,629,721	48,458,388	(828,667)	-1.71%
Restricted	41,751,900	5,830,233	35,921,667	616.13%
Unrestricted (Deficit)	(75,386,151)	(41,826,053)	(33,560,098)	-80.24%
Total net position	\$ 13,995,470	\$ 12,462,568	\$ 1,532,902	12.30%

Net position increased by 12.3% for the year ended June 30, 2016.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

Change in Net Position

The increase in net position occurs as a result of the District's revenues being more than its expenditures for the year ended June 30, 2016. A summary of the District's revenues and expenses, along with the amount of change and percentages from the year ended June 30, 2015 for each category are as follows:

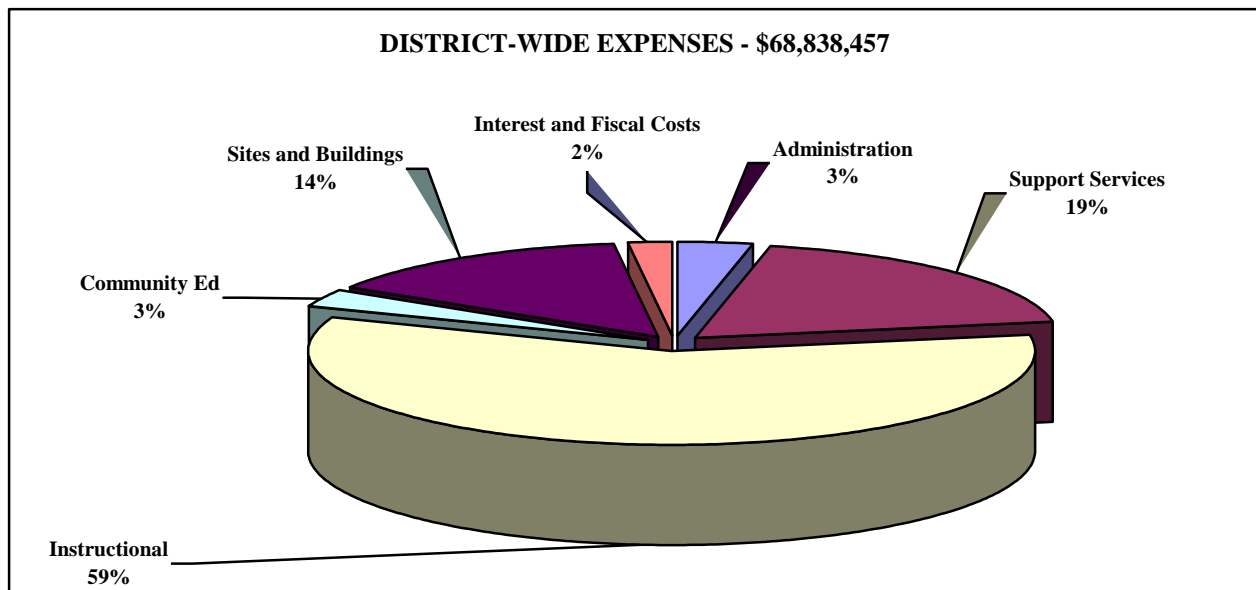
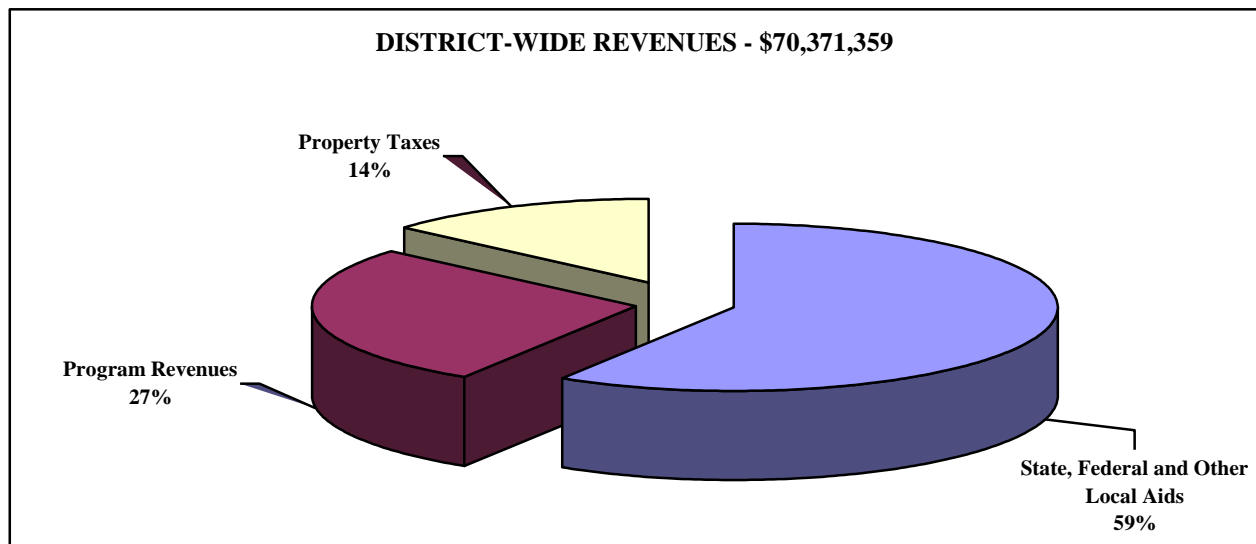
	2016		2015		Net Change	
	Amounts	Percent	Amounts	Percent	Amount	Percent
<u>Revenues:</u>						
Program Revenues:						
Charges for Services	\$ 3,480,528	4.95%	\$ 3,295,177	4.85%	\$ 185,351	5.62%
Operating Grants and Contributions	15,815,331	22.47%	16,274,499	23.96%	(459,168)	-2.82%
Total Program Revenues	19,295,859	27.42%	19,569,676	28.81%	(273,817)	-1.40%
General Revenues:						
Property Taxes	9,539,299	13.56%	8,877,828	13.07%	661,471	7.45%
Aids and Payments from State and Federal Sources	41,352,902	58.76%	39,351,402	57.94%	2,001,500	5.09%
Other Sources	183,299	0.26%	122,656	0.18%	60,643	49.44%
Total General Revenues	51,075,500	72.58%	48,351,886	71.19%	2,723,614	5.63%
Total Revenues	70,371,359	100.00%	67,921,562	100.00%	2,449,797	3.61%
<u>Expenses:</u>						
Instructional:						
Regular Instruction	25,779,573	37.45%	25,393,314	38.02%	386,259	1.52%
Vocational Instruction	765,904	1.11%	817,227	1.22%	(51,323)	-6.28%
Special Education Instruction	13,811,221	20.06%	13,267,132	19.86%	544,089	4.10%
Total Instructional	40,356,698	58.63%	39,477,673	59.10%	879,025	2.23%
Support Services:						
District Support Services	1,518,267	2.21%	1,575,364	2.36%	(57,097)	-3.62%
Instructional Support Services	2,518,272	3.66%	2,204,539	3.30%	313,733	14.23%
Pupil Support Services	9,055,146	13.15%	9,276,629	13.89%	(221,483)	-2.39%
Total Support Services	13,091,685	19.02%	13,056,532	19.55%	35,153	0.27%
Administration	2,257,451	3.28%	2,234,010	3.34%	23,441	1.05%
Community Education and Services	1,947,123	2.83%	2,109,980	3.16%	(162,857)	-7.72%
Sites and Buildings	9,809,314	14.25%	9,109,437	13.64%	699,877	7.68%
Fiscal and Other Fixed Costs	246,933	0.36%	238,819	0.36%	8,114	3.40%
Interest on Long-Term Debt	1,129,253	1.64%	561,811	0.84%	567,442	101.00%
Total Expenses	68,838,457	100.00%	66,788,262	100.00%	2,050,195	3.07%

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

For the year ended June 30, 2016, the District's total revenues were \$70,371,359 and consisted of program revenues of \$19,295,859, property taxes of \$9,539,299, general aids and payments from state and federal sources of \$41,352,902, and other sources of \$183,299. Expenses totaling \$68,838,457 consisted of regular, vocational and special education instruction costs of \$40,356,698; district, instructional and pupil support services of \$13,091,685; sites and buildings costs of \$9,809,314 community education and services costs of \$1,947,123; administrative costs of \$2,257,451; interest on long-term debt of \$1,129,253, and other costs of \$246,933.

The following charts express revenues and expenses, in broad categories, for the year ended June 30, 2016:



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS) (Continued)

The net cost of governmental activities is the total costs less program revenues applicable to each category. Total and net costs for the years ended June 30, 2016 and 2015 are as follows:

	<u>Cost of Services - 2016</u>		<u>Cost of Services - 2015</u>	
	<u>Total</u>	<u>Net</u>	<u>Total</u>	<u>Net</u>
Administration	\$ 2,257,451	\$ 2,257,451	\$ 2,234,010	\$ 2,234,010
District Support Services	1,518,267	1,518,267	1,575,364	1,575,364
Regular Instruction	25,779,573	21,532,487	25,393,314	21,278,537
Vocational Instruction	765,904	761,277	817,227	762,199
Special Education Instruction	13,811,221	5,119,672	13,267,132	3,906,952
Community Education and Services	1,947,123	105,618	2,109,980	371,538
Instructional Support Services	2,518,272	2,514,148	2,204,539	2,143,879
Pupil Support Services	9,055,146	5,306,478	9,276,629	5,861,200
Sites and Buildings	9,809,314	9,056,457	9,109,437	8,288,329
Fiscal and Other Fixed Costs	246,933	241,490	238,819	234,767
Interest on Long-Term Debt	1,129,253	1,129,253	561,811	561,811
Total Expenses	<u>\$ 68,838,457</u>	<u>\$ 49,542,598</u>	<u>\$ 66,788,262</u>	<u>\$ 47,218,586</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS)

Fund Balances

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$44,723,859.

Total fund balances increased in the amount of \$38,497,158 from the end of the prior year. Revenues and other financing sources exceeded expenditures and other financing uses in the General Fund, Debt Redemption Fund, Building Construction Fund, Food Service Fund, Community Service Fund and OPEB Debt Service Fund by \$785,441, \$4,680,359, \$32,652,654, \$8,269, \$341,735 and \$28,700, respectively

The authority to set aside or "label" funds usually comes from a state or federal ordinance or a school board resolution. Restricting and committing funds is referred to by GASB as "stabilization agreements" in recognition that these funds are not available to spend in the next year in an unrestricted fashion. In the case of the District we have five levels of committed or restricted funds.

The highest level is for "Restricted Funds". These are funds whose purpose is determined by Minnesota Statute. Examples include Staff Development, Deferred Maintenance, Operating Capital, Alternative Programs, Gifted and Talented, Basic Skills, Teacher Development and Safe Schools. At June 30, 2016, our restricted General Fund Balance is \$4,668,312, which is an increase of \$479,888 from the prior year.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

The second highest level is "Committed for Specific Purpose", which requires Board action. The "Committed for Separation/Retirement Benefits" fund balance in the General Fund is \$577,793 and represents a portion of our unfunded liability as calculated in our GASB 16 actuarial analysis. This obligation deals primarily with employee severance agreements contained in negotiated agreements. The total unfunded liability is currently calculated at \$712,968 by Hildi Incorporated. This GASB No. 16 actuarial analysis is performed every two years in addition to our GASB No. 45 calculations.

GASB No. 45 deals mainly with other post-employment retiree health insurance and has been partially funded through a bond issue that was deposited into a Post-Employment Benefits Irrevocable Trust, the current balance of which is \$3,506,562. As of July, 2015, the other post-employment health benefit liability as estimated by our actuaries, Hildi Inc., is \$10,212,190.

The "Non-spendable" fund balance in the General Fund is \$722,276 and is made up of pre-bought inventory in the warehouse and prepaid health insurance expenditures.

The General Fund has no "Assigned" fund balance for the year ended June 30, 2016.

Our fund balance policy requires that we have at least 10% of our General Fund operating budget in a combination of committed, assigned and unassigned fund balances. If the figure is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$3,246,571 (including adding back a negative fund balance restricted for health & safety of \$1,828,647) represents 6.5% of our 2016 General Fund expenditures, excluding expenditures for restricted revenue sources, of \$49,586,140 will trigger the actions described above.

New revenue sources are coming in 2017 through the American Indian Education Act, Long-Term Facilities maintenance funding and voter approval of a \$180 per pupil operating referendum as well as a 2% increase in the basic state aid funding and an estimated 67 additional students.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

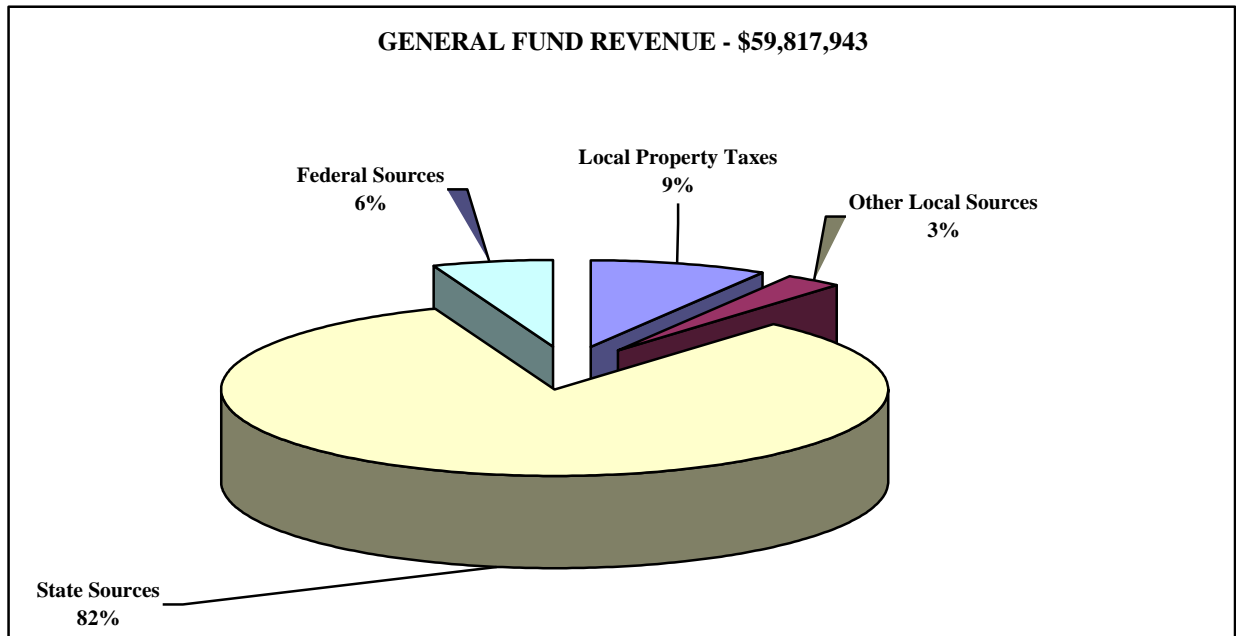
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

Revenue and Expenditures

Revenues of the District's governmental funds totaled \$69,733,275 while total expenditures were \$71,944,670. A summary of the revenues and expenditures reported on the governmental fund financial statements are as follows:

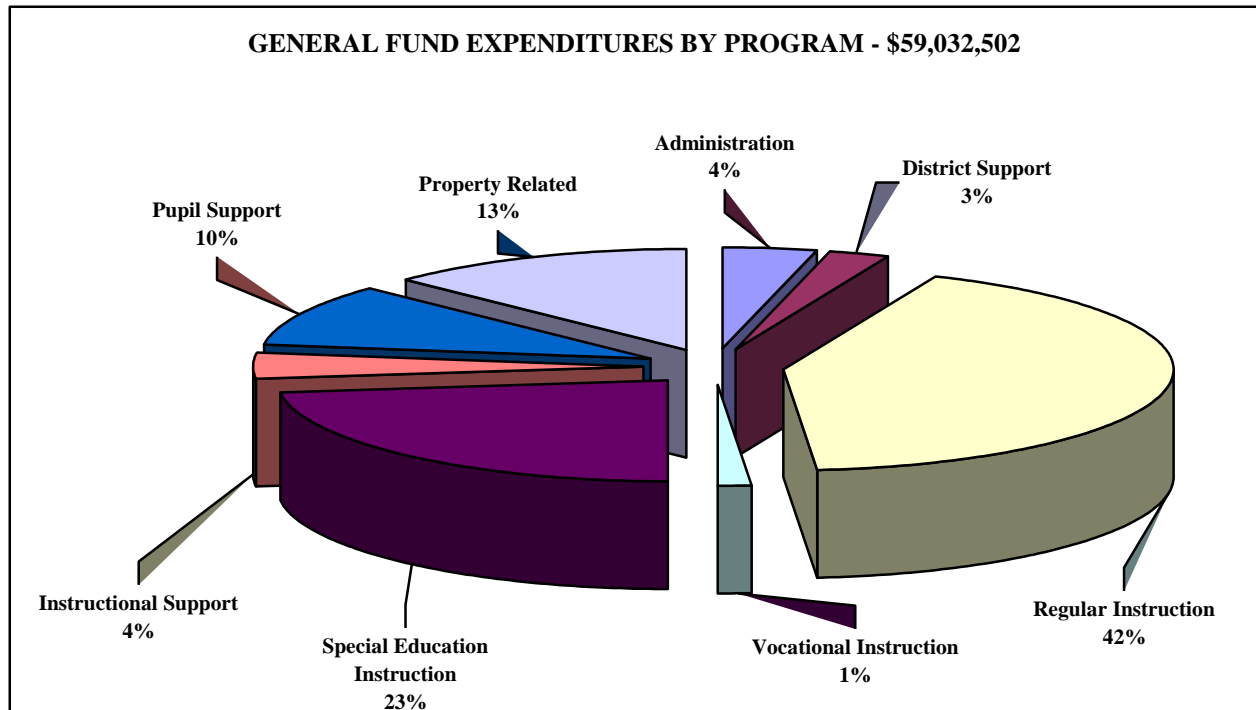
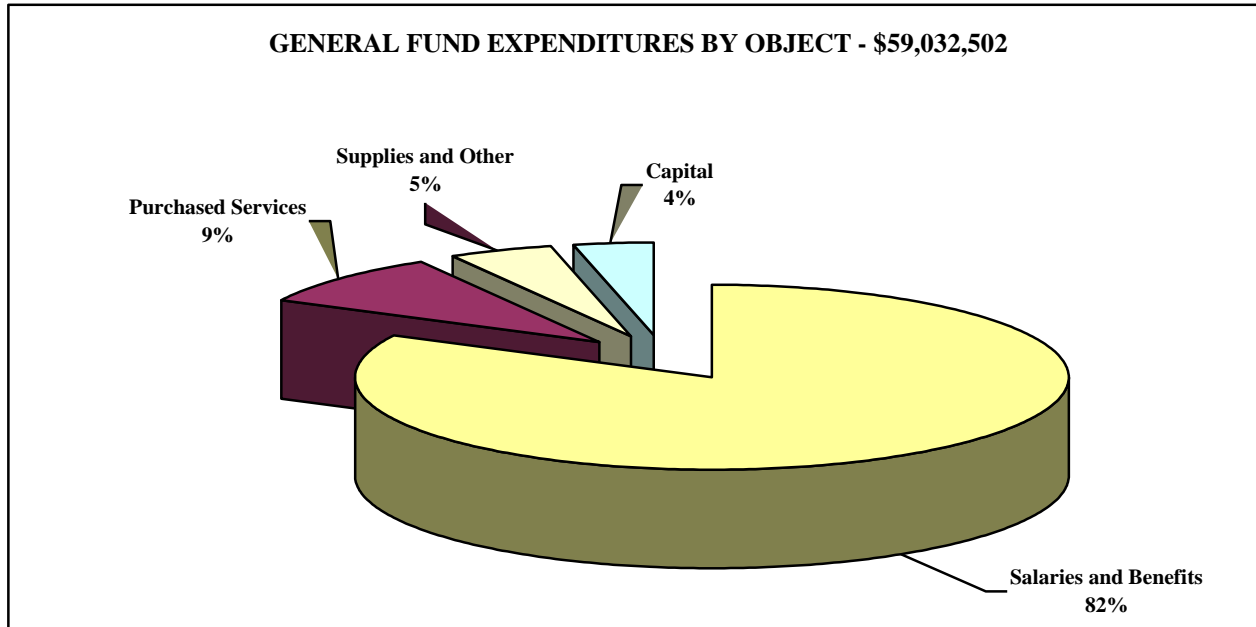
	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
Major Funds:				
General Fund	\$ 59,817,943	\$ 59,032,502	\$ -	\$ 785,441
Debt Redemption Fund	3,435,648	3,476,325	4,721,036	4,680,359
Building Construction Fund	130,881	3,465,744	35,987,517	32,652,654
Non-major Funds:				
Food Service Fund	3,474,700	3,466,431	-	8,269
Community Service Fund	2,305,563	1,963,828	-	341,735
OPEB Debt Redemption Fund	568,540	539,840	-	28,700
Totals	<u>\$ 69,733,275</u>	<u>\$ 71,944,670</u>	<u>\$ 40,708,553</u>	<u>\$ 38,497,158</u>

The following graphs are presented for the General Fund revenues and expenditures:



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)



INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) (Continued)

General Fund Budgetary Highlights

During the year ended June 30, 2016, the District experienced several revisions to its operating budget. These revisions were planned and necessary because an initial budget, adopted prior to June 30, 2015, was adopted for the sole purpose of satisfying the state requirement of having an adopted budget in place prior to spending funds for the next fiscal year. In the state of Minnesota a budget is also an appropriating document. The first revision occurred in the fall of 2015 when enrollment numbers, staffing levels and other significant informational items were more available. Other revisions occurred as financial information became available that was of a significant nature and therefore necessitated a revision.

Although the District's General Fund final budget anticipated that expenditures would exceed revenues by \$268,150, the actual results for the year reported revenues exceeded expenditures in the amount of \$785,441. Actual expenditures were \$1,085,337 under the budgeted amount. Revenues were less than the budgeted amount by \$31,746. These variances in the budget were primarily attributed to the following:

- Revenues from state sources were under budget by \$289,927, this was partially offset by other local and county revenues which exceeded budget by \$209,154.

The main variances in budgeted versus actual expenditures were as follows:

- Regular instruction was under budget by \$638,280 due to staffing adjustments made in response to an unexpected drop in enrollment in FY 2014. Those students lost in FY 2014 have been recovered in FY 2015 and FY 2016.
- Sites and buildings was under budget by \$234,454 due to one-time adjustments made in the areas of parking lots and tuck pointing.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During the year the District added \$4,013,934 of capital assets to its inventory records. Additions included \$133,917 of equipment, \$344,326 of transportation vehicles, \$59,685 of building improvements, \$246,529 in land improvements, \$82,600 of land and \$3,146,877 in new construction. The District disposed of various vehicles, equipment and land with a total original cost of \$103,464, \$21,001 and \$832,617, respectively.

Long-Term Debt

As of June 30, 2016 the District's long-term indebtedness totaled \$96,447,023. This consisted of bonded indebtedness of \$49,615,000, plus net unamortized bond discount and premium of \$3,998,737, capital leases of \$790,570, net pension liability of \$41,379,470 and severance payable of \$663,246. As of June 30, 2016, Other Post-Employment Benefits (OPEB) has a surplus of \$2,134,781 and is included as an asset on the Statement of Net Position.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

During the year the District retired \$3,240,000 of outstanding bond principal and paid \$773,440 of interest and fiscal fees on long-term outstanding bonds payable. The District also issued \$37,045,000 in general obligation school building bonds during the year. The District paid \$89,274 of total principal on the outstanding capital leases and paid \$45,700 of total interest on the outstanding capital leases. Net pension liability had an increase of \$7,154,160, severance payable had a net decrease of \$282,173 and the OPEB surplus had a net decrease of \$636,915.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Political Environment

The political environment at the State level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. Currently the general education basic allowance, from which the District receives the single largest state aid, is set at \$5,948 and it will increase to \$6,067 in the next fiscal year. This represents a 2% increase in the basic funding formula which is our largest single source of revenue. This plus the increase from student enrollment will be used to offset our contract settlements.

Labor Force

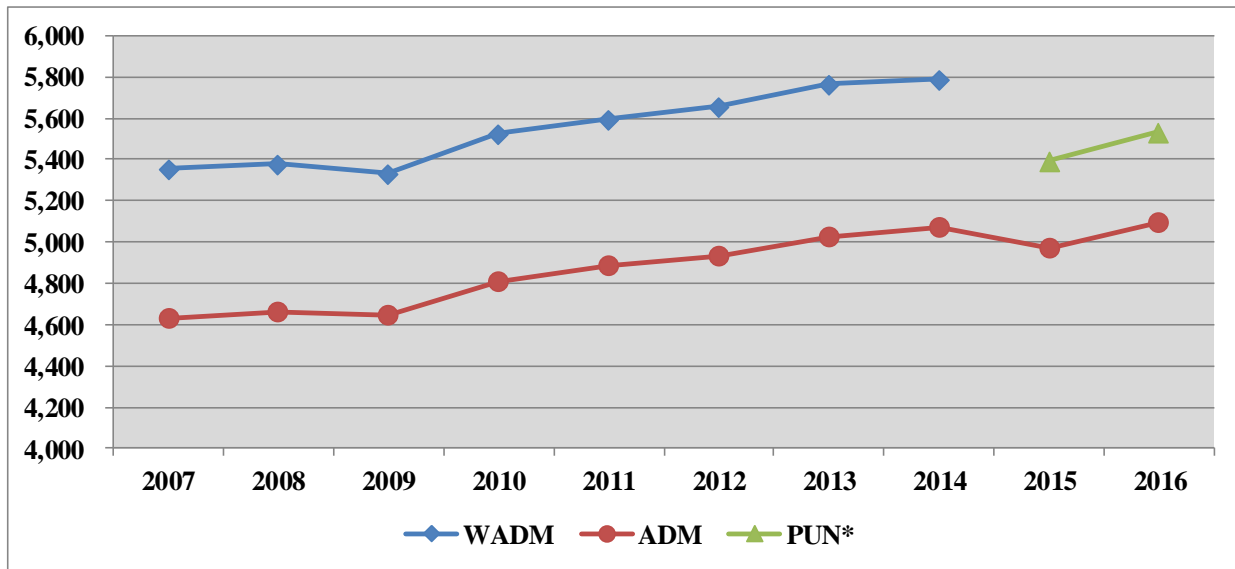
Labor contracts, which are in effect through June 30, 2017, were negotiated for the two-year period beginning July 1, 2015. For the year ended June 30, 2016 salaries, wages and benefits account for 82% of the District's General Fund expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016

FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)

Student Enrollment

Attendance at all Minnesota school districts including charter schools is based upon Average Daily Membership (ADM), however, the District receives general education aid based upon a Pupil Unit Weightings (PUN); prior to the year ending June 30, 2015, Weighted Average Daily Membership (WADM) was used. The following chart summarizes ADM and PUN/WADM over the past ten years:



*The State of Minnesota changed to Pupil Unit Weightings (PUN) from Weighted Average Daily Membership (WADM) in the year ending June 30, 2015 to calculate general education aid.

Recent growth patterns are expected to continue as birth rates for the last five years have been up from the previous years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact Chris Leinen, J.D., Director of Business Services, at District offices located at, 502 Minnesota Ave NW, Bemidji, Minnesota 56601.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS

Cash and Investments		\$ 12,069,163
Cash with Fiscal Agent		37,658,164
Property Taxes Receivable		4,418,094
Due from Other Governmental Units		7,643,762
Other Accounts Receivable		58,870
Interest Receivable		66,798
Inventories		367,287
Prepaid Expenditures		366,852
Other Post-Employment Benefits		2,134,781
Capital Assets:		
Land	\$ 2,986,214	
Construction in Progress	3,947,801	
Depreciable Capital Assets, Net of Depreciation	54,748,885	<u>61,682,900</u>
 Total Assets		 <u>126,466,671</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources Related to Pensions		<u>7,573,418</u>
--	--	------------------

LIABILITIES

Salaries and Wages Payable		4,104,311
Accounts Payable		2,213,109
Interest Payable		980,319
Due to Other School Districts		74,641
Due to Other Governmental Units		817
Payroll Deductions and Employer Contributions		688,286
Accrued Compensated Absences Payable		292,943
Unearned Revenue		1,169,773
Long-Term Liabilities:		
Portion Due Within One Year	3,852,914	
Portion Due After One Year	92,594,109	<u>96,447,023</u>
 Total Liabilities		 <u>105,971,222</u>

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources Related to Pensions		4,561,540
Property Taxes Levied for Subsequent Years' Expenditures		<u>9,511,857</u>
 Total Deferred Inflows of Resources		 <u>14,073,397</u>

NET POSITION

Investment in Capital Assets		47,629,721
Restricted for:		
State Mandated Programs		5,746,058
Capital Projects		31,023,063
Debt Service		4,982,779
Unrestricted (Deficit)		<u>(75,386,151)</u>
 Total Net Position		 <u>\$ 13,995,470</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	
Governmental Activities				
Administration	\$ 2,257,451	\$ -	\$ -	\$ (2,257,451)
District Support Services	1,518,267	-	-	(1,518,267)
Regular Instruction	25,779,573	732,020	3,515,066	(21,532,487)
Vocational Instruction	765,904	-	4,627	(761,277)
Special Education Instruction	13,811,221	643,275	8,048,274	(5,119,672)
Community Education and Services	1,947,123	923,222	918,283	(105,618)
Instructional Support Services	2,518,272	-	4,124	(2,514,148)
Pupil Support Services	9,055,146	1,158,016	2,590,652	(5,306,478)
Sites and Buildings	9,809,314	23,995	728,862	(9,056,457)
Fiscal and Other Fixed Costs	246,933	-	5,443	(241,490)
Interest on Long-Term Debt	1,129,253	-	-	(1,129,253)
Total Governmental Activities	<u>\$ 68,838,457</u>	<u>\$ 3,480,528</u>	<u>\$ 15,815,331</u>	<u>(49,542,598)</u>
 <u>General Revenues:</u>				
Property Taxes:				
				5,191,525
				402,566
				3,382,774
				562,434
				41,352,902
				154,784
				28,515
				<u>51,075,500</u>
				1,532,902
				<u>12,462,568</u>
				<u>\$ 13,995,470</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2016

<u>ASSETS</u>	<u>General Fund</u>	<u>Debt Redemption</u>	<u>Building Construction</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Cash and Investments	\$ 7,693,964	\$ 2,733,746	\$ -	\$ 1,641,453	\$ 12,069,163
Cash with Fiscal Agent	-	4,721,036	32,937,128	-	37,658,164
Property Taxes Receivable	2,703,883	1,299,475	-	414,736	4,418,094
Due from Other Funds	813,859	-	-	-	813,859
Due from Other Governmental Units	7,461,037	3,274	-	179,451	7,643,762
Other Accounts Receivable	55,425	-	-	3,445	58,870
Interest Receivable	-	-	66,798	-	66,798
Inventories	355,424	-	-	11,863	367,287
Prepaid Expenditures	366,852	-	-	-	366,852
Total Assets	\$ 19,450,444	\$ 8,757,531	\$ 33,003,926	\$ 2,250,948	\$ 63,462,849
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</u>					
<u>Liabilities</u>					
Salaries Payable	\$ 3,954,073	\$ -	\$ -	\$ 150,238	\$ 4,104,311
Accounts Payable	1,030,042	-	1,167,004	16,063	2,213,109
Due to Other Minnesota School Districts	74,641	-	-	-	74,641
Due to Other Funds	-	-	813,859	-	813,859
Due to Other Governmental Units	817	-	-	-	817
Payroll Deductions and Employer Contributions	663,595	-	-	24,691	688,286
Unearned Revenue	1,169,773	-	-	-	1,169,773
Total Liabilities	6,892,941	-	1,980,863	190,992	9,064,796
 <u>Deferred Inflows of Resources</u>					
Unavailable Revenue - Delinquent Taxes	82,338	63,695	-	16,304	162,337
Property Taxes Levied for Subsequent Years' Expenditures	5,666,653	2,907,070	-	938,134	9,511,857
Total Deferred Inflows of Resources	5,748,991	2,970,765	-	954,438	9,674,194
 <u>Fund Balance</u>					
Nonspendable	722,276	-	-	11,863	734,139
Restricted	4,668,312	5,786,766	31,023,063	1,174,079	42,652,220
Committed	577,793	-	-	-	577,793
Unassigned (Deficit)	840,131	-	-	(80,424)	759,707
Total Fund Balance	6,808,512	5,786,766	31,023,063	1,105,518	44,723,859
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 19,450,444	\$ 8,757,531	\$ 33,003,926	\$ 2,250,948	\$ 63,462,849

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET -
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balances - Governmental Funds \$ 44,723,859

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

Cost	\$ 111,210,815	
Accumulated Depreciation	(49,527,915)	
Net Depreciated Value of Capital Assets		61,682,900

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (980,319)

The focus of governmental funds is on short-term financing, therefore delinquent taxes, which will not be available to pay current-period expenditures, are offset by deferred revenues. 162,337

Other post-employment benefits (OPEB) are normally reported as long-term liabilities and the liability is amortized over future periods. However, the District has issued bonds to pay for the OPEB liabilities, therefore, the liability is considered as prepaid and reported as an asset in the statement of net position. 2,134,781

Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. All liabilities - both current and long-term are reported in the statement of net position.

General Obligation Bonds Payable	(49,615,000)	
Net Unamortized Bond Discount/Premium	(3,998,737)	
Capital Lease Payable	(790,570)	
Compensated Absences Payable	(292,943)	
Net Pension Obligation	(41,379,470)	
Severance Payable	(663,246)	(96,739,966)

Deferred outflows and inflows of resource related to pensions are applicable to future periods and, therefore, are not reported in the funds.

Deferred Outflows of Resources	7,573,418	
Deferred Inflows of Resources	(4,561,540)	3,011,878

Total Net Position - Governmental Activities \$ 13,995,470

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Debt Redemption	Building Construction	Other Governmental Funds	Totals
Revenues					
Local Property Taxes	\$ 5,202,818	\$ 3,395,742	\$ -	\$ 966,752	\$ 9,565,312
Other Local and County Revenues	1,481,046	-	-	963,662	2,444,708
Revenues from State Sources	49,512,471	32,735	-	949,189	50,494,395
Revenues from Federal Sources	3,564,574	-	-	2,308,794	5,873,368
Sales and Other Conversions of Assets	42,692	-	-	1,158,016	1,200,708
Investment Earnings	14,342	7,171	130,881	2,390	154,784
Total Revenues	59,817,943	3,435,648	130,881	6,348,803	69,733,275
Expenditures					
Administration	2,277,348	-	-	-	2,277,348
District Support Services	1,511,962	-	-	-	1,511,962
Regular Instruction	24,894,778	-	-	-	24,894,778
Vocational Instruction	770,787	-	-	-	770,787
Special Education Instruction	13,604,373	-	-	-	13,604,373
Community Education and Services	-	-	-	1,946,879	1,946,879
Instructional Support Services	2,525,772	-	-	-	2,525,772
Pupil Support Services	5,843,823	-	-	3,483,380	9,327,203
Sites and Buildings	7,356,726	-	3,465,744	-	10,822,470
Fiscal and Other Fixed Costs	246,933	-	-	-	246,933
Debt Service:					
Principal Retirement	-	2,915,000	-	325,000	3,240,000
Interest and Fiscal Fees	-	561,325	-	214,840	776,165
Total Expenditures	59,032,502	3,476,325	3,465,744	5,970,099	71,944,670
Excess of Revenues Over (Under) Expenditures	785,441	(40,677)	(3,334,863)	378,704	(2,211,395)
Other Financing Sources (Uses)					
Bond Proceeds	-	-	39,958,553	-	39,958,553
Proceeds from Sale of Land	-	-	750,000	-	750,000
Operating Transfers In	-	4,721,036	-	-	4,721,036
Operating Transfers Out	-	-	(4,721,036)	-	(4,721,036)
Total Other Financing Sources (Uses)	-	4,721,036	35,987,517	-	40,708,553
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	785,441	4,680,359	32,652,654	378,704	38,497,158
Fund Balances, Beginning of Year	6,023,071	1,106,407	(1,629,591)	726,814	6,226,701
Fund Balances, End of Year	\$ 6,808,512	\$ 5,786,766	\$ 31,023,063	\$ 1,105,518	\$ 44,723,859

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

Net Change in Fund Balances - Total Governmental Funds \$ 38,497,158

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

Cash received from the sale of assets are recorded as revenue in the governmental funds. In the government-wide statements the cash received reduces the loss on disposal. (750,000)

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Outlay	\$ 4,013,934	
Depreciation Expense	<u>(2,591,649)</u>	1,422,285

Disposal of fixed assets are only reported in the governmental funds when cash is received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (82,617)

Deferred delinquent property taxes are not available to pay current period expenditures and, therefore, are deferred in the funds.

Balances at June 30, 2016	162,337	
Balances at June 30, 2015	<u>(188,350)</u>	(26,013)

Interest on long-term debt 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, regardless when it is due.

Accrued Interest at June 30, 2016	(980,319)	
Accrued Interest at June 30, 2015	<u>250,169</u>	(730,150)

Other Post-Employment Benefits (OPEB) are reported in the statement of activities but does not require the use of current financial resources and therefore, is not reported as an expenditure in the governmental funds. (636,915)

Compensated absences consisting of vacation pay is reported in the statement of activities but does not require the use of the current financial resources and therefore, is not reported as an expenditure in the governmental funds.

Compensated Absences at June 30, 2016	(292,943)	
Compensated Absences at June 30, 2015	<u>301,419</u>	8,476

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces the long-term liabilities on the statement of assets. In the current period these amounts consist of:

Bond Principal Retirement	3,240,000	
Capital Lease Payments	89,274	
Net Amortization of Bond Premium/Discount	377,062	
Net Decrease in Severance Payable	<u>282,173</u>	3,988,509

Governmental funds report District pension contributions as expenditures. In the statement of activities, however, the cost of pension benefits earned net of employee contributions is reported as pension expense.

District Pension Contributions	2,822,419	
Cost of Benefits Earned Net of Employee Contributions	<u>(3,021,697)</u>	(199,278)

Capital Lease and Bond proceeds provide current financial resources to governmental funds but issuing debt increases long-term liabilities in the statement of net position.

Bond Proceeds		<u>(39,958,553)</u>
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Change in Net Position of Government Activities

\$ 1,532,902

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION -
TRUST AND AGENCY FUNDS
JUNE 30, 2016

	OPEB Irrevocable Trust Fund	Combined Agency Funds
<u>ASSETS</u>		
Cash and Investments	\$ 3,462,420	\$ 696,879
Accrued Interest Receivable	44,142	-
<u>Total Assets</u>	<u>\$ 3,506,562</u>	<u>\$ 696,879</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ -	\$ 244,403
Due to Organizations	-	452,476
<u>Total Liabilities</u>	<u>-</u>	<u>\$ 696,879</u>
<u>NET POSITION</u>		
Net Position Held in Trust	<u>\$ 3,506,562</u>	

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION -
TRUST FUND
YEAR ENDED JUNE 30, 2016

	<u>OPEB Irrevocable Trust Fund</u>
<u>Additions:</u>	
Investment Earnings	<u>\$ 79,006</u>
<u>Deductions:</u>	
Employee Benefits	<u>387,693</u>
<u>Change in Net Position</u>	<u>(308,687)</u>
<u>Net Position - Beginning of Year</u>	<u>3,815,249</u>
<u>Net Position - End of Year</u>	<u>\$ 3,506,562</u>

See Accompanying Notes to Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 – Summary of Significant Accounting Policies

The financial statements of Independent School District No. 31 have been prepared in conformity with U. S. generally accepted accounting principles (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. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2016. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

A. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for component units 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 of school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with *Minnesota Statutes*, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

B. 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 fiduciary funds. The fiduciary funds are only reported in the Statement 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The District does not allocate indirect expenses. 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 capital requirements of a particular function or segment. Operating grants include operating-specific grants. Taxes and other items not properly included among program revenues are reported instead as general revenues.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

The District applies restricted resources first when an expense is incurred for purposes 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.

As a general rule the District does not engage in inter-fund activities but, if necessary, inter-fund activities will be eliminated from the district-wide financial statements. There was inter-fund activity to eliminate negative cash balances in the Building Construction Fund with the General Fund.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide 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.

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide and fiduciary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. The modified accrual basis of accounting recognizes expenses when incurred, except principal and interest on general long-term debt which is recognized when due, and revenue under the following principles:

Property tax revenue is recorded under the intact levy concept, whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning within the year of collection. A portion of the 2015 payable 2016 levy has been recognized as revenue during the current year, as discussed in Note 3.

State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Other revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Description of Funds

The existence of the various District funds has been established by the Minnesota Department of Education, and is accounted for as an independent entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. A description of the major governmental funds and fiduciary funds in this report are as follows:

Governmental Funds

General Fund – Accounts for all financial resources and transactions relating to the administration, instruction, pupil transportation, and maintenance of the District, which are not accounted for in other District funds.

Debt Redemption Fund – Accounts for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

Building Construction Fund – Accounts for the acquisition or construction of major capital assets, generally financed through the issuance of general long-term debt.

Fiduciary Funds

Trust Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

Post-Employment Benefits Irrevocable Trust Fund – The District is the trustee, or fiduciary, for assets set aside and held in an irrevocable trust arrangement for post-employment benefits. District contributions to this fund are expensed to the General, Food Service or Community Service Funds.

Agency Funds – Account for assets held solely in a custodial capacity.

All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Additionally, the District reports the following aggregated non-major funds:

Special Revenue Funds – Accounts for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditures for specified purposes. The District’s special revenue funds and their purposes are as follows:

Food Service Fund – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

Community Service Fund – Accounts for the revenues and expenditures related to recreation, public use of school facilities, non-public pupils, adult education programs, and early childhood and family development.

OPEB Debt Service Fund – Accounts for the accumulation of resources for the payment of OPEB bonds principal, interest and related costs.

D. Assets, Liabilities, Deferred Outflows and Inflows of Resources, Net Position and Fund Balances

Cash and Investments - Cash balances for all funds, including cash equivalents, but excluding fiduciary funds, are maintained on a combined basis and invested, to the extent possible, in allowable investments. The District’s general policy is to report money market investments at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term ‘nonparticipating’ means that the investment’s value does not vary with market interest rate changes.

Property Taxes Receivable - represents current and delinquent taxes receivable at June 30, 2016. Current taxes receivable represent real and personal property tax levies certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivables are taxes collectible for the prior six calendar years that remain uncollected.

Due From Other Governmental Units - are amounts due from other governmental units that consist of amounts primarily due from the other Minnesota school districts, Hubbard County, the Minnesota Department of Education and from the Federal Government through the Minnesota Department of Education for state and federal aids and grants under various specific programs are reported at estimated amounts based on available information at the date of the report. Adjustments and pro-rations may be made by the applicable agencies based on the amount of funds available for distribution and may result in differing amounts actually being received. The differences between the receivable recorded and the actual amount received will be recognized as a revenue adjustment in the subsequent year. Federal and state revenues are recorded as revenue at the time of receipt or when they are both measurable and available.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Inventories - consist of purchased food commodities, supplies and donated United States Department of Agriculture (USDA) commodities. Purchased food and supplies are recorded at the lower of cost (first-in, first-out) or market method. The donated USDA commodities are stated at standardized cost as determined by the USDA. Inventories in the General Fund consist of school supplies.

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

Capital Assets - are capitalized at historical cost, or estimated historical cost based on an inventory dated June 30, 2002. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The system for accumulation of fixed assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

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 when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any.

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.

Unearned Revenue - represents revenues, other than property taxes, collected before they are earned.

Deferred Outflows 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 or fund balance that applies to future periods and thus, will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. It is the deferred resources related to pensions reported in the government-wide statement of net position.

Deferred Inflows of Resources – In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items which qualify for reporting in this category: property taxes levied for subsequent years, delinquent property taxes receivable, and deferred resources related to pensions.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

The first item is property taxes levied for subsequent year's expenditures, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a

INDEPENDENT SCHOOL DISTRICT NO. 31
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YEAR ENDED JUNE 30, 2016

deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent year's expenditures are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied, and in the governmental fund financial statements during the year for which they are levied, if available.

The second item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

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

For PERA's purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006 and the Duluth Teachers' Retirement fund Association merger into TRA in 2015. Additional information can be found in Note 6.

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

Fund Balance - The following classifications describe the relative strength of the spending constraints placed on a government's fund balances:

- **Nonspendable fund balance** – amounts are in a nonspendable form (such as inventory or prepaid or prepaid items) or are required to be maintained intact.
- **Restricted fund balance** – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

- **Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

cannot be used for any purpose unless the District takes the same highest level action to remove or change the constraint.

- **Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- **Unassigned fund balance** – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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

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

Fund balance policy requires that at least 10% of the General Fund operating budget is a combination of committed, assigned and unassigned fund balances. If the amount is less than 10% the Board must initiate cost containment measures or seek additional revenue enhancement through increased fees or voter approved operating referendum funding. The current combined amount of \$3,246,571 (including adding back a negative fund balance restricted for health & safety of \$1,828,647) represents 6.5% of the 2016 General Fund corresponding expenditures of \$49,586,140 and therefore will trigger the actions described above.

NOTE 1 – Summary of Significant Accounting Policies (Continued)

As of June 30, 2016, fund balances are composed of the following:

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

	General Fund	Debt Service Fund	Building Construction Fund	Other Governmental Funds	Totals
Fund Balances:					
Nonspendable:					
Inventory	\$ 355,424	\$ -	\$ -	\$ 11,863	\$ 367,287
Prepaid Expenses	366,852	-	-	-	366,852
Restricted:					
Staff Development	227,614	-	-	-	227,614
Deferred Maintenance	309,976	-	-	-	309,976
Operating Capital	2,655,236	-	-	-	2,655,236
State Approved Alternative Program	876,736	-	-	-	876,736
Gifted and Talented	85,684	-	-	-	85,684
Teacher Development and Evaluation	116,493	-	-	-	116,493
Basic Skills	41,739	-	-	-	41,739
Safe Schools - Crime Levy	354,834	-	-	-	354,834
Food Service	-	-	-	430,478	430,478
Early Childhood and Family Education	-	-	-	300,191	300,191
School Readiness	-	-	-	331,601	331,601
Adult Basic Education	-	-	-	8,398	8,398
OPEB Debt Service	-	-	-	103,411	103,411
Building Construction	-	-	31,023,063	-	31,023,063
Debt Service	-	5,786,766	-	-	5,786,766
Committed:					
Separation/Retirement Benefits	577,793	-	-	-	577,793
Unassigned	840,131	-	-	(80,424)	759,707
Totals	<u>\$ 6,808,512</u>	<u>\$ 5,786,766</u>	<u>\$ 31,023,063</u>	<u>\$ 1,105,518</u>	<u>\$ 44,723,859</u>

E. Compensated Absences

Vacation Pay – Certified staff and certain administrative employees do not receive paid vacations but are paid only for the number of days they are required to work, each in accordance with their respective contracts. Non-certified and other administrative employees are allowed vacation leave in varying amounts. In the event of termination an employee is reimbursed for any unused accumulated leave. Accrued vacation time must be taken within one year after the end of the fiscal year. Compensated absences payable for the amount representing the accumulated vacation payable at June 30, 2016 for these employees is reported in the district-wide financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Sick Leave and Severance Pay – Employees are allowed to accrue sick leave at varying amounts each year, and accumulate within limits. Employees are not compensated for unused sick leave upon termination of employment. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Upon completion of 15 years of service and notice of retirement for teaching staff and certain other employee groups, unused sick leave is convertible to severance pay upon an employee’s retirement. Severance is not granted to an employee who is discharged by the District. See Note 10 for severance liability amount.

Under the provisions of the various employee and union contracts the District provides health and dental care coverage until age 65 for retirees and if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All premiums paid for active employees are funded on a pay-as-you-go basis. Retiree costs, net of retiree contributions, are funded through an OPEB Irrevocable Trust Fund.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 – Deposit and Investments

The District’s cash and investments are as follows:

	<u>Governmental Activities/ Funds</u>	<u>OPEB Irrevocable Trust Fund</u>	<u>Agency Funds</u>
Pooled Depository Accounts:			
Checking	\$ 1,081,830	\$ (387,693)	\$ 246
Savings	102,140	-	-
Student Activity Depository Accounts - Checking and Money Market	-	-	452,476
Pooled Investments - MSDLAF+	10,885,193	-	-
Investment - MSDLAF+ - Retiree Benefit Pool Agency Fund	-	-	244,157
Investments with MN Trust and Associated Wealth Management:			
MNTrust Money Market Account	-	411,228	-
Certificates of Deposit	-	3,438,885	-
Total Cash and Investments	<u>\$ 12,069,163</u>	<u>\$ 3,462,420</u>	<u>\$ 696,879</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 2 – Deposit and Investments (Continued)

A. Deposits

Authority - In accordance with *Minnesota Statutes*, the District maintains deposits at those depository banks authorized by the Board. All such depositories are members of the Federal Reserve System. *Minnesota Statutes* require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110% of the deposits 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 standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. *Minnesota Statutes* require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk - The custodial credit risk for deposits is the risk that in the event of a bank failure, the District’s deposits may not be recovered. The District’s policy for custodial credit risk is to maintain compliance with *Minnesota Statutes* that require all the District’s deposits to be protected by insurance, surety bond, or pledged collateral. The District was not exposed to custodial credit risk on June 30, 2016.

B. Investments

Authority - *Minnesota Statutes* authorize the District to invest in the following types of investments:

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 Statutes*;
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.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 2 – Deposit and Investments (Continued)

As of June 30, 2016 the District had the following investments:

<u>Investments</u>	<u>Credit Risk</u>		<u>Interest Risk - Maturity Duration in Years:</u>			<u>Total</u>
	<u>Rating</u>	<u>Agency</u>	<u>Less than 1</u>	<u>1 to 3</u>	<u>Over 3</u>	
Certificates of Deposit	N/A	N/A	\$ -	\$ 3,184,959	\$ 253,926	\$ 3,438,885
Investment Pool:						
MSDLAF+ - Money Market Accounts	AAAm	S&P				11,129,350
MN Trust - Money Market Accounts	AAAm	S&P				411,228
Total Investments						<u>\$ 14,979,463</u>

MNTrust – MNTrust fund investments are restricted to securities described in *Minnesota Statutes*, Section 118.04. MNTrust’s Term Series portfolios are separate portfolios with fixed investment term and a designated maturity. A Term Series Portfolio consists of investments in certificates of deposit, obligations of the U.S. Government, its agencies and instrumentalities, and municipal obligations. These investments are reported at amortized cost.

Minnesota School District Liquid Asset Fund Plus (MSDLAF+) – The MSDLAF+ is an external investment pool not registered with the Securities Exchange Commission (SEC). The fair value of the position in the pool is the same as the value of the pool shares.

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

Credit Risk – State law limits investments in general obligations of any state or local government with taxing powers with a rating of “A” or better by a national bond rating service. The District’s Municipal Bond investments meet state criteria.

Concentration of Credit Risk – The District places no limit on the amount the District may invest in any one issuer. The District has total investments of \$3,850,113 in the OPEB Irrevocable Trust Fund.

C. Fair Value Measurements

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quotes prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 2 – Deposit and Investments (Continued)

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

<u>Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
MNTrust Certificates of Deposit	<u>\$ -</u>	<u>\$ 3,438,885</u>	<u>\$ -</u>	\$ 3,438,885
Investments Measured at Net Asset Value (NAV)				<u>11,540,578</u>
				<u>\$ 14,979,463</u>

The MSDLAF+ is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00.

The District reports its investment in the Pool at the NAV per share, the fair value established by the Pool.

The District’s investment in the Pool is included in two share classes, as follows:

	<u>Net Asset Value</u>	<u>Unfunded Commitments</u>
MSDLAF+Liquid Class	\$ 8,875,059	\$ -
MSDLAF+MAX Class	2,254,291	-

NOTE 2 – Deposit and Investments (Continued)

INDEPENDENT SCHOOL DISTRICT NO. 31
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YEAR ENDED JUNE 30, 2016

The Liquid Class has no redemption requirements. The MAX Class may not be redeemed for at least 14 days, and a 24 hour hold is placed on redemption requests. Redemptions prior to 14 days may be subject to penalty

NOTE 3 – Property Taxes

The School Board certifies property tax levies in December of each year to Beltrami County for collection in the following year. In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over assessable property. Such taxes become a lien on January 2, and are recorded as receivables by the District at that date. Property taxes may be paid by taxpayers in two equal installments, on May 15, and October 15. The County provides tax settlements in installments to districts two times a year, on or before June 30 and December 30.

Prior year's taxes, which remain unpaid at June 30, are classified as delinquent taxes receivable and the portion not receivable within 60 days is offset by deferred revenue because they are not available to finance current expenditures.

The maximum amount of property taxes the District may levy is subject to state levy limitations.

The total net tax capacity for levy year 2015 (payable in 2016) was \$31,844,343 with a referendum market value of \$2,384,919,543. The net capacity rate was 19.569% and a school district referendum rate of 0.15239%.

Current property taxes receivable consist of the current tax levy less collection prior to June 30. The current tax levy, net of a state mandated property tax shift, is offset by property taxes levied for subsequent years, a deferred inflow of resources.

NOTE 4 – Due From Other Governmental Units

Amounts due from other governmental units at June 30, 2016 are as follows:

	<u>General</u> <u>Fund</u>	<u>Debt</u> <u>Redemption</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Totals</u>
Other Minnesota School Districts	\$ 384,864	\$ -	\$ -	\$ 384,864
Minnesota Department of Education:				
State Aids and Grants	5,585,259	3,274	72,299	5,660,832
Federal Aids and Grants	1,479,529	-	107,152	1,586,681
Other Governmental Units	11,385	-	-	11,385
Totals	<u>\$ 7,461,037</u>	<u>\$ 3,274</u>	<u>\$ 179,451</u>	<u>\$ 7,643,762</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 5 – Capital Assets

Capital asset activity for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Sales and Retirements</u>	<u>Ending Balance</u>
Non-depreciable Capital Assets				
Land	\$ 3,736,231	\$ 82,600	\$ 832,617	\$ 2,986,214
Construction in Progress	800,924	3,146,877	-	3,947,801
Total Non-depreciable Capital Assets	<u>4,537,155</u>	<u>3,229,477</u>	<u>832,617</u>	<u>6,934,015</u>
Depreciable Capital Assets:				
Land Improvements	3,759,382	246,529	-	4,005,911
Buildings	87,709,585	59,685	-	87,769,270
Equipment	12,147,841	478,243	124,465	12,501,619
Total Depreciable Capital Assets	<u>103,616,808</u>	<u>784,457</u>	<u>124,465</u>	<u>104,276,800</u>
Total Capital Assets	<u>108,153,963</u>	<u>4,013,934</u>	<u>957,082</u>	<u>111,210,815</u>
Accumulated Depreciation:				
Land Improvements	2,314,161	147,763	-	2,461,924
Buildings	35,838,979	1,757,541	-	37,596,520
Equipment	8,907,591	686,345	124,465	9,469,471
Total Accumulated Depreciation	<u>47,060,731</u>	<u>2,591,649</u>	<u>124,465</u>	<u>49,527,915</u>
Capital Assets, Net of Depreciation	<u>\$ 61,093,232</u>	<u>\$ 1,422,285</u>	<u>\$ 832,617</u>	<u>\$ 61,682,900</u>

Depreciation expense was charged to the following program services:

Regular Instruction	\$ 4,296
Vocational Instruction	3,400
Special Education Instruction	366
Instructional Support Services	450
Pupil Support Services	19,578
Sites and Buildings	2,563,559
Total	<u>\$ 2,591,649</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
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YEAR ENDED JUNE 30, 2016

NOTE 6 – Pension Plans

A. Teachers Retirement Association

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 city of St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

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 Benefits:

	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First 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 up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

- a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 6 – Pension Plans (Continued)

- b) 3 percent per year early retirement reduction factor for all years under normal retirement age.
- c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

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

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

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

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

Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	<u>Ending June 30, 2016</u>		<u>Ending June 30, 2015</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

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

NOTE 6 – Pension Plans (Continued)

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 340,207,590
Deduct employer contributions not related to future contribution efforts	(704,635)
Deduct TRA's contributions not included in allocation	<u>(435,999)</u>
Total employer contributions	\$ 339,066,956
Total non-employer contributions	<u>41,587,410</u>
Employer contributions reported in Schedule of Employer and Non-Employer Pension Allocations	<u>\$ 380,654,366</u>

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

Merger of Duluth Teacher's Retirement Fund Association (DTRFA)

Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Association (DTRFA) with TRA effective June 30, 2015. The beginning balances of total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	<u>6/30/2014 CAFR</u>	<u>Restated</u>
Total Pension Liability (A)	\$ 24,901,612,000	\$ 25,299,564,000
Plan Fiduciary Net Position (B)	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net Pension Liability (A-B)	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015 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

Measurement Date	June 30, 2015
Valuation Date	July 1, 2015
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Wage Inflation	3.0%
Projected Salary Increase	3.5-12%, based on years of service
Cost of Living Adjustment	2.0%

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Mortality Assumption

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2015 is 5.73 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” use the amortization period of 5.73 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68. The “Change in Proportion” uses a rounded amortization period of 5 years.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 8.0 percent. This is a decrease from the discount rate at the prior measurement date of 8.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 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 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.

Net Pension Liability

On June 30, 2016, the District reported a liability of \$30,626,832 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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 0.4951% at the end of the measurement period and 0.5147% 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	\$ 30,626,832
State's proportionate share of the net pension liability associated with the District	3,756,479

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to be 2.0 percent annually with no increase to 2.5 percent projected. The prior year valuation assumed a 2.5 percent increase commencing July 1, 2034.

For the year ended June 30, 2015, the District recognized pension expense of \$1,818,281. It also recognized \$664,097 as an increase to pension expense for the support provided by direct aid.

INDEPENDENT SCHOOL DISTRICT NO. 31
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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 6 – Pension Plans (Continued)

On June 30, 2016 the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,553,225	\$ -
Changes in actuarial assumptions	2,354,389	-
Net difference between projected and actual earnings on plan investments	-	2,253,838
Changes in proportion	174,326	-
Contributions paid to TRA subsequent to the measurement date	1,863,414	-
Total	\$ 5,945,354	\$ 2,253,838

\$1,863,414 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to TRA pensions will be recognized in pension expense as follows:

2017	\$ 16,302
2018	16,302
2019	16,299
2020	1,779,199

Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent as well as the liability measured using one percent lower and one percent higher.

District proportionate share of NPL		
1 percent decrease (7.0%)	Current (8.0%)	1 percent increase (9.0%)
\$46,618,002	\$30,626,832	\$17,281,738

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NOTE 6 – Pension Plans (Continued)

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.

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 can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

B. Public Employees Retirement Association

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.

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees other than teachers of the District 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.

Public Employees Correctional Fund (PECF)

The Local Government Correctional Fund, referred to as the Public Employees Correctional Fund (PECF), was established for correctional officers serving in county and regional corrections facilities. Eligible participants must be responsible for the security, custody, and control of the facilities and their inmates.

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.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 6 – Pension Plans (Continued)

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

GERF Benefits

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

PECF Benefits

Benefits for PECF members hired after June 30, 2010, vest on a prorated basis from 50% after five years up to 100% after ten years of credited service. The annuity accrual rate is 1.9% of average salary for each year of service in the plan. For PECF members who were first hired prior to July 1, 1989, a full annuity is available when age plus years of service equal at least 90.

Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2016 were \$948,966. The District's contributions were equal to the required contributions for each year as set by State Statute.

PECF Contributions

Members contributed 5.83% of their annual covered salary in fiscal year 2016 and the District contributed 8.75%. The District contributions to the PECF for the year ended June 30, 2016, were \$10,039. The District's contributions were equal to the required contributions as set by State Statute.

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NOTE 6 – Pension Plans (Continued)

GERF Pension Costs

At June 30, 2016, the District reported a liability of \$10,743,362 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2015, the District's proportion was 0.2073%, which was a decrease of .0164% from its proportion measured as of June 30, 2014.

GERF benefit provision changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into GERF, effective January 1, 2015, and (2) revisions to *Minnesota Statutes* to make changes to contribution rates less prescriptive and more flexible.

The discount rate used to calculate liabilities for the June 30, 2015, measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of \$1,172,143 for its proportionate share of GERF's pension expense.

At June 30, 2016, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 442,017
Changes in actuarial assumptions	669,059	-
Net difference between projected and actual earnings on plan investments	-	956,358
Changes in proportion	-	887,330
Contributions paid to PERA subsequent to the measurement date	948,966	-
Total	<u>\$ 1,618,025</u>	<u>\$ 2,285,705</u>

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NOTE 6 – Pension Plans (Continued)

\$948,966 reported as deferred outflows of resources related to pensions resulting from District contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to GERS pensions will be recognized in pension expense as follows:

2017	\$	(421,573)
2018		(421,575)
2019		(805,920)
2020		32,422

PECF Pension Costs

At June 30, 2016, the District reported a liability of \$9,276 for its proportionate share of the PECF's net pension liability. The net pension liability was measured as of June 30, 2015; 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 the employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was .06%, there was no change from its proportion measured as of June 30, 2014.

There were no benefit provision changes during the measurement period.

The discount rate used to calculate liabilities for the June 30, 2015, measurement date was 7.9%. The Legislature has since set the discount rate in statute at 8%. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB 68 accounting requirements will be increased to 8% to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of \$31,273 for its proportionate share of the PECF's pension expense.

At June 30, 2016, the District reported its proportionate share of the PECF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 6 – Pension Plans (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 5,149
Changes in actuarial assumptions	-	10,251
Net difference between projected and actual earnings on plan investments	-	6,597
Contributions paid to PERA subsequent to the measurement date	<u>10,039</u>	<u>-</u>
Total	<u>\$ 10,039</u>	<u>\$ 21,997</u>

\$10,039 reported as deferred outflows of resources related to pensions resulting from District contributions to the PECF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the PECF will be recognized in pension expense as follows:

2017	\$ (9,952)
2018	(9,953)
2019	(4,025)
2020	1,933

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments.

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GEF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 6 – Pension Plans (Continued)

The long-term expected rate of return on pension plan investments is 7.9%. 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:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.9%. 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.

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 one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (6.9%)</u>	<u>Discount Rate (7.9%)</u>	<u>1% Increase in Discount Rate (8.9%)</u>
District's proportionate share of the GERF net pension liability:	\$16,892,384	\$10,743,362	\$5,665,215
District's proportionate share of the PECF net pension liability:	64,600	9,276	(35,005)

INDEPENDENT SCHOOL DISTRICT NO. 31
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YEAR ENDED JUNE 30, 2016

NOTE 6 – Pension Plans (Continued)

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.

NOTE 7 – Other Post-Employment Benefits

The District's has engaged an actuary to determine the District's liability for post-employment healthcare benefits other than pensions and its plan is as follows:

A. Plan Description

The District operates a single employer retiree benefit plan for both health and dental insurance in which retiring employees and their spouses may participate in at their expense. Retiring employees are eligible to participate only if they are a participant in the District's health and dental insurance at the time of retirement. As of July 1, 2015, there are 846 active participants and 53 retired participants. The retired employees are responsible for reimbursing the District for 100% of the premium cost for their health and dental plans. If a retiree chooses to drop their participation in either plan they are not able to return to the plan. Upon the death of a retiree the retiree's spouse can continue participation only if the spouse was covered under the plan at the time of the retiree's death.

B. Funding Policy

Retirees' who participate in the District's health and/or dental insurance plan pay 100% of their premium cost(s). There is no district contribution; however, as calculated in the District's actuarial study there is an implicit rate subsidy cost to the district as a result of retiree's participating in the health and dental plans. The implicit rate subsidy cost calculation is based on a set of input data to determine the implied cost effect to the district for retiree participation. Per the actuarial study performed the District's implicit rate subsidy cost as of July 1, 2015 was \$378,079.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

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NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 7 – Other Post-Employment Benefits (Continued)

Annual Required Contribution	\$ 958,810
Interest on Net OPEB Obligation	(83,151)
Adjustment to Annual Required Contribution	<u>139,335</u>
Annual OPEB Cost (Expense)	<u>1,014,994</u>
Contributions Made	<u>(378,079)</u>
Increase in Net OPEB Obligation	<u>636,915</u>
Net OPEB Obligation (Surplus) - Beginning of Year	<u>(2,771,696)</u>
Net OPEB Obligation (Surplus) - End of Year	<u><u>\$ (2,134,781)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Surplus)
6/30/2014	\$ 899,051	\$ -	0.0%	\$ (2,748,825)
6/30/2015	895,234	341,803	38.2%	(2,771,696)
6/30/2016	1,014,994	378,079	37.2%	(2,134,781)

D. Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$6,396,941. The annual payroll for active employees covered by the plan in the actuarial valuation was \$34,825,414 for a ratio of UAAL to covered payroll of 18.4%.

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

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 7 – Other Post-Employment Benefits (Continued)

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.5%, reduced by decrements to an ultimate rate of 5% after five years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis.

NOTE 8 – Operating Leases

The District has entered into operating lease agreements for facilities as follows:

<u>Lessee</u>	<u>Program</u>	<u>End Date</u>	<u>Annual Rent</u>
Beltrami County	ECFE & ECSE	June 30, 2016	\$ 113,256
Nonprofit entity	AEC, Home Based EC	June 30, 2016	37,012
White Earth Band of Ojibwe Indians	Sober School	June 30, 2016	9,252
Nonprofit entity	Boys & Girls Hockey	June 30, 2016	27,600
Bemidji State University	Facilities Lease	August 31, 2018	40,000
Midway Properties	AEC, Home Based EC, Sober School	May 31, 2021	66,875

The District is also committed under various non-cancelable operating leases, for equipment, primarily copiers. Future minimum operating lease commitments are as follows:

<u>Year Ending June 30,</u>	<u>Buildings</u>	<u>Copiers/Equipment</u>	<u>Total</u>
2017	\$ 106,875	\$ 237,000	\$ 343,875
2018	106,875	237,000	343,875
2019	66,875	237,000	303,875
2020	66,875	237,000	303,875
2021	61,325	237,000	298,325
	<u>\$ 408,825</u>	<u>\$ 1,185,000</u>	<u>\$ 1,593,825</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 9 – Capital Leases

A summary of changes in the capital leases is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments and Subtractions</u>	<u>Ending Balance</u>
Wells Fargo Bank	\$ 829,403	\$ -	\$ 64,469	\$ 764,934
John Deere Financial	50,441	-	24,805	25,636
Total Capital Leases	<u>\$ 879,844</u>	<u>\$ -</u>	<u>\$ 89,274</u>	<u>\$ 790,570</u>

The District's capital lease assets total \$1,230,774 with accumulated depreciation of \$160,359.

The payments on the capital leases are accounted for in the General Fund. The annual requirements to amortize the capital leases at June 30, 2016 are as follows:

<u>Fiscal Year Ended</u>	<u>Lease Principal</u>	<u>Lease Interest</u>	<u>Total</u>
2017	\$ 93,641	\$ 41,334	\$ 134,975
2018	71,732	36,747	108,479
2019	75,665	32,813	108,478
2020	79,814	28,665	108,479
2021	84,191	24,288	108,479
2022-2025	385,527	48,388	433,915
Totals	<u>\$ 790,570</u>	<u>\$ 212,235</u>	<u>\$ 1,002,805</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 10 - Long-Term Liabilities

A summary of changes in long-term liabilities is as follows:

	Beginning Balance	Additions	Payments and Retirements	Ending Balance	Current Amounts	
					Principal	Interest
General Obligation Bonds:						
2009A Taxable OPEB Bonds	\$ 4,055,000	\$ -	\$ 325,000	\$ 3,730,000	\$ 335,000	\$ 198,590
2013A G. O. Bonds	11,755,000	-	2,915,000	8,840,000	2,805,000	442,000
2015A G.O. School Building Bonds	-	36,280,000	-	36,280,000	-	1,830,416
2015B G.O. School Building Bonds	-	765,000	-	765,000	-	19,720
Total General Obligation Bonds	15,810,000	37,045,000	3,240,000	49,615,000	3,140,000	2,490,726
Unamortized Bond Discounts	(120,438)	-	(25,352)	(95,086)	(25,352)	-
Unamortized Bond Premium	1,582,684	2,913,553	402,414	4,093,823	474,178	-
Total General Obligation Bonds, Net of Unamortized Bond Discounts/Premium	17,272,246	39,958,553	3,617,062	53,613,737	3,588,826	2,490,726
Capital Leases Payable (See Note 9):						
Wells Fargo	829,402	-	64,469	764,933	68,004	40,476
John Deere Financial	50,442	-	24,805	25,637	25,637	858
Total Capital Leases Payable	879,844	-	89,274	790,570	93,641	41,334
Separation and Retirement Benefits:						
Net Pension Liability	34,225,310	7,154,160	-	41,379,470	-	-
Other Post-Employment Benefits	(2,771,696)	636,915	-	(2,134,781)	-	-
Severance Payable	945,419	-	282,173	663,246	170,447	-
Total Separation and Retirement Benefits	32,399,033	7,791,075	282,173	39,907,935	170,447	-
Total	\$ 50,551,123	\$ 47,749,628	\$ 3,988,509	94,312,242	\$ 3,852,914	\$ 2,532,060
Add-back Net Post-Employment Benefits Reported as an Asset				2,134,781		
Total Long-Term Liabilities				\$ 96,447,023		

General obligation bonds are comprised of the following individual issues at June 30, 2016:

\$4,950,000 General Obligation Taxable OPEB Bonds, Series 2009A, issued on July 15, 2009, with interest rates ranging from 5.00% to 5.75%. Interest payments commence on February 1, 2010 and are due each February 1 and August 1 thereafter through year 2025. Principal payments commence on February 1, 2013 and each year thereafter through 2025 in amounts ranging from \$285,000 to \$505,000.

\$17,180,000 General Obligation Refunding Bonds, Series 2013A, issued on February 26, 2013 with interest rates ranging from 3.50% to 4.50%. Interest payments commence on October 1, 2013 and are due each April 1 and October 1 thereafter through April 2019. Principal payments commence on April 1, 2014 and each year thereafter through 2019 in amounts ranging from \$2,625,000 to \$3,090,000.

\$36,280,000 General Obligation School Building Bonds, Series 2015A, issued on December 17, 2015, with interest rates ranging from 2.50% to 5.00%. Interest payments commence on October 1, 2016 and are due each April 1 and October 1 thereafter through year 2036. Principal payments commence on April 1, 2020 and each year thereafter through 2036 in the amounts ranging from \$980,000 to \$2,895,000.

NOTE 10 - Long-Term Debt (Continued)

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

\$765,000 General Obligation School Building Bonds, Series 2015B, issued on December 17, 2015, with an interest rate of 2.00%. Interest payments commence on October 1, 2016 and are due each April 1 and October 1 thereafter through year 2020. Principal balloon payment is due on April 1, 2020 in the amount of \$765,000.

The annual requirements to amortize the general obligation bonds at June 30, 2016 are as follows:

<u>Fiscal Year Ended</u>	<u>Bond Principal</u>	<u>Bond Interest</u>	<u>Total</u>
2017	\$ 3,140,000	\$ 2,490,726	\$ 5,630,726
2018	3,300,000	1,919,040	5,219,040
2019	3,460,000	1,754,040	5,214,040
2020	2,135,000	1,581,040	3,716,040
2021	2,030,000	1,496,850	3,526,850
2022-2026	11,000,000	6,110,338	17,110,338
2027-2031	11,160,000	3,804,625	14,964,625
2032-2036	13,390,000	1,576,825	14,966,825
Totals	<u>\$ 49,615,000</u>	<u>\$ 20,733,484</u>	<u>\$ 70,348,484</u>

General obligation bonds of the District are reflected in the district-wide financial statements and current requirements for principal and interest expenditures of the 2013A, 2015A and 2015B bond issues are paid out of the debt service fund. The current requirements for principal and interest expenditures of the 2009A OPEB bond issue are accounted for in a separate debt service fund.

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions and there were no authorized and un-issued bonds at June 30, 2016.

Severance payable is the estimated accrued liability of the present value of benefits earned as of the June 30, 2016. The District engaged an actuary that provided an estimate of the accrued liability of present value benefits as of July 1, 2015. Estimated additions and subtractions from that estimate have occurred since that date.

NOTE 11 - Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and natural disaster. The District carries various commercial insurance policies covering workers' compensation personal property, commercial liability and automobile liability. There were no significant reductions in insurance from the previous year. The amount of settlements did not exceed insurance coverage for the past three fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

NOTE 12 - Commitments and Contingencies

The District participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collection of any related receivable at June 30, 2016 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 13 – Transfers

In the fiscal year ended June 30, 2016, a transfer was made from the Building Construction Fund to the Debt Redemption Fund for \$4,721,036 to move bond proceeds to the correct fund in accordance with the bond documents.

NOTE 14 – Subsequent Event

On September 7, 2016 the District closed on the sale of the Deer Lake School in the amount of \$500,000. The District approved the issuance of a \$450,000 contract for deed relating to the sale of the Deer Lake property.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Taxes	\$ 4,771,832	\$ 5,141,797	\$ 5,202,818	\$ 61,021
Other Local and County Revenues	986,328	1,271,892	1,481,046	209,154
Revenues from State Sources	49,299,255	49,802,398	49,512,471	(289,927)
Revenues from Federal Sources	3,804,900	3,596,062	3,564,574	(31,488)
Sales and Other Conversions of Assets	32,978	32,978	42,692	9,714
Investment Earnings	4,562	4,562	14,342	9,780
Total Revenues	<u>58,899,855</u>	<u>59,849,689</u>	<u>59,817,943</u>	<u>(31,746)</u>
<u>Expenditures</u>				
Administration	2,142,646	2,335,764	2,277,348	58,416
District Support Services	1,483,485	1,485,478	1,511,962	(26,484)
Regular Instruction	25,326,468	25,533,058	24,894,778	638,280
Vocational Instruction	944,252	849,320	770,787	78,533
Special Education Instruction	12,985,322	13,725,280	13,604,373	120,907
Instructional Support Services	2,315,396	2,584,276	2,525,772	58,504
Pupil Support Services	5,819,060	5,742,440	5,843,823	(101,383)
Sites and Buildings	7,755,639	7,591,180	7,356,726	234,454
Fiscal and Other Fixed Costs	191,115	271,043	246,933	24,110
Total Expenditures	<u>58,963,383</u>	<u>60,117,839</u>	<u>59,032,502</u>	<u>1,085,337</u>
<u>Excess of Revenues Over (Under)</u>				
<u>Expenditures</u>	(63,528)	(268,150)	785,441	1,053,591
<u>Fund Balances, Beginning of Year</u>				
	<u>6,023,071</u>	<u>6,023,071</u>	<u>6,023,071</u>	<u>-</u>
<u>Fund Balances, End of Year</u>				
	<u>\$ 5,959,543</u>	<u>\$ 5,754,921</u>	<u>\$ 6,808,512</u>	<u>\$ 1,053,591</u>

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2016

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
July 1, 2011	\$ 4,587,022	\$ 6,130,609	\$ 1,543,587	74.80%	\$ 29,802,510	5.20%
July 1, 2013	4,428,715	9,582,643	5,153,928	46.20%	33,112,290	15.57%
July 1, 2015	3,815,249	10,212,190	6,396,941	37.36%	34,825,414	18.37%

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR
POST-EMPLOYMENT BENEFIT PLAN
JUNE 30, 2016

<u>Year Ended</u> <u>June 30,</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>	<u>Net OPEB Obligation</u> <u>(Asset)</u>
2012	\$ 391,580	107.26%	\$ (3,940,494)
2013	723,558	71.77%	(3,647,876)
2014	812,030	0.00%	(2,748,825)
2015	827,831	41.29%	(2,771,696)
2016	958,810	39.43%	(2,134,781)

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S AND NON-EMPLOYER PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
JUNE 30, 2016

For Fiscal Year Ended June 30:	Last 10 Fiscal Years*				District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	Total			
GERF							
2015	0.2073%	\$ 10,743,362	\$ -	\$ 10,743,362	\$ 12,190,581	88.13%	78.2%
2014	0.2237%	10,508,305	-	10,508,305	11,755,872	89.39%	78.7%
PECF							
2015	0.0600%	9,276	-	9,276	110,916	8.36%	96.9%
2014	0.0600%	4,526	-	4,526	104,783	4.32%	98.4%
TRA							
2015	0.4951%	30,626,832	3,756,479	34,383,311	25,192,265	136.48%	76.8%
2014	0.5147%	23,717,005	1,668,434	25,385,439	23,537,046	107.85%	81.5%

* - Schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
JUNE 30, 2016

For Fiscal Year Ended June 30:	Last 10 Fiscal Years*			District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)		
GERF					
2016	\$ 959,005	\$ 948,966	\$ 10,039	\$ 12,520,729	7.58%
2015	915,520	915,520	-	12,190,581	7.51%
PECF					
2016	10,039	10,039	-	114,425	8.77%
2015	9,738	9,738	-	110,916	8.78%
TRA					
2016	1,884,490	1,863,414	21,076	25,306,605	7.36%
2015	1,884,490	1,863,414	21,076	23,537,046	7.92%

* - Schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

See Accompanying Notes to the Required Supplementary Information.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 – Budgetary Data

Budgets are prepared for District funds 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 in accordance with accounting principles generally accepted in the United States of America.

Legal Compliance – Budgets

- The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for all funds of the District. However, the General and Special Revenue Funds are the only funds that are legally adopted through the budgetary process as documented below.
- The budget is legally enacted through passage of a School Board resolution by July 1.
- The School Board may authorize transfer of budgeted amounts between funds.
- Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not employed for the Debt Service Fund because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary controls are not employed for the Fiduciary Funds.
- General and Special Revenue Funds expenditures may not legally exceed budgeted appropriations at the total fund level without School Board approval. Monitoring of budgets is maintained at the expenditure category level.

NOTE 2 – Other Post-Employment Benefit Plan Funding Progress

Multi-year trend information is available as Governmental Accounting Standards Board Statement 45 was implemented during the 2007 fiscal year. See Note 7 – Other Post-Employment Benefits for more information.

JUNE 30, 2016

NOTE 3 – Pensions

TRA

Changes in Benefit Terms

The DTRFA was merged into TRA on June 30, 2015.

Changes in Assumptions

The annual COLA for the June 30, 2015, valuation assumed 2.0%. The prior year valuation used 2.0% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. Details, if necessary, can be obtained from the TRA CAFR.

PERA

Details, if necessary, can be obtained from the PERA CAFR for their pension plan.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

<u>ASSETS</u>	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>OPEB Debt Service</u>	
Cash and Investments	\$ 510,746	\$ 717,162	\$ 413,545	\$ 1,641,453
Property Taxes Receivable	-	175,790	238,946	414,736
Due from Other Governmental Units	37,049	141,858	544	179,451
Other Accounts Receivable	-	3,445	-	3,445
Inventory	11,863	-	-	11,863
Total Assets	\$ 559,658	\$ 1,038,255	\$ 653,035	\$ 2,250,948
 <u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES</u>				
<u>AND FUND BALANCE</u>				
<u>Liabilities</u>				
Salaries Payable	\$ 98,745	\$ 51,493	\$ -	\$ 150,238
Accounts Payable	2,372	13,691	-	16,063
Payroll Deductions and Employer Contributions	16,200	8,491	-	24,691
Total Liabilities	117,317	73,675	-	190,992
 <u>Deferred Inflows of Resources</u>				
Unavailable Revenue - Delinquent Taxes	-	7,078	9,226	16,304
Property Taxes Levied for Subsequent Expenditures	-	397,736	540,398	938,134
Total Deferred Inflows of Resources	-	404,814	549,624	954,438
 <u>Fund Balance</u>				
Nonspendable	11,863	-	-	11,863
Restricted for:				
Early Childhood and Family Education	-	300,191	-	300,191
School Readiness	-	331,601	-	331,601
Adult Basic Education	-	8,398	-	8,398
Food Service	430,478	-	-	430,478
OPEB Debt Service	-	-	103,411	103,411
Unassigned (Deficit)	-	(80,424)	-	(80,424)
Total Fund Balance (Deficit)	442,341	559,766	103,411	1,105,518
 <u>Total Liabilities, Deferred Inflows of Resources and Fund Balance</u>	 \$ 559,658	 \$ 1,038,255	 \$ 653,035	 \$ 2,250,948

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	<u>Special Revenue Funds</u>			<u>Totals</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>OPEB Debt Service</u>	
<u>Revenues</u>				
Local Property Taxes	\$ -	\$ 403,655	\$ 563,097	\$ 966,752
Other Local and County Revenues	40,440	923,222	-	963,662
Revenues from State Sources	241,672	702,074	5,443	949,189
Revenues from Federal Sources	2,033,616	275,178	-	2,308,794
Sales and Other Conversions of Assets	1,158,016	-	-	1,158,016
Investment Earnings	956	1,434	-	2,390
Total Revenues	<u>3,474,700</u>	<u>2,305,563</u>	<u>568,540</u>	<u>6,348,803</u>
<u>Expenditures</u>				
Community Education and Services	-	1,946,879	-	1,946,879
Pupil Support Services	3,466,431	16,949	-	3,483,380
Debt Service:				
Principal Retirement	-	-	325,000	325,000
Interest and Fiscal Fees	-	-	214,840	214,840
Total Expenditures	<u>3,466,431</u>	<u>1,963,828</u>	<u>539,840</u>	<u>5,970,099</u>
<u>Excess of Revenues Over (Under) Expenditures</u>	8,269	341,735	28,700	378,704
<u>Fund Balances, Beginning of Year</u>	<u>434,072</u>	<u>218,031</u>	<u>74,711</u>	<u>726,814</u>
<u>Fund Balances, End of Year</u>	<u>\$ 442,341</u>	<u>\$ 559,766</u>	<u>\$ 103,411</u>	<u>\$ 1,105,518</u>

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
AGENCY FIDUCIARY FUNDS
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
YEAR ENDED JUNE 30, 2016

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<u>Student Activities</u>				
<u>Assets</u>				
Cash and Investments	\$ 393,528	\$ 665,363	\$ 606,415	\$ 452,476
<u>Liabilities</u>				
Due to Student Organizations	\$ 393,528	\$ 665,363	\$ 606,415	\$ 452,476
 <u>BEA Retiree Fringe Benefit Pool</u>				
<u>Assets</u>				
Cash and Investments	\$ 288,133	\$ 287,152	\$ 330,882	\$ 244,403
<u>Liabilities</u>				
Due to Bemidji Education Association	\$ 288,133	\$ 171,130	\$ 214,860	\$ 244,403
 <u>Total All Agency Funds</u>				
<u>Assets</u>				
Cash and Investments	\$ 681,661	\$ 952,515	\$ 937,297	\$ 696,879
<u>Liabilities</u>				
Due to Bemidji Education Association	288,133	171,130	214,860	244,403
Due to Student Organizations	393,528	665,363	606,415	452,476
<u>Total Liabilities</u>	<u>\$ 681,661</u>	<u>\$ 836,493</u>	<u>\$ 821,275</u>	<u>\$ 696,879</u>

FISCAL COMPLIANCE REPORT - 6/30/2016
District: BEMIDJI (0031-01)

	Audit	UFARS	Audit (-) UFARS		Audit	UFARS	Audit (-) UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$59,817,943	\$59,817,944	-\$1	Total Revenue	\$130,881	\$130,881	\$0
Total Expenditures	\$59,032,502	\$59,032,505	-\$3	Total Expenditures	\$3,465,744	\$3,465,744	\$0
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$722,276	\$722,276	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Restricted/Reserved:				Restricted/Reserved:			
4.03 Staff Development	\$227,614	\$227,614	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.05 Deferred Maintenance	\$309,976	\$309,976	\$0	4.09 Alternative Facility Program	\$0	\$0	\$0
4.06 Health and Safety	\$0	-\$1,828,647	\$1,828,647	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.08 Cooperative Revenue	\$0	\$0	\$0	Restricted:			
4.09 Alternative Facility Program	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$31,023,063	\$31,023,063	\$0
4.13 Project Funded by COP	\$0	\$0	\$0	Unassigned:			
4.14 Operating Debt	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.16 Levy Reduction	\$0	\$0	\$0				
4.17 Taconite Building Maint	\$0	\$0	\$0	07 DEBT SERVICE			
4.23 Certain Teacher Programs	\$0	\$0	\$0	Total Revenue	\$3,435,648	\$3,435,649	-\$1
4.24 Operating Capital	\$2,655,236	\$2,655,236	\$0	Total Expenditures	\$3,476,325	\$3,476,325	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	Non Spendable:			
4.27 Disabled Accessibility	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.28 Learning & Development	\$0	\$0	\$0	Restricted/Reserved:			
4.34 Area Learning Center	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$876,736	\$876,736	\$0	Restricted:			
4.38 Gifted & Talented	\$85,684	\$85,684	\$0	4.64 Restricted Fund Balance	\$5,786,766	\$5,786,766	\$0
4.40 Teacher Development and Eval	\$116,493	\$116,493	\$0	Unassigned:			
4.41 Basic Skills Program	\$41,739	\$41,739	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.45 Career Tech Programs	\$0	\$0	\$0				
4.48 Achievement and Integration	\$0	\$0	\$0	08 TRUST			
4.49 Safe Schools Crime - Crime Levy	\$354,834	\$354,834	\$0	Total Revenue	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.51 QZAB Payments	\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	20 INTERNAL SERVICE			
4.67 LTFM	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Restricted:				Total Expenditures	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Committed:							
4.18 Committed for Separation	\$577,793	\$577,793	\$0	25 OPEB REVOCABLE TRUST			
4.61 Committed Fund Balance	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
Assigned:				Total Expenditures	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$0	\$0	\$0	4.22 Unassigned Fund Balance	\$0	\$0	\$0
Unassigned:							
4.22 Unassigned Fund Balance	\$840,131	\$2,668,778	-\$1,828,647	45 OPEB IRREVOCABLE TRUST			
				Total Revenue	\$79,006	\$79,006	\$0
02 FOOD SERVICES				Total Expenditures	\$387,693	\$387,693	\$0
Total Revenue	\$3,474,700	\$3,474,700	\$0	4.22 Unassigned Fund Balance	\$3,506,562	\$3,506,562	\$0
Total Expenditures	\$3,466,431	\$3,466,430	\$1				
Non Spendable:				47 OPEB DEBT SERVICE			
4.60 Non Spendable Fund Balance	\$11,863	\$11,863	\$0	Total Revenue	\$568,540	\$568,540	\$0
Restricted/Reserved:				Total Expenditures	\$539,840	\$539,840	\$0
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0	Non Spendable:			
Restricted:				4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.64 Restricted Fund Balance	\$430,478	\$430,478	\$0	Restricted:			
Unassigned:				4.25 Bond Refunding	\$0	\$0	\$0
4.63 Unassigned Fund Balance	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$103,411	\$103,411	\$0
				Unassigned:			
04 COMMUNITY SERVICE				4.63 Unassigned Fund Balance	\$0	\$0	\$0
Total Revenue	\$2,305,563	\$2,305,563	\$0				
Total Expenditures	\$1,963,828	\$1,963,828	\$0				
Non Spendable:							
4.60 Non Spendable Fund Balance	\$0	\$0	\$0				
Restricted/Reserved:							
4.26 \$25 Taconite	\$0	\$0	\$0				
4.31 Community Education	\$0	-\$115,933	\$115,933				
4.32 E.C.F.E.	\$300,191	\$300,191	\$0				
4.40 Teacher Development and Eval	\$0	\$0	\$0				
4.44 School Readiness	\$331,601	\$331,601	\$0				
4.47 Adult Basic Education	\$8,398	\$8,398	\$0				
4.52 OPEB Liab Not in Trust	\$0	\$0	\$0				
Restricted:							
4.64 Restricted Fund Balance	\$0	\$35,509	-\$35,509				
Unassigned:							
4.63 Unassigned Fund Balance	-\$80,424	\$0	-\$80,424				

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>		<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>			
Direct Program:			
Healthier U.S. School Challenge: Smarter Lunchrooms	10.543		\$ 26,000
Pass-Through Minnesota Department of Education:			
Child Nutrition Cluster:			
National School Lunch Program	10.555	\$ 1,171,435	
Commodities Cash Rebate	10.555	8,306	
Commodity Distribution	10.555	200,314	
Total Program 10.555		<u>1,380,055</u>	
National School Breakfast Program	10.553	461,781	
Summer Food Program	10.559	76,240	
Total Child Nutrition Cluster			1,918,076
Fresh Fruit and Vegetables Program	10.582		26,436
Child and Adult Care	10.558		63,104
Total Department of Agriculture			<u>2,033,616</u>
<u>U. S. Department of Interior</u>			
Pass-Through Red Lake Band of Ojibwe Indians:			
Indian Education Assistance to Schools	15.130	9,446	
Pass-Through Leech Lake Band of Ojibwe Indians:			
Indian Education Assistance to Schools	15.130	12,991	
Total Program 15.130			<u>22,437</u>
Total Department of Interior			<u>22,437</u>
<u>U. S. Department of Education</u>			
Direct Programs:			
Impact Aid	84.041		10,800
Indian Education Grants to Local Education Agencies	84.060		217,100
Pass-Through Minnesota Department of Education:			
Improving Teacher Quality State Grants	84.367		320,438
Title I			
Title I Grants to Local Education Agencies	84.010	1,477,346	
Title I (N & D)	84.010A	232,733	
Total Title I Program			1,710,079
Special Education - Part C IEIC, Ages 0-2	84.181		40,242
Title X, Part C - Sub B: Education for Homeless Children & Youth	84.196		40,000
Title IV Part B 21st Century Community Learning Centers	84.287		275,178
Title VI, Part B Rural and Low-Income Schools	84.358		114,779

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Special Education Cluster:		
Pass-Through Bemidji Regional Interdistrict Cooperative:		
IDEA Part B - Discretionary Low Incidence	84.027	18,638
Pass-Through Minnesota Department of Education:		
Special Education Part B Sec 611 Regular Allocation	84.027	<u>991,883</u>
Total Program 84.027		<u>1,010,521</u>
Special Education - Part B Section 619 Preschool Regular	84.173	<u>33,192</u>
Total Special Education Cluster		1,043,713
Pass-Through North Country Vocational Cooperative Center:		
Carl Perkins Career and Technical Reserve	84.048	38,623
Total Department of Education		<u>3,810,952</u>
<u>Total Federal Assistance Expended</u>		<u>\$ 5,867,005</u>

See Accompanying Notes to the Schedule of Expenditures of Federal Awards.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016

NOTE 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Independent School District No. 31 and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 - Child Nutrition Cluster

Cash receipts from the U. S. Department of Agriculture through the Minnesota Department of Education are included in revenues from federal sources. It is assumed that federal funds are expended first.

NOTE 3 - Food Donation Program

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

NOTE 4 - Matching Requirements

Certain Federal programs require that the District contribute non-federal funds (matching funds) to support the Federally-funded programs. The District has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

NOTE 5 – Pass-through Entities

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

NOTE 6 – Indirect Cost Rate

The District has not elected to use the 10 percent de Minimis indirect cost rate as allowed under the Uniform Guidance.

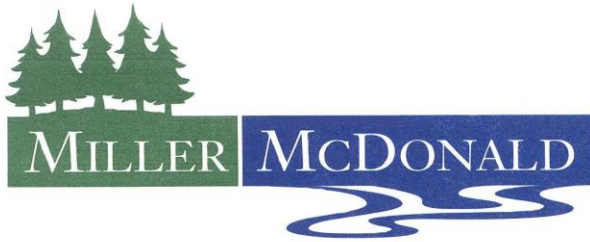
INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
TAX LEVIES, TAX RATES AND STUDENT CENSUS
JUNE 30, 2016
(Unaudited)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Property Tax Levies										
General Referendum	\$ 3,634,379	\$ 3,085,459	\$ 2,235,880	\$ 2,790,555	\$ 2,753,636	\$ 2,735,198	\$ 2,737,078	\$ 2,609,461	\$ 2,364,252	\$ 2,057,688
General Maintenance	2,386,415	1,674,437	1,944,504	1,755,458	1,656,050	1,626,433	1,973,806	1,727,879	1,760,443	1,363,836
Community Service	397,736	405,970	392,049	391,859	388,022	360,331	351,091	359,408	311,974	351,150
Debt Redemption	2,907,070	3,411,683	3,369,247	3,688,980	3,627,350	4,274,766	3,944,315	4,141,766	4,181,544	4,421,541
OPEB Pension Debt	540,399	567,439	567,283	572,559	571,797	-	-	-	-	-
Total Property Tax Levies	<u>\$ 9,865,999</u>	<u>\$ 9,144,988</u>	<u>\$ 8,508,963</u>	<u>\$ 9,199,411</u>	<u>\$ 8,996,855</u>	<u>\$ 8,996,728</u>	<u>\$ 9,006,290</u>	<u>\$ 8,838,514</u>	<u>\$ 8,618,213</u>	<u>\$ 8,194,215</u>

Taxable Net Tax Capacity										
Beltrami County	\$ 28,354,154	\$ 27,270,002	\$ 26,472,612	\$ 26,192,709	\$ 26,203,618	\$ 26,682,043	\$ 26,368,601	\$ 25,601,517	\$ 24,068,019	\$ 21,976,481
Hubbard County	3,490,189	3,369,273	3,228,077	3,094,207	3,081,085	3,270,691	3,460,714	3,336,329	3,086,630	2,579,451
Total Net Tax Capacity	<u>\$ 31,844,343</u>	<u>\$ 30,639,275</u>	<u>\$ 29,700,689</u>	<u>\$ 29,286,916</u>	<u>\$ 29,284,703</u>	<u>\$ 29,952,734</u>	<u>\$ 29,829,315</u>	<u>\$ 28,937,846</u>	<u>\$ 27,154,649</u>	<u>\$ 24,555,932</u>
Property Tax Rate										
	19.569%	19.777%	21.121%	21.883%	21.293%	20.880%	20.993%	21.499%	23.045%	24.990%
Referendum Market Values										
Beltrami County	\$ 2,150,115,763	\$ 2,082,158,556	\$ 2,036,184,585	\$ 2,011,066,868	\$ 2,010,513,459	\$ 1,939,767,425	\$ 1,929,380,345	\$ 1,925,650,921	\$ 1,838,553,655	\$ 1,702,738,595
Hubbard County	234,803,780	231,993,545	219,091,135	209,651,955	209,981,645	198,776,950	208,294,180	224,374,220	213,065,100	182,281,101
Total Referendum Market Values	<u>\$ 2,384,919,543</u>	<u>\$ 2,314,152,101</u>	<u>\$ 2,255,275,720</u>	<u>\$ 2,220,718,823</u>	<u>\$ 2,220,495,104</u>	<u>\$ 2,138,544,375</u>	<u>\$ 2,137,674,525</u>	<u>\$ 2,150,025,141</u>	<u>\$ 2,051,618,755</u>	<u>\$ 1,885,019,696</u>
Referendum Rate										
	0.15239%	0.13333%	0.09914%	0.12566%	0.12401%	0.12790%	0.12804%	0.12137%	0.11538%	0.10916%

Students Served (Weighted ADM/PUN*'s)										
Residents	6,022.15	5,917.70	6,387.40	6,276.61	6,219.74	6,104.63	6,030.05	5,859.57	5,911.40	5,916.96
Nonresidents in District										
Tuition	55.68	70.15	68.90	75.52	75.18	64.80	80.36	82.14	82.41	122.70
Enrollment Options	342.88	321.44	333.15	348.44	316.04	347.14	309.93	280.02	236.68	245.72
Ineligible	0.72	0.25	0.01	0.08	3.10	2.40	1.53	0.65	0.60	0.62
Shared Aid	9.07	10.33	13.48	12.23	9.00	7.91	8.47	9.27	14.39	12.51
Shared Time Tuition	-	-	-	0.26	0.13	0.20	0.10	0.11	0.21	-
Adults	-	-	-	-	-	-	-	6.54	-	-
Residents Outside District										
Tuition	(21.92)	(15.48)	(21.65)	(28.21)	(22.90)	(16.59)	(20.18)	(27.21)	(24.59)	(35.38)
Charter	(475.88)	(502.56)	(528.32)	(482.83)	(448.18)	(443.20)	(430.80)	(442.59)	(428.10)	(433.15)
Enrollment Options	(351.72)	(342.12)	(402.42)	(379.00)	(426.07)	(411.11)	(382.28)	(363.27)	(341.11)	(369.75)
Total Students Served	<u>5,580.98</u>	<u>5,459.71</u>	<u>5,850.55</u>	<u>5,823.10</u>	<u>5,726.04</u>	<u>5,656.18</u>	<u>5,597.18</u>	<u>5,405.23</u>	<u>5,451.89</u>	<u>5,460.23</u>
Adjusted Weighted ADM/PUN*s*										
	5,537.43	5,394.46	5,789.81	5,763.22	5,661.53	5,597.46	5,526.90	5,333.73	5,378.87	5,359.78
Resident ADM's										
	5,532.34	5,443.18	5,578.91	5,461.95	5,410.83	5,319.43	5,238.58	5,101.45	5,104.55	5,108.15

*The State of Minnesota changed to Pupil Unit Weightings (PUN) from Weighted Average Daily Membership (WADM) in the year ending June 30, 2015 to calculate general education aid.



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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE BASED ON AN AUDIT
 OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
 WITH THE MINNESOTA LEGAL COMPLIANCE AUDIT GUIDE
 FOR SCHOOL DISTRICTS**

The Board of Education
 Independent School District No. 31
 Bemidji, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 – Bemidji, Minnesota as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 31 – Bemidji, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Independent School District No. 31 – Bemidji, Minnesota's noncompliance with the above referenced provisions.

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

Miller McDonald, Inc.

November 30, 2016
 Bemidji, Minnesota



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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*

The Board of Education
 Independent School District No. 31
 Bemidji, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 31 – Bemidji, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Independent School District No. 31 – Bemidji, Minnesota's basic financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 31 – Bemidji, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 31 – Bemidji, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 31 – Bemidji, Minnesota's internal control.

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

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

Independent School District No. 31
Bemidji, Minnesota

Compliance and Other Matters

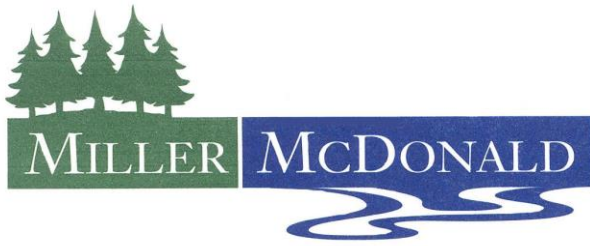
As part of obtaining reasonable assurance about whether Independent School District No. 31 – Bemidji, Minnesota’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with 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*.

Purpose of this Report

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

Miller McDonald, Inc.

November 30, 2016
Bemidji, Minnesota



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**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR
 EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
 OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

The Board of Education
 Independent School District No. 31
 Bemidji, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 31 – Bemidji, Minnesota’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 31 – Bemidji, Minnesota’s major federal programs for the year ended June 30, 2016. Independent School District No. 31 – Bemidji, Minnesota’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 31 – Bemidji, Minnesota’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 31 – Bemidji, Minnesota’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Independent School District No. 31 – Bemidji, Minnesota’s compliance.

Opinion on Each Major Federal Programs

In our opinion, Independent School District No. 31 – Bemidji, Minnesota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-003 and 2016-004. Our opinion on each major federal program is not modified with respect to these matters.

Independent School District No. 31 – Bemidji, Minnesota’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 31 – Bemidji, Minnesota’s response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Independent School District No. 31 – Bemidji, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 31 – Bemidji, Minnesota’s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 31 – Bemidji, Minnesota’s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2016-001, 2016-002, 2016-003 and 2016-004, that we consider to be significant deficiencies.

Independent School District No. 31 – Bemidji, Minnesota’s response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 31 – Bemidji, Minnesota’s response was not subjected to the auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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

Miller McDonald, Inc.

November 30, 2016
Bemidji, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

I. SUMMARY OF AUDITOR'S RESULTS

- 1.) An unmodified opinion on the financial statements was issued.
- 2.) There were no significant deficiencies in internal control reported on the audit of the financial statements and no deficiencies were identified as a material weakness.
- 3.) The audit did not disclose any noncompliance which was material to the financial statements.
- 4.) Four significant deficiencies in internal control over compliance relating to the audit of the major federal award programs were reported in the *Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance*.
- 5.) An unmodified opinion on compliance for major federal award programs was issued.
- 6.) Audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a) are reported in this schedule.
- 7.) Major programs:

Special Education Cluster	CFDA No. 84.027 & 84.173
Indian Education – Grants to Local Education Agencies	CFDA No. 84.060
- 8.) A \$750,000 threshold was used to distinguish between Type A and Type B programs.
- 9.) Independent School District No. 31 did qualify as a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.

INTERNAL CONTROL

None

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

INTERNAL CONTROL

Finding 2016-001 – Written Internal Control Policy – CFDA No. 84.060 – Indian Education – Grants to Local Educational Agencies and CFDA No. 84.027 & 84.173 – Special Education Cluster

Condition

The District did not demonstrate the implementation of written policies and procedures over all compliance requirements and specifically for procurement that outline the following steps: 1. All purchases need a purchase request, 2. Having approval for purchases according to procedures, 3. Having

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

a purchase order for all purchases according to procedures, 4. Authorized signatures and dates for approval and payments for purchases.

Criteria

In accordance with Uniform Guidance all non-federal entities are required to have written policies and procedures over federal awards.

Effect

Non-compliance could occur for each Federal program.

Cause

The District's general accounting policies and procedures do not provide specific controls related to Federal awards.

Recommendation

The District should prepare and have approved by the school board written policies and procedures related to all federal compliance requirements.

Management's Response – Corrective Action Plan

Explanation of Disagreement with Audit Finding

District agrees with finding.

Actions Planned in Response to Finding

District will adopt MSBA approved policy #SBR 300-90-2 Finance: Uniform Grant Guidance Policy Regarding Federal Revenue Sources.

Official Responsible for Ensuring CAP Implementation

Chris Leinen, Director of Business Services

Planned Completion of CAP

December 19, 2016

Plan to Monitor Completion of CAP

Board Action on Second Reading of policy

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Finding 2016-002 – Indian Education – Grants to Local Educational Agencies, CFDA 84.060 – Inadequate allocation of allowable costs.

Condition

The District did not originally calculate and allocate allowable costs correctly to Indian Education – Grants to Local Educational Agencies federal award program (CFDA 84.060). Once discovered by the auditor an adjustment was proposed by the District to eliminate the unallowed costs and correcting the coding resulting in no known questioned costs.

Criteria

In accordance with U.S. Department of Education Section 7115(a), each local educational agency that receives a grant under this subpart shall use the grant funds, in a manner consistent with the purpose specified in section 7111, for services and activities that (1) are designed to carry out the comprehensive program of the local educational agency for Indian students, and described in the application of the local educational agency submitted to the Secretary under section 7114(a); (2) are designed with special regard for the language and cultural needs of the Indian students; and (3) supplement and enrich the regular school program of such agency.

Effect

The impact on the financial statements is that the potential exists that a misstatement could exist in the financial statements.

Cause

The District does not have adequate internal controls over allowable costs for this program to prevent, detect and correct unallowable costs from being coded to the federal program.

Recommendation

We recommend that the District implements an internal control structure that ensures that only allowable costs are coded to each federal program.

Management’s Response – Corrective Action Plan

Explanation of Disagreement with Audit Finding

District agrees with finding.

Actions Planned in Response to Finding

District will adopt MSBA approved policy #SBR 300-90-2 Finance: Uniform Grant Guidance Policy Regarding Federal Revenue Sources.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Official Responsible for Ensuring CAP Implementation

Chris Leinen, Director of Business Services

Planned Completion of CAP

December 19, 2016

Plan to Monitor Completion of CAP

Follow policy once adopted.

Finding 2016-003 – Special Education Cluster, CFDA 84.027 and 84.173 – Inadequate documentation of procurement.

Condition

The District did not demonstrate the implementation of procedures in place to ensure the procurement paid with Special Education funds are (1) an eligible cost based on the needs of students with disabilities as identified in the students' IEP, or (2) was an eligible cost of Special Education based on the needs of students with disabilities.

Criteria

Based on the requirements of the Special Education cluster funding the District is required to ensure that procurement for special education was based on the needs of students with disabilities and represented an additional cost of providing services to eligible students.

Effect

Ineligible or unallowed costs could be made using Federal Special Education dollars.

Cause

The District's general accounting policies and procedures do not provide specific controls related to Special Education procurement.

Recommendation

The District should prepare and have approved by the school board, written policies and procedures related to procurement of Special Education supplies and materials.

INDEPENDENT SCHOOL DISTRICT NO. 31
BEMIDJI, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Management's Response – Corrective Action Plan

Explanation of Disagreement with Audit Finding

District agrees with finding.

Actions Planned in Response to Finding

District will adopt MSBA approved policy #SBR 300-90-2 Finance: Uniform Grant Guidance Policy Regarding Federal Revenue Sources.

Official Responsible for Ensuring CAP Implementation

Chris Leinen, Director of Business Services

Planned Completion of CAP

December 19, 2016

Plan to Monitor Completion of CAP

Follow policy once adopted.

Finding 2016-004 – Special Education Cluster, CFDA 84.027 and 84.173 – Cost incurred before Period of Performance.

Condition

During the testing of non-payroll disbursement testing, one transaction was discovered where the costs were incurred prior to the period of performance.

Criteria

Based on the requirements of 2 CFR part 200 Cost Principles for States, Local Governments and Indian Tribes; for federal awards with performance period beginning dates during the audit period, costs recorded during the beginning of the period of performance must not be incurred prior to the start of the period of performance unless authorized by the Federal awarding agency or the pass-through entity.

Effect

Costs were reimbursed for equipment when the costs were incurred prior to the period of performance.

INDEPENDENT SCHOOL DISTRICT NO. 31
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Cause

District personnel submitted an order for technology equipment budgeted for the 2015-2016 grant period prior to the beginning of the period of performance for the grant year.

Recommendation

The District should prepare and have approved by the school board, written policies and procedures related to procurement of Special Education supplies and materials.

Management's Response – Corrective Action Plan**Explanation of Disagreement with Audit Finding**

District Agrees with Finding.

Actions Planned in Response to Finding

District will adopt MSBA approved policy #SBR 300-90-2 Finance: Uniform Grant Guidance Policy Regarding Federal Revenue Sources.

Official Responsible for Ensuring CAP Implementation

Chris Leinen, Director of Business Services

Planned Completion of CAP

December 19, 2016

Plan to Monitor Completion of CAP

Follow policy once adopted.

COMPLIANCE

None

QUESTIONED COSTS

None