

**Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota**

Financial Statements

June 30, 2016



Independent School District No. 877
Table of Contents

Board of Education and Administration	1
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	22
Statement of Activities	23
Fund Financial Statements	
Balance Sheet – Governmental Funds	24
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	27
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	28
Statement of Fiduciary Net Position	29
Statement of Changes in Fiduciary Net Position	29
Notes to Financial Statements	31
Required Supplementary Information	
Schedule of Funding Progress – Other Post Employment Benefits	70
Schedule of Employer Contributions – Other Post Employment Benefits	70
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability GERS Retirement Funds	71
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability TRA Retirement Funds	71
Schedule of District Contributions GERS Retirement Funds	72
Schedule of District Contributions TRA Retirement Funds	72
Notes to the Required Supplementary Information	73
Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual Detail – General Fund	76
Combining Balance Sheet – Nonmajor Governmental Funds	79
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	80
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Food Service Fund	81

Independent School District No. 877
Table of Contents

Supplementary Information (Continued)

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Community Service Fund	82
Combining Statement of Fiduciary Net Position	83
Combining Statement of Changes in Fiduciary Net Position	83
Schedule of Expenditures of Federal Awards	84
Notes to the Schedule of Expenditures of Federal Awards	85

Other District Information

Deferred Tax Levies	88
Property Tax Levies, Rates, and Valuations	89

**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***

91

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

93

**Schedule of Findings and Questioned Costs in Accordance
with the Uniform Guidance**

95

Report on Legal Compliance

97

**Uniform Financial Accounting and Reporting Standards
Compliance Table**

98

**Independent School District No. 877
Board of Education and Administration
June 30, 2016**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Dave Wilson	Chairperson	December 31, 2019
Sue Lee	Vice Chairperson	December 31, 2019
Laurie Raymond	Clerk	December 31, 2019
Melissa Brings	Treasurer	December 31, 2019
Jeff Trout	Director	December 31, 2017
Stan Vander Kooi	Director	December 31, 2017
Ken Ogden	Director	December 31, 2017
<u>Administration</u>		
Scott Thielman	Superintendent	
Gary Kawlewski	Director of Finance and Operations	
Miranda Kramer	Controller	



Independent Auditor's Report

BerganKDV, Ltd.

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

Cedar Falls
602 Main Street
Suite 100
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Cedar Falls, IA
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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. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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2720 1st Avenue NE
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Cedar Rapids, IA
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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.

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2530 Corridor Way
Suite 301
P.O. Box 5267
Coralville, IA
52241-0267
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F 319.248.0582

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.

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Bloomington, MN
55431-4420
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F 952.563.6801

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

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



Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of June 30, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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



Other Matters

Other Information

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

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2015, from which such partial information was derived.

We have previously audited the District's 2015 financial statements and our report, dated October 12, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

St. Cloud, Minnesota
October 14, 2016

Independent School District No. 877 Management's Discussion and Analysis

This section of Independent School District No. 877's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015-2016 fiscal year include the following:

- The District's total combined net position increased over 44% over the course of the year and was a negative \$1.6 million at June 30, 2016.
- During the year, the District's expenses were \$74.6 million and its revenues were \$75.8 million. Revenues increased by \$4.1 million from the prior year.
- The General Fund reported an unassigned fund balance this year of \$9.7 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

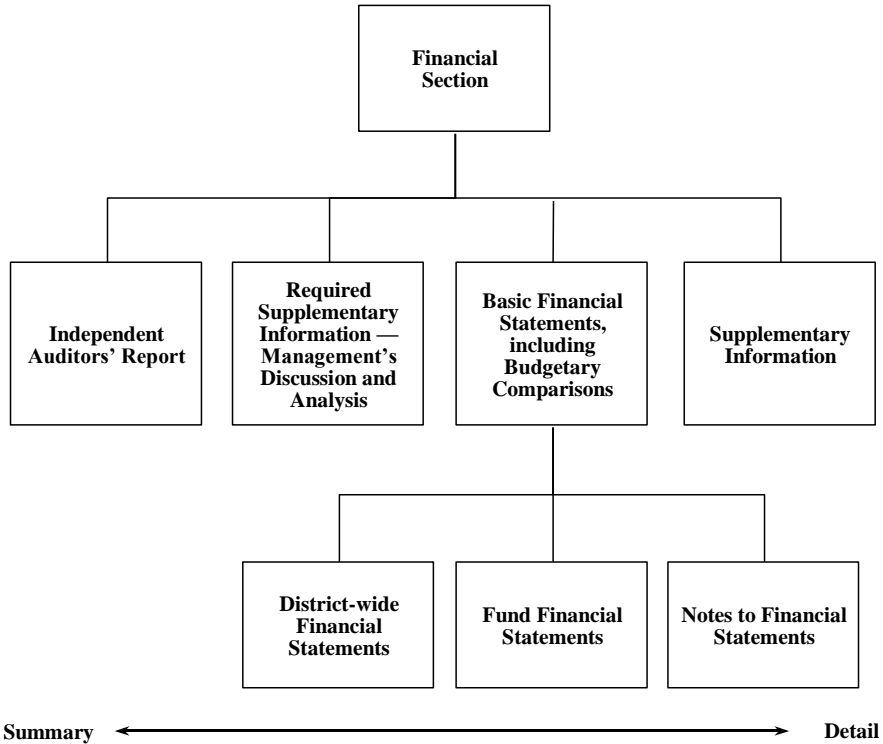
- The first two statements are the district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's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

**Independent School District No. 877
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain in more detail information in the basic financial statements. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Figure A-1
Annual Financial Report**



**Independent School District No. 877
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-2 Major Features of the District-Wide and Fund Financial Statements			
	District-Wide Statements	Fund Financial Statements - Governmental	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary, such as special education, building maintenance, food service and community education	Instances in which the District is the trustee or agent for someone else's resources
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 Balance 	<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 resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the 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 revenues and expenses during the year, regardless of when cash is received or paid

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 or resources, liabilities and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. The term "net position" is defined as the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources and is one way to measure the District's financial health or position.

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

Independent School District No. 877 Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

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

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

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

Fund Financial Statements

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

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

The District has one type of fund:

- **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view to determine whether the District's working capital will be sufficient to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the governmental funds statements and the district-wide statements, which do present a long-term focus.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's consolidated net position increased 44.53% and was a negative \$1,560,266 on June 30, 2016 (See Table A-1). The District's total assets and deferred outflows decreased 0.24%. Total liabilities and deferred inflows decreased 1.07% due changes in the district's pension inflows. In addition, accounts payable went up due to the construction in progress as of June 30, 2016 from the new bond issue.

**Independent School District No. 877
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position

The net investment in capital assets increased as the debt is being paid off at a faster rate than the assets are being depreciated. It also includes the recognition of the additions to several buildings and facilities.

Table A-1 The District's Net Position			
	Governmental Activities		Percentage Change
	2016	2015	
ASSETS:			
Current and Other Assets	\$ 55,573,706	\$ 65,553,860	-15.22%
Capital and Non-Current Assets	83,778,554	75,931,566	10.33%
Total Assets	139,352,260	141,485,426	-1.51%
Deferred Outflows	7,730,702	5,952,814	29.87%
 Total Assets and Deferred Outflows of Resources	 \$ 147,082,962	 \$ 147,438,240	 -0.24%
LIABILITIES:			
Current Liabilities	\$ 11,980,193	\$ 9,811,348	22.11%
Long-Term Liabilities	118,951,518	117,522,650	1.22%
Total Liabilities	130,931,711	127,333,998	2.83%
Deferred Inflows of Resources	17,711,517	22,916,877	-22.71%
 Total Liabilities and Deferred Inflows of Resources	 \$ 148,643,228	 \$ 150,250,875	 -1.07%
NET POSITION:			
Net Investment in Capital Assets	\$ 23,633,283	\$ 22,073,974	7.06%
Restricted	1,665,310	1,416,741	17.55%
Unrestricted	(26,858,859)	(26,303,350)	2.11%
 Total Net Position	 \$ (1,560,266)	 \$ (2,812,635)	 -44.53%

Change in Net Position

The net change in assets for 2015-2016 was a positive \$1,252,369 based on total revenues of \$75.8 million and total expenses of \$74.6 million. Table A-2 on the following page shows the breakdown into the various revenue and expense categories.

**Independent School District No. 877
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Table A-2
Change in Net Position**

	Governmental Activities		Percentage Change
	2016	2015	
REVENUES:			
Program Revenues:			
Charges for Services	\$ 5,288,313	\$ 5,111,209	3.47%
Operating Grants and Contributions	11,953,139	12,250,014	-2.42%
Capital Grants and Contributions	1,471,010	1,387,364	6.03%
General Revenues:			
Property Taxes	13,881,083	12,365,031	12.26%
Unrestricted State Aid	41,813,584	39,363,284	6.22%
Investment Earnings	177,015	78,047	126.81%
Other	1,122,986	1,179,016	-4.75%
Gain on Sale of Capital Assets	105,637	-	0.00%
Total Revenues	<u>75,812,767</u>	<u>71,733,965</u>	5.69%
EXPENSES:			
Administration	1,695,613	1,660,620	2.11%
District Support Services	1,566,852	1,512,640	3.58%
Regular Instruction	32,641,992	31,607,529	3.27%
Vocational Education Instruction	1,651,966	1,948,982	-15.24%
Special Education Instruction	10,636,136	10,321,018	3.05%
Instructional Support Services	4,432,917	3,041,008	45.77%
Pupil Support Services	5,903,571	5,537,196	6.62%
Sites and Buildings	6,490,480	6,028,234	7.67%
Fiscal and Other Fixed Cost Programs	212,044	208,068	1.91%
Food Service	2,899,972	2,927,688	-0.95%
Community Service	3,840,649	3,731,696	2.92%
Interest and Fiscal Charges on Long-term Liabilities	2,588,206	2,216,836	16.75%
Total Expenses	<u>74,560,398</u>	<u>70,741,515</u>	5.40%
CHANGE IN NET POSITION:			
Change in Accounting Principle	-	(37,553,765)	-100.00%
Beginning Net Position	<u>(2,812,635)</u>	<u>33,748,680</u>	-108.33%
Ending Net Position	<u>\$ (1,560,266)</u>	<u>\$ (2,812,635)</u>	-44.53%

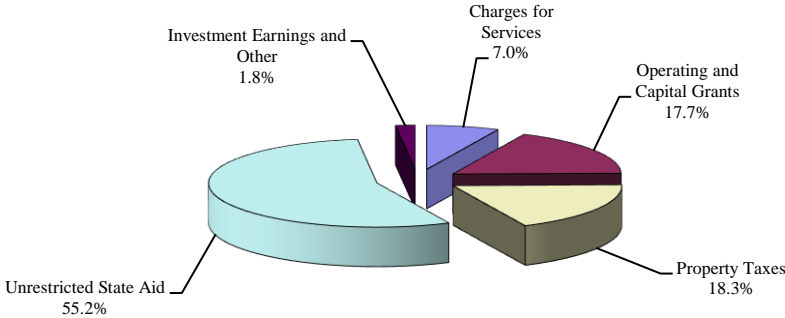
**Independent School District No. 877
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

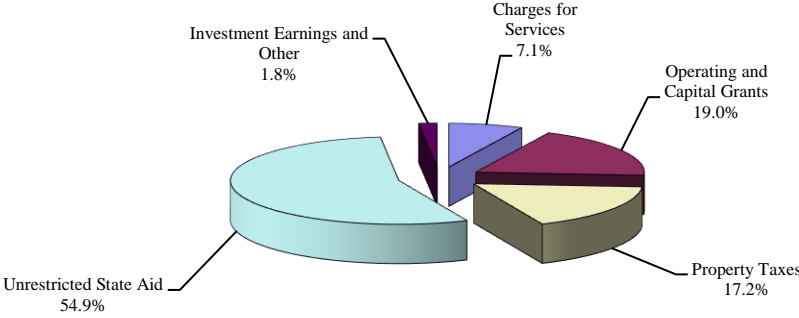
Revenues

The District's total revenues were approximately \$75.8 million for the year ended June 30, 2016. Property taxes and state formula aid accounted for 73.5% of total revenue for the year (See Figure A-3). Another 1.8% came from other general revenues combined with investment earnings, and the remaining 24.7% from program revenues.

**Figure A-3
Sources of District's Revenues for Fiscal 2016**



**Figure A-3
Sources of District's Revenues for Fiscal 2015**



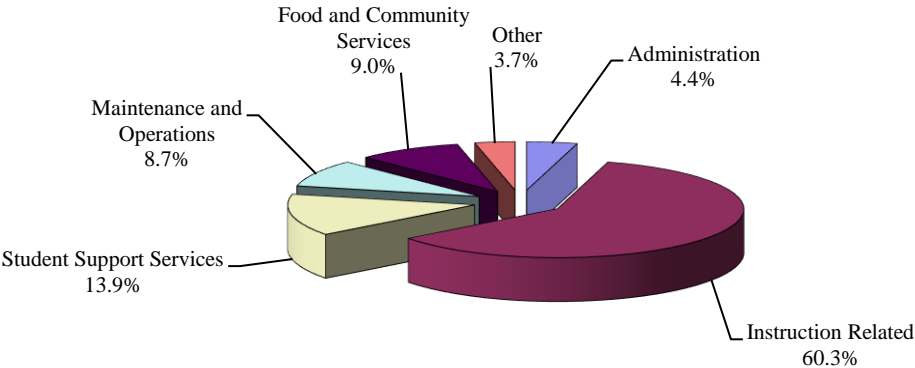
**Independent School District No. 877
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

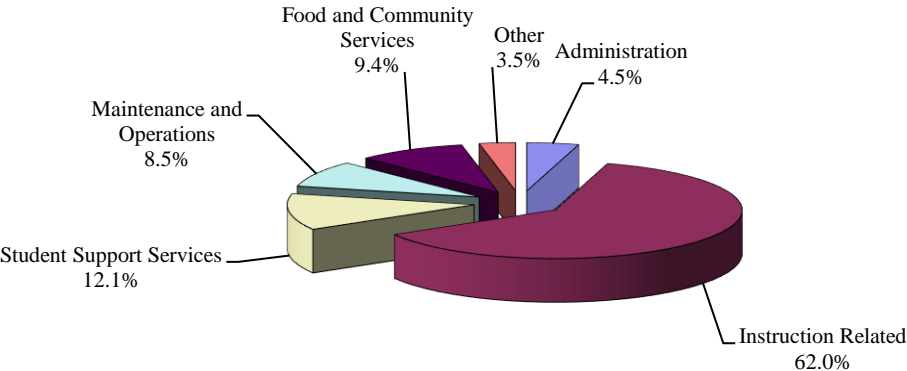
Expenses

The total cost of all programs and services increased 5.4% to \$74.6 million. The District's expenses are predominantly related to educating, caring for, and transporting students. The administrative expenses of the District accounted for 4.4% of total costs for 2015-16 and for 4.5% of total costs for 2014-15 (see Figure A-4).

**Figure A-4
District Expenses for Fiscal 2016**



**Figure A-4
District Expenses for Fiscal 2015**



**Independent School District No. 877
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Governmental Activities

Typically, the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds of food service and community education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 75% of those resources are spent on instruction and support services associated with instruction.

Table A-3 presents the cost of 12 major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

Some of the cost was paid by the users of the District's program revenue of \$5,288,313. The federal and state governments subsidized certain programs with grants and contributions (\$11,953,139 for operating purposes and \$1,471,010 for capital purposes). District taxpayers and the taxpayers of the State of Minnesota, however, paid for most of the District's costs with general revenue of \$57,100,305. Of that remaining amount, a major portion of governmental activities was paid for with \$13,881,083 in property taxes, \$41,813,584 of state aid based on the state-wide education aid formula, and \$1,405,638 with investment earnings and other general revenues.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2016	2015		2016	2015	
Administration	\$ 1,695,613	\$ 1,660,620	2.11%	\$ 1,695,613	\$ 1,660,620	2.11%
District Support Services	1,566,852	1,512,640	3.58%	1,549,719	1,502,529	3.14%
Regular Instruction	32,641,992	31,607,529	3.27%	28,326,290	27,141,926	4.36%
Vocational Education						
Instruction	1,651,966	1,948,982	-15.24%	1,577,437	1,888,463	-16.47%
Special Education						
Instruction	10,636,136	10,321,018	3.05%	3,808,617	3,157,362	20.63%
Instructional Support						
Services	4,432,917	3,041,008	45.77%	4,432,570	3,041,095	45.76%
Pupil Support Services	5,903,571	5,537,196	6.62%	5,653,883	5,300,940	6.66%
Sites and Buildings	6,490,480	6,028,234	7.67%	5,434,297	5,067,131	7.25%
Fiscal and Other Fixed						
Cost Programs	212,044	208,068	1.91%	206,590	198,521	4.06%
Food Service	2,899,972	2,927,688	-0.95%	(171,402)	43,597	-493.15%
Community Service	3,840,649	3,731,696	2.92%	746,116	773,908	-3.59%
Interest and Fiscal Charges						
on Long-term Liabilities	2,588,206	2,216,836	16.75%	2,588,206	2,216,836	16.75%
Total	\$ 74,560,398	\$ 70,741,515	5.40%	\$ 55,847,936	\$ 51,992,928	7.41%

**Independent School District No. 877
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$37,040,149. Of this amount, \$20,905,944 is restricted to cover building project costs, future debt obligations, and other purposes.

Revenues for the District's governmental funds were \$75,734,735 while total expenditures were \$88,015,486. After factoring in Other Financing Sources and Uses, the District completed the year with a net change in fund balance of a negative \$12,175,114, the most significant factor in leading to the increase was the constructions costs as a result of the recent passage of a bond issue for betterment of facilities.

GENERAL FUND

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

The following schedule presents a summary of General Fund revenues.

Table A-4 General Fund Revenues				
	Year Ended		Change	
	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent
Property Taxes	\$ 5,655,260	\$ 5,181,369	\$ 473,891	9.15%
Other Local and County Revenues	2,027,453	2,057,468	(30,015)	-1.46%
State Sources	51,640,876	49,575,915	2,064,961	4.17%
Federal Sources	1,552,551	1,582,206	(29,655)	-1.87%
Sales and Other Conversion of Assets	42,548	46,451	(3,903)	-8.40%
Total Revenue	\$ 60,918,688	\$ 58,443,409	\$ 2,475,279	4.24%

Total General Fund revenue increased from the previous year by \$2,475,279, or 4.24%. Property taxes revenue increased \$473,891 from the 2014-2015 year due to the implementation of the Program for Professional Development. Revenue from state sources increased \$2,064,961 due to an increase in the State's General Education Revenue formula allowance, an increase in special education aid, the Program for Professional Development aid, and recognition of the district's proportionate share of the Teachers' Retirement Association pension liability. The revenue from Other Local and County sources increased due to interest earnings.

**Independent School District No. 877
Management's Discussion and Analysis**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund expenditures.

Table A-5 General Fund Expenditures				
	Year Ended		Change	
	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent
Salaries	\$ 34,789,462	\$ 32,756,712	\$ 2,032,750	6.21%
Employee Benefits	12,899,435	11,946,916	952,519	7.97%
Purchased Services	8,914,333	8,755,467	158,867	1.81%
Supplies and Materials	1,994,219	2,085,111	(90,891)	-4.36%
Capital Expenditures	1,692,183	1,460,239	231,945	15.88%
Other Expenditures	389,552	336,565	52,987	15.74%
Total Expenditures	\$ 60,679,186	\$ 57,341,009	\$ 3,338,177	5.82%

Total General Fund expenditures increased \$3,338,177 or 5.82%, from the previous year primarily due to the PPD program, recognition of the district's proportionate share of the Teachers' Retirement Association pension liability, transportation cost increases, and contract settlements.

In the 2015-2016 school year, General Fund revenues and other sources exceeded expenditures by \$345,139. As a result, the total fund balance at June 30, 2016 increased to \$16,956,734 of which \$6,954,854 is restricted, committed, or assigned. The unassigned fund balance decreased from the prior year, ending at a balance of \$9,739,003 at June 30, 2016, or 16.0% of expenditures with the non-spendable fund balance of \$262,877 included. The District closely monitors its fund balance.

GENERAL BUDGETARY HIGHLIGHTS

The District revises its annual budget once each year. The budget amendment caused the changes shown between the original budget amount and the final budget amount which primarily fall into the following two categories:

- Change in salaries from projected amounts due to staffing for enrollment and special education needs and contract settlements.
- Changes in revenue entitlements from state aid proration and enrollment changes in weighted average daily membership (WADM).
- Changes in revenue from the Program for Professional Development

Independent School District No. 877 Management's Discussion and Analysis

GENERAL BUDGETARY HIGHLIGHTS (CONTINUED)

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues and other sources by about \$1,558,472, the actual results for the year show a \$345,139 surplus of revenue and other financing sources over expenditures. Revenues were over the District's final budget by 2.06% whereas expenditures were under budget by 1.13%.

- Actual revenues were higher than expected by \$1,232,404 and due primarily to an increase in general education revenue, special education aid, recognition of the district's proportionate share of the Teachers' Retirement Association pension liability and revenue from local sources.

- Actual expenditures were under budget by \$692,121 or (1.13%). The district had lower than anticipated expenditures for salaries due to lower substitute costs than projected and non-certified staff costs being less than projected. Employee benefits were over budget due to the recognition of the expenditure side of the TRA liability of \$674,000. However, the remainder of benefits were under budget. This was due to a work comp premium rebate at the end of the year, lower than expected costs in health insurance, and other benefits being under budget due to the fact that they are calculated as a percentage of salary. Operations and maintenance costs for non-salary and benefit areas were under budget by more than \$190,000 due in part to a milder winter this year. Tuition costs were \$213,500 less than projected. Special and special education transportation were over budget by \$304,000. Supplies and materials were under spent due in part to curriculum cycle purchased being deferred a year. We also continue to utilize a conservative benefits budget model. We were also able to avoid using other general fund contingency amounts.

CAPITAL PROJECTS AND DEBT SERVICE FUNDS

The Building Construction fund recorded the revenues and expenditures from the bond issue passed on November 4, 2014. The project started in 2014-2015 and is scheduled to be completed in 2019-2020. Revenues represent the proceeds from donations and interest earned during the year and totaled \$154,563. Expenditures for work completed as of the end of the year totaled \$12,899,547. The total Building Construction fund balance was \$18,338,175 on June 30, 2016.

The Debt Service Fund balance for Funds 07 increased \$124,032 and is \$1,567,390 in total as of June 30, 2016. This remaining balance is restricted to meet future debt obligations of the district.

OTHER NONMAJOR FUNDS

The Food Service Fund revenues exceeded expenditures for the year by \$231,838. The food service department had greater ala carte meals served and revenue from the summer food service program along with decreased costs from labor and supplies. The District received slightly higher federal reimbursement rates for meals served and was up in total federal reimbursement from the prior year.

**Independent School District No. 877
Management's Discussion and Analysis**

OTHER NONMAJOR FUNDS (CONTINUED)

The Community Service Fund expenditures exceeded revenues and other financing sources by \$136,156 and decreased its fund balance to a negative \$192,065 as of June 30, 2016.

The Post Employment Debt Service Fund revenues exceeded expenditures by \$5,017 and increased its fund balance to \$112,517 at June 30, 2016. The balance will be used for future debt service obligations.

FIDUCIARY FUNDS

The District created a sunset clause in certain contracts for retiree insurance contributions. Individuals hired after the sunset date are no longer eligible for the grandfathered post-retirement insurance benefits. The new provisions require the district to make ongoing contributions to the new employee's HRA account held in an outside irrevocable trust. Each contract has a contribution limit for the individual employee. The value of the irrevocable trust was \$1,048,400 as of June 30, 2016.

During the 2009-2010 school year, the District issued \$10.845 million in OPEB Bonds and at the same time, created an irrevocable trust to fund the District's post-employment benefits. The District started to use the Trust in the 2012-2013 year to cover post-employment obligations. The amount held in trust for OPEB as of June 30, 2016 was \$13,264,254 and decreased in value by \$349,569.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the District had invested approximately \$134 million in a broad range of capital assets, including school buildings, athletic facilities, computer, and audio-visual equipment and administrative offices, (see Table A-6). This amount represents a net increase of \$12,419,213 or 10.18%, from last year. Total depreciation expense for the year was approximately \$3.7 million. More detailed information about capital assets can be found in Note 3 to the financial statements.

**Independent School District No. 877
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Table A-6 The District's Capital Assets			
	2016	2015	Percentage Change
Land	\$ 4,222,035	\$ 4,224,158	-0.05%
Construction in Progress	11,343,855	1,222,028	828.28%
Land Improvements	3,315,901	3,155,472	5.08%
Buildings and Improvements	108,589,230	106,947,914	1.53%
Equipment and Transportation Vehicles	6,928,717	6,430,953	7.74%
Total Historical Cost	134,399,738	121,980,525	10.18%
Less Accumulated Depreciation	(56,806,379)	(53,154,255)	6.87%
Total	\$ 77,593,359	\$ 68,826,270	12.74%

Construction – Next Five Years

The District voted on a \$33 million bond issue in the fall of 2014 which was successfully passed. Construction from the project occurred starting with the 2014-2015 fiscal year and is scheduled to be completed in 2019-2020.

Long-Term Debt

At year-end, the District had \$82,974,025 in general obligation (G.O.) bonds and capital leases, a decrease of 6.25% from last year as shown in Table A-7. The District also had \$1,578,829 in future post-employment severance benefits payable at June 30, 2016. The School Board has committed \$4,165,436 for payment of future post-employment severance and health benefits. More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

**Independent School District No. 877
Management's Discussion and Analysis**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Table A-7 The District's Long-Term Liabilities			
	2016	2015	Percentage Change
G.O. Bonds	\$ 78,265,000	\$ 83,075,000	-5.79%
Net Bond Premium and Discount	3,291,304	3,673,355	-10.40%
Net G.O. Bonds	81,556,304	86,748,355	-5.99%
Obligations Under Capital Leases	1,417,721	1,754,531	-19.20%
Net G.O. Bonds and Capital Leases	82,974,025	88,502,886	-6.25%
Severance Payable	1,370,684	1,355,273	1.14%
Compensated Absences Payable	208,145	175,860	18.36%
Total	\$ 84,552,854	\$ 90,034,019	-6.09%

Bond Ratings

The District's G.O. bonds carry an MSDE enhanced rating of Aa2 according to the most recent Moody's Investor Service Rating.

Limitations on Debt

The state limits the amount of G.O. debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. The District's outstanding debt is significantly below this limit.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved and recently added board authorized operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have been temporarily sufficient to meet instructional program needs and increased costs due to inflation.

During the 2015 State Legislative session, the basic general education formula was increased by \$117 for 2015-16 and \$119 per pupil unit for 2016-17. The Legislature approved long-term facilities maintenance revenue for fiscal year 2017 and beyond. This program replaces the current health and safety and deferred maintenance programs and provides additional funding for deferred maintenance projections. Even though the additional funding will help create some a temporary level of funding stability, the District will need to continue its conservative budgeting practices.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 877, 214 1st Avenue NE, Buffalo, Minnesota 55313.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 877
Statement of Net Position
June 30, 2016
(with Comparative Totals as of June 30, 2015)

	Governmental Activities	
	2016	2015
Assets		
Cash and investments	\$ 41,165,485	\$ 52,836,130
Current property taxes receivable	6,737,336	6,586,201
Delinquent property taxes receivable	167,535	195,140
Accounts receivable	226,824	188,475
Interest receivable	34,402	21,574
Due from department of education	6,029,102	4,597,226
Due from Federal Government through Department of Education	748,606	627,343
Due from other Minnesota school districts	55,553	27,169
Due from other governmental units	41,083	32,859
Inventory	194,269	162,420
Prepaid items	173,511	279,323
Equity interest in joint venture	546,144	546,144
Net OPEB asset	5,639,051	6,559,152
Capital assets not being depreciated		
Land	4,222,035	4,224,158
Construction in progress	11,343,855	1,222,028
Capital assets, net of accumulated depreciation		
Land improvements	857,726	760,300
Buildings	58,983,309	60,557,896
Machinery and equipment	2,186,434	2,061,888
	<u>139,352,260</u>	<u>141,485,426</u>
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	7,730,702	5,952,814
	<u>\$ 147,082,962</u>	<u>\$ 147,438,240</u>
Liabilities		
Accounts payable	\$ 2,965,091	\$ 1,858,775
Salaries and benefits payable	1,732,734	815,888
Interest payable	1,163,288	1,223,601
Due to other Minnesota school districts	361,978	300,962
Due to other governmental units	204,804	149,418
Unearned revenue	115,215	94,012
Bond payable, net		
Payable within one year	4,970,000	4,810,000
Payable after one year	76,586,304	81,938,355
Capital lease payable		
Payable within one year	214,130	336,784
Payable after one year	1,203,591	1,417,747
Compensated absences payable		
Payable within one year	208,145	175,860
Severance payable		
Payable within one year	44,808	46,048
Payable after one year	1,325,876	1,309,225
Net pension liability	39,835,747	32,857,323
	<u>130,931,711</u>	<u>127,333,998</u>
Deferred Inflows of Resources		
Property taxes levied for subsequent year's expenditures	12,941,392	12,924,402
Deferred inflows of resources related to pensions	4,770,125	9,992,475
	<u>17,711,517</u>	<u>22,916,877</u>
Net Position		
Net investment in capital assets	23,633,283	22,073,974
Restricted for		
Debt service	813,056	636,214
Other purposes	852,254	780,527
Unrestricted	(26,858,859)	(26,303,350)
	<u>(1,560,266)</u>	<u>(2,812,635)</u>
	<u>139,352,260</u>	<u>141,485,426</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 147,082,962</u>	<u>\$ 147,438,240</u>

Independent School District No. 877
Statement of Activities
For the Year Ended June 30, 2016
(with Comparative Totals for the Year Ended June 30, 2015)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	
					2016	2015
Governmental activities						
Administration	\$ 1,695,613	\$ -	\$ -	\$ -	\$ (1,695,613)	\$ (1,660,620)
District support services	1,566,852	17,133	-	-	(1,549,719)	(1,502,529)
Elementary and secondary regular instruction	32,641,992	737,931	3,116,317	461,454	(28,326,290)	(27,141,926)
Vocational education instruction	1,651,966	-	74,529	-	(1,577,437)	(1,888,463)
Special education instruction	10,636,136	68,107	6,759,412	-	(3,808,617)	(3,157,362)
Instructional support services	4,432,917	347	-	-	(4,432,570)	(3,041,095)
Pupil support services	5,903,571	98,400	151,288	-	(5,653,883)	(5,300,940)
Sites and buildings	6,490,480	46,627	-	1,009,556	(5,434,297)	(5,067,131)
Fiscal and other fixed cost programs	212,044	5,454	-	-	(206,590)	(198,521)
Food service	2,899,972	1,683,217	1,388,157	-	171,402	(43,597)
Community education and services	3,840,649	2,631,097	463,436	-	(746,116)	(773,908)
Interest and fiscal charges on long-term debt	2,588,206	-	-	-	(2,588,206)	(2,216,836)
Total governmental activities	<u>\$ 74,560,398</u>	<u>\$ 5,288,313</u>	<u>\$ 11,953,139</u>	<u>\$ 1,471,010</u>	(55,847,936)	(51,992,928)
General revenues						
Taxes						
					5,641,685	5,156,394
					440,919	477,990
					7,798,479	6,730,647
					41,813,584	39,363,284
					1,122,986	1,179,016
					177,015	78,047
					105,637	-
					<u>57,100,305</u>	<u>52,985,378</u>
					1,252,369	992,450
					<u>(2,812,635)</u>	<u>(3,805,085)</u>
					<u>\$ (1,560,266)</u>	<u>\$ (2,812,635)</u>

Independent School District No. 877
Balance Sheet - Governmental Funds
June 30, 2016
(with Comparative Totals as of June 30, 2015)

	General	Debt Service	Building Construction	Other Nonmajor Funds	Total Governmental Funds	
					2016	2015
Assets						
Cash and investments	\$ 15,040,369	\$ 4,540,624	\$ 20,391,104	\$ 1,193,388	\$ 41,165,485	\$ 52,836,130
Current property taxes receivable	3,054,198	2,828,400	-	854,738	6,737,336	6,586,201
Delinquent property taxes receivable	67,945	86,492	-	13,098	167,535	195,140
Accounts receivable	208,583	-	2,188	16,053	226,824	188,475
Interest receivable	34,402	-	-	-	34,402	21,574
Due from Department of Education	5,974,785	6,124	-	48,193	6,029,102	4,597,226
Due from Federal Government through Department of Education	698,227	-	-	50,379	748,606	627,343
Due from other Minnesota school districts	31,347	-	-	24,206	55,553	27,169
Due from other governmental units	32,362	-	-	8,721	41,083	32,859
Due from other funds	-	-	-	-	-	12,263
Inventory	96,938	-	-	97,331	194,269	162,420
Prepaid items	165,939	-	-	7,572	173,511	279,323
Total assets	\$ 25,405,095	\$ 7,461,640	\$ 20,393,292	\$ 2,313,679	\$ 55,573,706	\$ 65,566,123
Liabilities						
Accounts payable	\$ 854,888	\$ -	\$ 2,049,444	\$ 60,759	\$ 2,965,091	\$ 1,858,775
Salaries and benefits payable	1,538,639	-	26	194,069	1,732,734	815,888
Due to other Minnesota School Districts	361,978	-	-	-	361,978	300,962
Due to other governmental units	198,797	-	5,647	360	204,804	149,418
Due to other funds	-	-	-	-	-	12,263
Unearned revenue	2,764	-	-	112,451	115,215	94,012
Severance payable	44,808	-	-	-	44,808	-
Total liabilities	3,001,874	-	2,055,117	367,639	5,424,630	3,231,318
Deferred Inflows of Resources						
Unavailable revenue - property taxes levied for subsequent year's expenditures	5,378,542	5,807,758	-	1,755,092	12,941,392	12,924,402
Unavailable revenue - delinquent property taxes	67,945	86,492	-	13,098	167,535	195,140
Total deferred inflows of resources	5,446,487	5,894,250	-	1,768,190	13,108,927	13,119,542
Fund Balances						
Nonspendable	262,877	-	-	104,903	367,780	441,743
Restricted	715,582	1,567,390	18,338,175	284,797	20,905,944	33,250,617
Committed	4,165,436	-	-	-	4,165,436	4,062,933
Assigned	2,073,836	-	-	-	2,073,836	1,608,202
Unassigned	9,739,003	-	-	(211,850)	9,527,153	9,851,768
Total fund balances	16,956,734	1,567,390	18,338,175	177,850	37,040,149	49,215,263
Total liabilities, deferred inflows of resources, and fund balances	\$ 25,405,095	\$ 7,461,640	\$ 20,393,292	\$ 2,313,679	\$ 55,573,706	\$ 65,566,123

Independent School District No. 877
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2016
(with Comparative Totals as of June 30, 2015)

	2016	2015
Total fund balances - governmental funds	\$ 37,040,149	\$ 49,215,263
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of capital assets	134,399,738	121,980,525
Less accumulated depreciation	(56,806,379)	(53,154,255)
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.		
Equity interest in joint venture - Wright Technical Center	546,144	546,144
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year-end consist of:		
Bond principal payable	(78,265,000)	(83,075,000)
Net premium on bonds payable	(3,291,304)	(3,673,355)
Capital lease payable	(1,417,721)	(1,754,531)
Compensated absences payable	(208,145)	(175,860)
Severance payable	(1,325,876)	(1,355,273)
Net pension liability	(39,835,747)	(32,857,323)
Net OPEB asset created through treatment of general obligation (G.O.) taxable OPEB bonds as employer contribution to defined benefit OPEB plan is not recognized in the governmental funds.		
	5,639,051	6,559,152
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.		
Deferred outflows of resources related to pensions	7,730,702	5,952,814
Deferred inflows of resources related to pensions	(4,770,125)	(9,992,475)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		
	167,535	195,140
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.		
	(1,163,288)	(1,223,601)
Total net position - governmental activities	\$ (1,560,266)	\$ (2,812,635)

Independent School District No. 877
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016
(with Comparative Totals for the Year Ended June 30, 2015)

	General	Debt Service	Building Construction	Other Nonmajor Funds	Total Governmental Funds	
					2016	2015
Revenues						
Local property taxes	\$ 5,655,260	\$ 7,316,312	\$ -	\$ 937,116	\$ 13,908,688	\$ 12,422,389
Other local and county revenues	2,027,453	10,923	154,563	2,751,360	4,944,299	4,752,008
Revenue from state sources	51,640,876	61,246	-	688,046	52,390,168	50,201,161
Revenue from federal sources	1,552,551	-	-	1,213,264	2,765,815	2,692,604
Sales and other conversion of assets	42,548	-	-	1,683,217	1,725,765	1,645,268
Total revenues	<u>60,918,688</u>	<u>7,388,481</u>	<u>154,563</u>	<u>7,273,003</u>	<u>75,734,735</u>	<u>71,713,430</u>
Expenditures						
Current						
Administration	1,677,870	-	-	-	1,677,870	1,636,157
District support services	1,545,548	-	-	-	1,545,548	1,447,066
Elementary and secondary regular instruction	28,610,826	-	-	-	28,610,826	27,801,723
Vocational education instruction	1,639,553	-	-	-	1,639,553	1,498,246
Special education instruction	10,428,569	-	-	-	10,428,569	10,213,745
Instructional support services	4,365,159	-	-	-	4,365,159	2,944,550
Pupil support services	5,896,947	-	-	-	5,896,947	5,504,596
Sites and buildings	4,610,486	-	1,255,195	-	5,865,681	5,318,278
Fiscal and other fixed cost programs	212,044	-	-	-	212,044	208,068
Food service	-	-	-	2,841,565	2,841,565	2,852,980
Community education and services	-	-	-	3,823,465	3,823,465	3,736,631
Capital outlay						
Administration	1,398	-	-	-	1,398	2,020
District support services	3,042	-	-	-	3,042	1,607
Elementary and secondary regular instruction	250,335	-	-	-	250,335	392,944
Vocational education instruction	2,485	-	-	-	2,485	6,194
Special education instruction	16,836	-	-	-	16,836	51,353
Instructional support services	129,896	-	-	-	129,896	29,874
Pupil support services	5,849	-	-	-	5,849	2,548
Sites and buildings	863,848	-	11,644,352	-	12,508,200	1,905,987
Food service	-	-	-	-	-	7,540
Community education and services	-	-	-	12,838	12,838	20,792
Debt service						
Principal	336,810	4,810,000	-	-	5,146,810	4,987,203
Interest and fiscal charges	81,685	2,454,449	-	494,436	3,030,570	2,243,481
Total expenditures	<u>60,679,186</u>	<u>7,264,449</u>	<u>12,899,547</u>	<u>7,172,304</u>	<u>88,015,486</u>	<u>72,813,583</u>
Excess of revenues over (under) expenditures	239,502	124,032	(12,744,984)	100,699	(12,280,751)	(1,100,153)
Other Financing Sources						
Proceeds from sale of capital assets	105,637	-	-	-	105,637	-
Insurance proceeds	-	-	-	-	-	500
Bond issuance	-	-	-	-	-	32,620,000
Bond premium	-	-	-	-	-	494,948
Total other financing sources	<u>105,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105,637</u>	<u>33,115,448</u>
Net change in fund balances	345,139	124,032	(12,744,984)	100,699	(12,175,114)	32,015,295
Fund Balances						
Beginning of year	<u>16,611,595</u>	<u>1,443,358</u>	<u>31,083,159</u>	<u>77,151</u>	<u>49,215,263</u>	<u>17,199,968</u>
End of year	<u>\$ 16,956,734</u>	<u>\$ 1,567,390</u>	<u>\$ 18,338,175</u>	<u>\$ 177,850</u>	<u>\$ 37,040,149</u>	<u>\$ 49,215,263</u>

Independent School District No. 877
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended June 30, 2016
(with Comparative Totals for the Year Ended June 30, 2015)

	2016	2015
Net change in fund balances - total governmental funds	\$ (12,175,114)	\$ 32,015,295
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital outlays	12,620,883	1,937,209
Depreciation expense	(3,799,990)	(3,845,272)
Loss on disposal	(53,804)	(1,931)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	-	(437,139)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(32,285)	1,276
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	29,397	(284,061)
Proceeds of G.O. Taxable OPEB bonds issued during 2010 were contributed to the OPEB plan to retire the unfunded obligation. Governmental funds report such outlay as expenditures. The impact on the Statement of Activities is the creation of a new net OPEB asset which is a combination of the contribution to the irrevocable trust from the proceeds of the OPEB bond issue and the amortization of the net OPEB obligation for the current year.	(920,101)	(891,250)
Principal payments on long-term debt and leases are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	5,146,810	4,987,203
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	60,313	(322,409)
Governmental funds report the effect of bond discounts and premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	382,051	(145,894)
Proceeds from the sale of bonds and leases are recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net position in the Statement of Activities.	-	(32,620,000)
Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.		
State aid related to pension expense	-	77,393
Pension expense	21,814	579,388
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(27,605)	(57,358)
Change in net position - governmental activities	\$ 1,252,369	\$ 992,450

Independent School District No. 877
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 4,692,270	\$ 5,667,463	\$ 5,655,260	\$ (12,203)
Other local and county revenues	1,857,422	1,966,914	2,027,453	60,539
Revenue from state sources	51,295,891	50,461,792	51,640,876	1,179,084
Revenue from federal sources	1,608,879	1,551,915	1,552,551	636
Sales and other conversion of assets	48,058	38,200	42,548	4,348
Total revenues	<u>59,502,520</u>	<u>59,686,284</u>	<u>60,918,688</u>	<u>1,232,404</u>
Expenditures				
Current				
Administration	1,687,394	1,682,544	1,677,870	(4,674)
District support services	1,557,226	1,538,848	1,545,548	6,700
Elementary and secondary regular instruction	29,817,693	28,678,063	28,610,826	(67,237)
Vocational education instruction	1,662,971	1,640,166	1,639,553	(613)
Special education instruction	10,792,217	10,503,009	10,428,569	(74,440)
Instructional support services	3,370,413	4,742,065	4,365,159	(376,906)
Pupil support services	5,647,344	5,702,544	5,896,947	194,403
Sites and buildings	5,322,496	5,239,047	4,610,486	(628,561)
Fiscal and other fixed cost programs	213,800	212,441	212,044	(397)
Capital outlay				
Administration	8,239	8,239	1,398	(6,841)
District support services	19,550	19,550	3,042	(16,508)
Elementary and secondary regular instruction	243,508	295,710	250,335	(45,375)
Vocational education instruction	2,716	2,716	2,485	(231)
Special education instruction	55,319	18,061	16,836	(1,225)
Instructional support services	(44,710)	(7,339)	129,896	137,235
Pupil support services	5,314	5,314	5,849	535
Sites and buildings	536,435	671,835	863,848	192,013
Debt service				
Principal	334,880	418,494	336,810	(81,684)
Interest and fiscal charges	-	-	81,685	81,685
Total expenditures	<u>61,232,805</u>	<u>61,371,307</u>	<u>60,679,186</u>	<u>(692,121)</u>
Excess of revenues over (under) expenditures	(1,730,285)	(1,685,023)	239,502	1,924,525
Other Financing Sources				
Proceeds from sale of capital assets	1,500	126,551	105,637	(20,914)
Net change in fund balances	<u>\$ (1,728,785)</u>	<u>\$ (1,558,472)</u>	345,139	<u>\$ 1,903,611</u>
Fund Balance				
Beginning of year			<u>16,611,595</u>	
End of year			<u>\$ 16,956,734</u>	

Independent School District No. 877
Statement of Fiduciary Net Position
June 30, 2016

	Total Trust Funds
Assets	
Investments	
Brokered money market	\$ 1,095,836
Fixed income	4,907,784
Equities	2,552,667
Mutual funds	5,727,140
Total investments	14,283,427
Accounts and interest receivable	85,446
Total assets	\$ 14,368,873
Liabilities	
Accounts payable	\$ 56,219
Net Position	
Held in trust for OPEB	\$ 13,264,254
Held in trust for HRA	1,048,400
Total net position	\$ 14,312,654

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2016

	Total Trust Funds
Additions	
Contributions	\$ 457,244
Investment income	
Interest, dividends, change in fair value	411,143
Less investment expenses	(68,229)
Net investment income	342,914
Total additions	800,158
Deductions	
Employee benefit deductions	867,232
Change in net position	(67,074)
Net Position	
Beginning of year	14,379,728
End of year	\$ 14,312,654

See notes to financial statements.

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Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

Some student activity accounts of the District are under School Board control; therefore, these student activities are included in the General Fund. There are other student activity accounts which are not under School Board control and separate financial statements have been issued for these activities.

A copy of the financial statements of the student activity accounts may be obtained by writing in care of Independent School District No. 877, Buffalo-Hanover-Montrose Schools, 214 First Avenue Northeast, Buffalo, Minnesota 55313.

1. Joint Ventures

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 10.

B. Basic Financial Statement Information

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

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

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

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

Description of Funds

Major Funds

General Fund – This Fund includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety, and disabled accessibility projects.

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

Building Construction Capital Project Funds – This Fund is used to account for the financial resources used for the construction of or improvements to facilities authorized by bond issue.

Nonmajor Funds

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

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services.

Post Employment Debt Service Fund – This Fund is used to account for the accumulation of resources for payments of OPEB bonds, principal, and related costs.

Fiduciary Fund

OPEB Irrevocable Trust Fund – This Fund is used for reporting resources set aside and held in an irrevocable trust arrangement for OPEB.

HRA Trust Fund – This Fund is used for reporting resources set aside and held in a trust arrangement for HRA contributions.

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments

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

1. District Funds Other than OPEB and HRA Trust Funds

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment held by a 2.a.7 and/or a 2.a.7 like investment pool are measured at amortized cost.

Cash and investments at June 30, 2016 were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF), brokered money markets, brokered certificates of deposit, government securities and shares in the Minnesota Trust (MNTrust) Term Series. The MSDLAF is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares. The MNTrust Investment Share is a money market fund registered under the Investment Act of 1940, meets conditions of Rule 2.a.7 of SEC and holds investments with final maturities less than 13 months.

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

Minnesota Statutes authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

1. OPEB and HRA Trust Funds

These funds represent investments administered by the District's OPEB and HRA Trust investment managers. As of June 30, 2016, they were comprised of brokered money markets, government agencies, corporate securities, equities, and mutual funds.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

1. OPEB and HRA Trust Funds (Continued)

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

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2015, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2016. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

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

H. Prepaid Items

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

I. Property Taxes

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

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

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 with an estimated useful life in excess of five years, including all computer equipment regardless of the value. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

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

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

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

K. Deferred Outflows/Inflows of Resources

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

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

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations

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

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

M. Compensated Absences

Vacation pay is earned at various rates by employees and accrued as compensated absences in the Statement of Net Position.

Substantially all employees are entitled to sick leave at various rates. Classified employees are not compensated for unused sick leave upon a qualified termination of employment.

Non-classified employees receive payment for a set number of sick days after reaching age 55 and completing 15 years of service. The amount of compensated absences for sick leave anticipated to be paid upon employees' retirements is recorded as severance payable in the Statement of Net Position.

N. Post Employment Severance and Health Benefits

Severance and health benefits consist of lump sum retirement payments and post employment health care benefits.

The District maintains various early retirement incentive payment plans for its employee groups. Teacher and administrator employee group plans contain benefit formulas based on years of service and/or minimum age requirements. No employee can receive early retirement incentive payments exceeding one year's salary.

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

O. Pensions

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

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions (Continued)

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 6.G.

P. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2016.

Q. Fund Equity

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

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, nonfinancial assets held for resale, or the permanent principal of endowment funds.
- **Restricted Fund Balance** – These are amounts that are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance** – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board.
- **Assigned Fund Balance** – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Director of Finance and Operations or the School Board.
- **Unassigned Fund Balance** – These are amounts that are the residual amounts in the General Fund not reported in any other classification. Unassigned amounts in the General Fund are technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity (Continued)

- Minimum Fund Balance Policy – The School Board shall strive to maintain a fund balance of between 8% and 12% of fund balance to total operating expenditures in the General Fund. The fund balance shall be defined as the sum of the unassigned fund balance, the restricted next year's approved budget deficit fund balance, and the nonspendable fund balances.
- The Business Office shall monitor the fund balance. If the fund balance falls below 8%, the School Board shall implement a procedure to stabilize the District's financial position. This shall involve:
 1. No new programs will be added at the District level unless matched by a like revenue source;
 2. Allocations such as textbooks, supplies, etc., shall be frozen; and
 3. The District will review other measures which will not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenses have historically been lower than budgeted levels.
- If the fund balance is projected to fall below 6%, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts or a combination of both.

R. Net Position

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

S. Use of Estimates

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

T. Comparative Data

Comparative total data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. This data has been restated where necessary for comparable classifications.

Independent School District No. 877
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

District Funds Other than OPEB and HRA Trust Funds

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. *Minnesota Statutes* 118A requires all deposits be protected by federal deposit insurance, corporate security bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding FDIC or FSLIC coverage. *Minnesota Statutes* require all deposits be protected by federal depository insurance. As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

Independent School District No. 877
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

District Funds Other than OPEB and HRA Trust Funds (Continued)

A. Deposits (Continued)

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

Checking	\$ 930,924
Certificates of deposit	12,381,200
Savings	40
	40
Total deposits	\$ 13,312,164

B. Investments

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

Investment Type	Fair Value	Investment Maturities Less than 1 Year	Credit Rating
Brokered money markets	\$ 933,879	\$ 933,879	N/A
Brokered certificates of deposit	21,115,875	21,115,875	N/A
Government agencies	480,125	480,125	N/A
MSDLAF	5,317,442	5,317,442	AAAm
Total investments	\$27,847,321	\$ 27,847,321	

Credit Risk: This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes* 118A.01 through 118A.06. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District will minimize credit risk by limiting investments to those allowed by statutory constraints. The District's investments are rated in the table above. Also as indicated in the table, there are certain investments that are not subject to credit risk and therefore, not rated.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities and that no more than 50% of the total portfolio will be with any one instrument.

Independent School District No. 877
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

District Funds Other than OPEB and HRA Trust Funds (Continued)

B. Investments (Continued)

Interest Rate Risk: This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs.

Custodial Credit Risk – Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states investments shall be held by institutions designated by the School Board.

The District has the following recurring fair value measurements as of June 30, 2016:

- \$27,847,321 of \$27,847,321 are valued using a quoted market prices (Level 1 inputs)

OPEB and HRA Trust Funds

C. Trust Fund Investments

As of June 30, 2016, the District's OPEB and HRA Trust Fund had the following investments:

Investment Type	Fair Value	Investment Maturities				
		Less than 1 Year	1-2 Years	2-5 Years	5-10 Years	Greater than 10 years
Brokered money markets	\$ 1,702,320	\$ 1,702,320	\$ -	\$ -	\$ -	\$ -
Fixed income						
Government agencies	2,215,163	179,503	409,758	1,369,626	111,696	144,580
Corporate securities	2,440,753	-	-	582,537	715,761	1,142,455
Equities	7,783,925	7,783,925	-	-	-	-
Mutual funds	141,266	141,266	-	-	-	-
Total investments	\$14,283,427	\$ 9,807,014	\$ 409,758	\$ 1,952,163	\$ 827,457	\$ 1,287,035

Interest Rate Risk: The District's OPEB Trust Investment Policy states the investment emphasis is on the current income requirements and capital preservation, with a secondary emphasis on capital appreciation. The District has a moderate risk tolerance. The asset allocation strategy for the trust is as follows:

Asset Class	Percent	Range
Cash equivalents	2%	0-100%
Bonds	48%	+/- 15%
Equities	50%	+/- 15%

Credit Risk: The District will minimize credit risk by limiting investments to those allowed in the Trust portfolio. The Trust's investments in government agencies and corporate securities were rated Baa2 or greater by Moody's. The remaining investments are not subject to credit risk and, therefore, not rated. The District's OPEB Investment Policy states investments must have a rating of Baa3 or greater.

Independent School District No. 877
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

OPEB and HRA Trust Funds (Continued)

C. Trust Fund Investments (Continued)

Credit Risk: The District will minimize credit risk by limiting investments to those allowed in the Trust portfolio. The Trust's investments in government agencies and corporate securities were rated Baa2 or greater by Moody's. The remaining investments are not subject to credit risk and, therefore, not rated. The District's OPEB Investment Policy states investments must have a rating of Baa3 or greater.

Concentration of Credit Risk: The District's OPEB Trust Investment Policy states no single security, with the exception of a security issued by the U.S. Government, its agencies and/or instrumentalities, shall at the time of purchase, constitute more than 5% of the value of the portfolio. The Policy also indicates the District has an investment horizon which is considered to be long-term, in excess of ten years. The District's OPEB investments in Federal National Mortgage Association (5.6%) were above 5% of total OPEB investments.

Custodial Credit Risk: The District's OPEB Trust Investment Policy does not address custodial credit risk.

The District has the following recurring fair value measurements as of June 30, 2016:

- \$14,283,427 of \$14,283,427 are valued using a quoted market prices (Level 1 inputs)

D. Deposits and Investments

The following is a summary of total deposits and investments:

District governmental funds	
Deposits (Note 2.A.)	\$ 13,312,164
Investments (Note 2.B.)	27,847,321
Petty cash	6,000
OPEB and HRA irrevocable trust funds	
Investments (Note 2.C.)	<u>14,283,427</u>
Total deposits and investments	<u><u>\$ 55,448,912</u></u>

Deposits and investments are presented in the June 30, 2016, basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 41,165,485
Statement of Fiduciary Net Position	
Trust funds	<u>14,283,427</u>
Total deposits and investments	<u><u>\$ 55,448,912</u></u>

Independent School District No. 877
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 4,224,158	\$ -	\$ 2,123	\$ 4,222,035
Construction in progress	<u>1,222,028</u>	<u>11,544,558</u>	<u>1,422,731</u>	<u>11,343,855</u>
Total capital assets not being depreciated	<u>5,446,186</u>	<u>11,544,558</u>	<u>1,424,854</u>	<u>15,565,890</u>
Capital assets being depreciated				
Land improvements	3,155,472	192,829	32,400	3,315,901
Buildings	106,947,914	1,641,316	-	108,589,230
Equipment and vehicles	<u>6,430,953</u>	<u>664,911</u>	<u>167,147</u>	<u>6,928,717</u>
Total capital assets being depreciated	<u>116,534,339</u>	<u>2,499,056</u>	<u>199,547</u>	<u>118,833,848</u>
Less accumulated depreciation for				
Land improvements	2,395,172	85,478	22,475	2,458,175
Buildings	46,390,018	3,215,903	-	49,605,921
Equipment and vehicles	<u>4,369,065</u>	<u>498,609</u>	<u>125,391</u>	<u>4,742,283</u>
Total accumulated depreciation	<u>53,154,255</u>	<u>3,799,990</u>	<u>147,866</u>	<u>56,806,379</u>
Total capital assets being depreciated, net	<u>63,380,084</u>	<u>(1,300,934)</u>	<u>51,681</u>	<u>62,027,469</u>
Governmental activities, capital assets, net	<u>\$ 68,826,270</u>	<u>\$ 10,243,624</u>	<u>\$ 1,476,535</u>	<u>\$ 77,593,359</u>

Depreciation expense of \$3,799,990 for the year ended June 30, 2016, was charged to the following governmental functions:

District support services	\$ 4,697
Elementary and secondary regular instruction	3,065,985
Special education instruction	4,002
Instructional support services	98,966
Pupil support	525
Sites and buildings	580,349
Food service	43,631
Community service	<u>1,835</u>
 Total depreciation expense	 <u>\$ 3,799,990</u>

Independent School District No. 877
Notes to Financial Statements

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term liabilities						
G.O. bonds, including						
2008A refunding bonds	12/17/08	4.00%-5.125%	20,340,000	02/01/22	\$ 9,225,000	\$ 1,590,000
2009A OPEB bonds	09/15/09	2.00%-4.90%	10,845,000	02/01/23	10,730,000	735,000
2012A G.O. refunding bonds	03/16/12	2.00%-4.00%	31,215,000	02/01/24	22,235,000	2,400,000
2013A alternative facilities bonds	05/01/13	1.00%-2.00%	3,855,000	02/01/24	3,455,000	245,000
2015A school building bonds	02/04/15	2.75%-3.00%	32,620,000	02/01/30	32,620,000	-
Total G.O. bonds					<u>78,265,000</u>	<u>4,970,000</u>
Unamortized bond premium					3,291,304	-
Net bonds payable					<u>81,556,304</u>	<u>4,970,000</u>
Capital leases payable					1,417,721	214,130
Severance payable					1,370,684	44,808
Compensated absences payable					<u>208,145</u>	<u>208,145</u>
Total all long-term liabilities					<u>\$ 84,552,854</u>	<u>\$ 5,437,083</u>

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

B. Minimum Debt Payments for Bonds

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

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2017	\$ 4,970,000	\$ 2,793,385	\$ 7,763,385
2018	5,140,000	2,625,568	7,765,568
2019	5,320,000	2,442,162	7,762,162
2020	5,555,000	2,210,433	7,765,433
2021	5,800,000	1,963,366	7,763,366
2022-2026	29,100,000	6,078,328	35,178,328
2027-2030	<u>22,380,000</u>	<u>1,672,257</u>	<u>24,052,257</u>
Total	<u>\$ 78,265,000</u>	<u>\$ 19,785,499</u>	<u>\$ 98,050,499</u>

Independent School District No. 877
Notes to Financial Statements

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Capital Lease Obligations

In October 2006, the District entered into a lease purchase agreement for the construction of an addition to the Phoenix Learning Center. The total financed was \$750,000 with an interest rate of 4.79% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through October 15, 2021.

In April 2010, the District entered into a lease purchase agreement for the remodel of the Montrose Early Childhood Building. The total financed was \$1,324,474 with an interest rate of 5.55% and is to be paid through the General Fund. The lease agreement requires the District to make annual payments through May 1, 2025.

In March 2011, the District entered into a lease purchase agreement for the construction of tennis courts. The total financed was \$500,000 with an interest rate of 4.25% and is to be paid through the General Fund. The lease requires the District to make semiannual payments through April 1, 2018.

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,		
2017	\$	285,695
2018		285,507
2019		202,082
2020		202,082
2021		202,082
2022-2025		561,024
Total minimum lease payments		1,738,472
Less amount representing interest		(320,751)
Present value of minimum lease payments	\$	1,417,721

Independent School District No. 877
Notes to Financial Statements

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Capital Lease Obligations (Continued)

The carrying value and related accumulated depreciation at June 30, 2016, for the assets purchased was as follows:

Carrying value	\$ 3,354,298
Less accumulated depreciation	<u>(1,314,113)</u>
Assets, net of depreciation	<u><u>\$ 2,040,185</u></u>

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 83,075,000	\$ -	\$ 4,810,000	\$ 78,265,000
Net premium	3,673,355	8,343	390,394	3,291,304
Capital leases payable	1,754,531	-	336,810	1,417,721
Severance payable	1,355,273	113,507	98,096	1,370,684
Compensated absences payable	<u>175,860</u>	<u>542,634</u>	<u>510,349</u>	<u>208,145</u>
Total long-term liabilities	<u><u>\$ 90,034,019</u></u>	<u><u>\$ 664,484</u></u>	<u><u>\$ 6,145,649</u></u>	<u><u>\$ 84,552,854</u></u>

NOTE 5 – FUND BALANCES

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

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

Independent School District No. 877
Notes to Financial Statements

NOTE 5 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted/Reserved Fund Balance

	General Fund	Debt Service	Building Construction	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	\$ 96,938	\$ -	\$ -	\$ 97,331	\$ 194,269
Prepaid items	165,939	-	-	7,572	173,511
Total nonspendable	<u>262,877</u>	<u>-</u>	<u>-</u>	<u>104,903</u>	<u>367,780</u>
Restricted/reserved for					
Health and safety	(64,860)	-	-	-	(64,860)
Operating capital	614,500	-	-	-	614,500
Teacher development and evaluations	103,247	-	-	-	103,247
Staff development	62,695	-	-	-	62,695
Adult basic education	-	-	-	12,213	12,213
Food service	-	-	-	160,067	160,067
Debt service	-	1,567,390	-	112,517	1,679,907
Building construction	-	-	18,338,175	-	18,338,175
Total restricted/reserved	<u>715,582</u>	<u>1,567,390</u>	<u>18,338,175</u>	<u>284,797</u>	<u>20,905,944</u>
Committed for					
Separation benefits	4,165,436	-	-	-	4,165,436
Assigned for					
Carryover	355,597	-	-	-	355,597
Dental insurance	146,524	-	-	-	146,524
Third party special education	560,353	-	-	-	560,353
Stimulus	654,758	-	-	-	654,758
Student activities	356,604	-	-	-	356,604
Total assigned	<u>2,073,836</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,073,836</u>
Unassigned for					
Community education*	-	-	-	(124,082)	(124,082)
Early childhood and family education*	-	-	-	(27,519)	(27,519)
School readiness*	-	-	-	(38,190)	(38,190)
Community service*	-	-	-	(22,059)	(22,059)
Unassigned	9,739,003	-	-	-	9,739,003
Total unassigned	<u>9,739,003</u>	<u>-</u>	<u>-</u>	<u>(211,850)</u>	<u>9,527,153</u>
Total fund balance	<u>\$ 16,956,734</u>	<u>\$ 1,567,390</u>	<u>\$ 18,338,175</u>	<u>\$ 177,850</u>	<u>\$ 37,040,149</u>

*Negative restricted/reserved fund balances have been reclassified to unassigned for the financial statements in accordance with GASB Statement No. 54.

Independent School District No. 877
Notes to Financial Statements

NOTE 5 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted/Reserved Fund Balance (Continued)

Nonspendable for Inventory – A portion of the fund balance has been spent on inventory and is not available for other uses.

Nonspendable for Prepaid Items – A portion of the fund balance has been spent on prepaid items and is not available for other uses.

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

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

Restricted/Reserved for Teacher Development and Evaluation – This balance represents resources available for teacher development and evaluation uses listed in *Minnesota Statutes* 122A.40, subd. 8 or 122A.41, subd. 5.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were reserved for staff development.

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

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

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

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

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

Restricted for Debt Service – This balance represents the resources available for the payment of bond principal, interest, and related costs.

Restricted/Reserved for Building Construction – This balance represents the resources available for the construction of or improvements to facilities authorized by bond issue.

Independent School District No. 877
Notes to Financial Statements

NOTE 5 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted/Reserved Fund Balance (Continued)

Committed for Separation Benefits – This balance represents the resources set aside for the payment of retirement benefits including compensated absences, pensions, OPEB, and termination benefits.

Assigned for Carryover – This balance represents unspent budget appropriations carried over for the subsequent year.

Assigned for Dental Insurance – This balance represents the resources set aside for payment of dental insurance costs.

Assigned for Third Party Special Education – This balance represents the resources set aside for third party billing purchases.

Assigned for Stimulus – This balance represents the resources set aside for stimulus positions.

Assigned for Student Activities – This balance represents the accumulation of the student activity accounts that are under School Board control.

B. Net Position

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive restricted fund balances of the General, Food Service, and Community Service Funds.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

A. Plan Description

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

Teachers employed in Minnesota's public elementary and secondary school, charter schools and certain educational institutions maintained by the state (except those teachers employed by the 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.

Independent School District No. 877
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

B. Benefits Provided

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

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

Tier I Benefits

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

With these provisions:

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

Tier II Benefits

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

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

Independent School District No. 877
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for years ended June 31, 2015 and June 30, 2016, were:

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

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

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

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.

Independent School District No. 877
Notes to Financial Statements

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

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

Legislation enacted in 2014 merged the 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.

	6/30/14 CAFR	Restated
Total pension liability	\$ 24,901,612,000	\$ 25,299,564,000
Plan fiduciary net position	20,293,684,000	20,519,756,000
Net pension liability	\$ 4,607,928,000	\$ 4,779,808,000

E. 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	8.00%
Wage inflation	3.00%
Projected salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.00%

Mortality Assumption

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three 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.

Independent School District No. 877
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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</u>	<u>Long-Term</u>
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
	<hr/>	
Total	<u>100 %</u>	

The TRA actuary has determined the average of the expected remaining services 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 "Changes in Proportion" uses a rounded amortization period of 5.0 years.

F. Discount Rate

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%. 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.

Independent School District No. 877
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability

On June 30, 2016, the District reported a liability of \$31,870,215 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 0.5152% at the end of the measurement period and 0.5473% 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:

	\$ 31,870,215
State's proportionate share of the net pension liability associated with the district	3,909,225

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

For the year ended June 30, 2016, the District recognized pension expense of \$2,660,884. It also recognized \$691,101 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,732,889	\$ -
Net difference between projected and actual earnings on plan investments	-	2,786,272
Changes in assumptions	2,449,972	-
Changes in proportion	214,038	474,895
Contributions to TRA subsequent to the measurement date	2,042,303	-
Total	\$ 6,439,202	\$ 3,261,167

Independent School District No. 877
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability (Continued)

\$2,042,303 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) will be recognized in pension expense as follows:

2017		\$ (262,432)
2018		(262,432)
2019		(262,430)
2020		1,613,532
2021		309,494

H. Pension Liability Sensitivity

The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 8.0% as well as the liability measured using 1% lower and 1% higher.

District proportionate share of NPL		
1% decrease (7.0%)	Current (8.0%)	1% increase (9.0%)
\$ 48,510,593	\$ 31,870,215	\$ 17,983,339

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.

I. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

Independent School District No. 877
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

General Employees Retirement Fund (GERF)

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. PERA benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

GERF Benefits

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.

C. Contributions

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

Independent School District No. 877
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

C. Contributions (Continued)

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 members. The District's contributions to the GERF for the year ended June 30, 2016, were \$688,562. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

GERF Pension Costs

At June 30, 2016, the District reported a liability of \$7,965,532 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 0.1537%, which was a decrease of 0.0089% from its proportion measured as of June 30, 2014.

GERF benefit provision changes during the measurement period include (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 \$739,267 for its proportionate share of GERF's pension expense.

Independent School District No. 877
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 78,148	\$ 401,598
Changes in actuarial assumptions	524,790	-
Net difference between projected and actual investments earnings	-	793,802
Changes in proportion and differences between contributions made and district's proportion share of contributions	-	313,558
District's contributions to gerf subsequent to the measurement date	688,562	-
Total	\$ 1,291,500	\$ 1,508,958

\$688,562 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	\$ (264,355)
2018	(264,355)
2019	(565,825)
2020	188,515

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

GERF

Assumptions	GERF
Inflation	2.75 % Per year
Active member payroll growth	3.50 Per year
Investment rate of return	7.90

Independent School District No. 877
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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 GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014.

The long-term expected rate of return on pension plan investments is 7.9% for GERF. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

F. Discount Rates

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

Independent School District No. 877
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's propionate share of the GERF net pension liability	\$ 12,524,647	\$ 7,965,532	\$ 4,200,403

H. Pension Plan Fiduciary Net Position

Detailed information about GERF'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 – RETIREMENT PLANS

A. Post Retirement Health Care Savings Plan

The District's Post Retirement Health Care Savings Plan (the "Plan") allows employees to use individual accounts to save for medical expenses. The accounts are funded entirely with employer contributions. Employee participation is a voluntary process negotiated through the collective bargaining process. Employees cannot voluntarily contribute to this Plan. Amounts and how it will be funded must be mandated through collective bargaining or through a personnel policy. Any employee covered under the Plan may draw down the balance of the account for reimbursement of eligible medical expenses including health care premiums. Contributions to the Plan by the District totaled \$98,096 for the year.

B. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's Defined Contribution Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. The District makes matching contribution for some administrative employees of \$48,500. Contributions are invested to tax deferred annuities selected and owned by Plan participants. Employee contributions for the fiscal year totaled \$641,158.

Independent School District No. 877
Notes to Financial Statements

NOTE 8 – FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their groups allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which runs December 31 to December 31, each participant designates a total amount of pretax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the plan, whether or not such contributions have been made.

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

Amounts withheld for medical reimbursement and dependent care are held for the benefit of the flexible benefit plan. All assets of the plan are administered by an employee of the District. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the participant. The medical reimbursement and dependent care activity is included in the financial statements in the General Fund.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the plan are equal to those general creditors of the District in an amount equal to eligible health care and dependent care expenses incurred by the participants. The District believes it is unlikely it will use the assets to satisfy the claims of general creditors in the future.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. In addition, the plan provides severance benefits based on years of service that are placed directly in a medical savings account upon retirement. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For 2016, the District contributed \$0 to the plan. Administrative costs of the plan are financed through investment earnings.

Independent School District No. 877
Notes to Financial Statements

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

B. Funding Policy (Continued)

As of June 30, 2016, there were 52 retirees and beneficiaries receiving health benefits from the District's health plan. The plan has a total of 673 active participants and dependents. Of that total, 621 are not yet eligible to receive benefits.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual Other Post Employee Benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The table below shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

ARC	\$ 823,227
Interest on net OPEB obligation	(335,173)
Adjustment to ARC	432,047
Annual OPEB cost (expense)	<u>920,101</u>
Contributions made	<u>-</u>
Increase in net OPEB obligation	920,101
Net OPEB obligation - beginning of year	<u>(6,559,152)</u>
Net OPEB obligation - end of year	<u><u>\$ (5,639,051)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/14	\$ 1,111,001	\$ -	0%	\$ (7,450,402)
06/30/15	891,250	-	0%	(6,559,152)
06/30/16	920,101	-	0%	(5,639,051)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District had \$14,037,906 of assets deposited to fund the plan. The actuarial accrued liability for benefits was \$13,657,552 and the actuarial value of assets was \$14,037,906, resulting in an unfunded actuarial accrued liability (UAAL) of (\$380,354). The covered payroll (annual payroll of active employees covered by the plan) was \$36,412,963 and the ratio of the UAAL to the covered payroll was -1.0%. In September 2009, the District issued G.O. Taxable OPEB Bonds, established an irrevocable trust, and contributed \$10,690,300 of bond proceeds into the trust to fund the plan. As of June 30, 2016, the ending market value of these assets was \$13,235,027.

Independent School District No. 877
Notes to Financial Statements

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC 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 – Other Post Employment Benefits, presented as required supplementary information following the Notes to 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.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

At the July 1, 2014 actuarial valuation date, the projected unit credit cost method was used. The actuarial assumptions included a 5.11% discount rate, which is based on the investment yield expected to finance benefits depending on whether the plan is funded in a separate trust (about 7% to 8.5%, long-term, similar to a pension plan) or unfunded (3.5% to 5%, shorter-term, based on District's general assets). The District currently plans to fund the liability. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5% after 8 years. Both rates included a 4% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2014 was 30 years.

The financial statements for the OPEB Plan are reported below because the OPEB Plan does not issue a separate financial report.

E. Condensed Financial Statements

Statement of Plan Net Position
June 30, 2016

Assets	
Investments, at fair value	\$ 13,235,027
Accounts and interest receivable	<u>85,446</u>
Total assets	<u><u>\$ 13,320,473</u></u>
Liabilities	
Accounts payable	<u><u>\$ 56,219</u></u>
Net Position	
Net position held in trust for OPEB	<u><u>\$ 13,264,254</u></u>

Independent School District No. 877
Notes to Financial Statements

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Condensed Financial Statements (Continued)

Statement of Changes in Plan Net Position
Year Ended June 30, 2016

Additions

Contributions	\$ 189,915
Investment income, net investment expenses	<u>327,748</u>
Total additions	517,663

Deductions

Employee benefit deductions	<u>867,232</u>
Change in net position	(349,569)

Net Position Held in Trust for OPEB

Beginning of the year	<u>13,613,823</u>
End of the year	<u><u>\$ 13,264,254</u></u>

1. Notes to the Condensed Financial Statements

a. Plan Provisions

The Plan is described in detail on the previous pages, including Plan provisions and the authority for Plan changes.

2. Summary of Significant Accounting Policies

a. Basis of Accounting

The financial statements shown on the previous page were prepared using the accrual basis of accounting. Employee and employer contributions are recognized as revenues in the period in which the employee services are performed. Benefits are recognized as revenues in the period in which the employee services are performed. Benefits are recognized when due and payable.

b. Investments

The details of the investments and the investment policy are described in Note 1.D.2. of the District's notes to financial statements.

Independent School District No. 877
Notes to Financial Statements

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Condensed Financial Statements (Continued)

2. Summary of Significant Accounting Policies (Continued)

c. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make various estimates. Actual results could differ from those estimates.

NOTE 10 – COMMITMENTS

A. Joint Powers Agreement

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

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

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

B. Rental Agreement

The District entered into a rental agreement with the City of Buffalo, Minnesota (the "City") in 2001 for use of the Civic Center by the District.

The original agreement was for a period of 15 years commencing September 1, 2000. The District has approved an amended agreement extending the agreement for an additional three years. The agreement calls for a minimum rental of 335 hours of ice time per year at the rate of \$194 per hour and an annual payment of \$40,000 for use of classrooms, team and locker rooms, and additional ice time during the day when school is in session.

Any increase in the hourly rate of rental will be negotiated between the City and the District annually. Minimum annual payments to the City under this agreement are \$104,990. The District is entitled to a percentage of gate receipts from tickets sold for attendance at District functions as part of the terms of this agreement.

Independent School District No. 877
Notes to Financial Statements

NOTE 10 – COMMITMENTS (CONTINUED)

C. Construction Commitments

As of June 30, 2016, the District had outstanding construction commitments as follows:

Project	Project Authorization	Expended through June 30, 2016	Commitment
BHS stadium and ball fields	\$ 4,627,473	\$ 4,467,625	\$ 159,848
BCMS addition and alterations	2,346,000	475,801	1,870,199
TES addition and alterations	5,040,000	1,897,934	3,142,066
BHS concession	542,300	148,450	393,850

NOTE 11 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

Accounting Standard Update – GASB 74 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans – GASB has issued GASB statement 74 relating to postemployment benefit plans other than pension plans administered through trusts that meet certain criteria and includes requirements for OPEB plans not administered through trusts. The new statement improves financial reporting primarily through enhanced note disclosures and schedules of required supplementary information.

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 877
Schedule of Funding Progress - Other Post Employment Benefits
Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/10	\$10,593,203	\$ 13,803,801	\$ 3,210,598	76.7%	\$ 28,590,040	11.2%
07/01/12	12,565,588	14,340,547	1,774,959	87.6%	26,833,738	6.6%
07/01/14	14,037,906	13,657,552	(380,354)	102.8%	36,412,963	-1.0%

Schedule of Employer Contributions - Other Post Employment Benefits

Year Ended June 30,	Annual Required Contribution	Total Contributions	Percentage Contributed	Net OPEB Obligation (Asset)
2014	\$ 1,111,001	\$ -	0%	\$ (7,450,402)
2015	891,250	-	0%	(6,559,152)
2016	920,101	-	0%	(5,639,051)

Independent School District No. 877
Schedule of District's and Non-Employer
Proportionate Share of Net Pension Liability
Last Ten Years GERS Retirement Funds

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1626%	\$ 7,638,133	\$ 8,537,407	89.5%	78.8%
2015	0.1537%	7,965,532	8,884,053	89.7%	78.2%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.5473%	\$ 25,219,190	\$ 1,774,131	\$ 26,993,321	\$ 24,984,191	100.9%	81.5%
2015	0.5152%	31,870,215	3,909,225	35,779,440	26,147,587	121.9%	76.8%

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

**Independent School District No. 877
Schedule of District Contributions
GERF Retirement Funds
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 618,962	\$ 618,962	\$ -	\$ 8,537,407	7.25%
2015	666,304	666,304	-	8,884,053	7.50%
2016	688,562	688,562	-	9,180,827	7.50%

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

**Schedule of District Contributions
TRA Retirement Funds
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 1,748,893	\$ 1,748,893	\$ -	\$ 24,984,191	7.0%
2015	1,961,069	1,961,069	-	26,147,587	7.5%
2016	2,042,303	2,042,303	-	27,230,707	7.5%

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

Independent School District No. 877
Notes to the Required Supplementary Information

TRA Retirement Funds

Changes of benefit terms

The DTRFA was merged into TRA on June 30, 2015

Changes of assumptions

The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. Details, if necessary, can be obtained from the TRA CAFR.

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SUPPLEMENTARY INFORMATION

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 4,692,270	\$ 5,667,463	\$ 5,655,260	\$ (12,203)
Other local and county revenues	1,857,422	1,966,914	2,027,453	60,539
Revenue from state sources	51,295,891	50,461,792	51,640,876	1,179,084
Revenue from federal sources	1,608,879	1,551,915	1,552,551	636
Sales and other conversion of assets	48,058	38,200	42,548	4,348
Total revenues	<u>59,502,520</u>	<u>59,686,284</u>	<u>60,918,688</u>	<u>1,232,404</u>
Expenditures				
Administration				
Salaries	1,179,740	1,181,440	1,178,813	(2,627)
Employee benefits	405,654	399,104	424,200	25,096
Purchased services	47,650	47,650	22,612	(25,038)
Supplies and materials	10,800	10,800	11,132	332
Capital expenditures	8,239	8,239	1,398	(6,841)
Other expenditures	43,550	43,550	41,113	(2,437)
Total administration	<u>1,695,633</u>	<u>1,690,783</u>	<u>1,679,268</u>	<u>(11,515)</u>
District support services				
Salaries	837,055	834,285	824,786	(9,499)
Employee benefits	334,258	322,785	328,172	5,387
Purchased services	347,505	348,305	351,757	3,452
Supplies and materials	12,350	12,350	10,340	(2,010)
Capital expenditures	19,550	19,550	3,042	(16,508)
Other expenditures	26,058	21,123	30,493	9,370
Total district support services	<u>1,576,776</u>	<u>1,558,398</u>	<u>1,548,590</u>	<u>(9,808)</u>
Elementary and secondary regular instruction				
Salaries	19,785,515	18,895,112	18,734,013	(161,099)
Employee benefits	7,335,228	7,152,366	7,233,227	80,861
Purchased services	1,365,467	1,193,721	1,248,731	55,010
Supplies and materials	1,147,024	1,275,997	1,257,657	(18,340)
Capital expenditures	243,508	295,710	250,335	(45,375)
Other expenditures	184,459	160,867	137,198	(23,669)
Total elementary and secondary regular instruction	<u>30,061,201</u>	<u>28,973,773</u>	<u>28,861,161</u>	<u>(112,612)</u>

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures				
Vocational education instruction				
Salaries	\$ 772,400	\$ 790,330	\$ 809,624	\$ 19,294
Employee benefits	285,590	292,644	307,801	15,157
Purchased services	569,235	521,396	496,134	(25,262)
Supplies and materials	32,899	32,949	24,847	(8,102)
Capital expenditures	2,716	2,716	2,485	(231)
Other expenditures	2,847	2,847	1,147	(1,700)
Total vocational education instruction	<u>1,665,687</u>	<u>1,642,882</u>	<u>1,642,038</u>	<u>(844)</u>
Special education instruction				
Salaries	7,280,760	7,231,805	7,079,934	(151,871)
Employee benefits	2,843,735	2,631,451	2,721,828	90,377
Purchased services	571,318	548,021	486,669	(61,352)
Supplies and materials	92,554	89,343	80,565	(8,778)
Capital expenditures	55,319	18,061	16,836	(1,225)
Other expenditures	3,850	2,389	59,573	57,184
Total special education instruction	<u>10,847,536</u>	<u>10,521,070</u>	<u>10,445,405</u>	<u>(75,665)</u>
Instructional support services				
Salaries	1,943,738	3,111,051	3,192,243	81,192
Employee benefits	641,879	833,461	860,255	26,794
Purchased services	145,740	167,721	80,754	(86,967)
Supplies and materials	481,971	481,747	158,492	(323,255)
Capital expenditures	(44,710)	(7,339)	129,896	137,235
Other expenditures	157,085	148,085	73,415	(74,670)
Total instructional support services	<u>3,325,703</u>	<u>4,734,726</u>	<u>4,495,055</u>	<u>(239,671)</u>
Pupil support services				
Salaries	999,930	1,062,700	1,078,148	15,448
Employee benefits	426,555	428,033	447,791	19,758
Purchased services	4,177,876	4,244,367	4,413,084	168,717
Supplies and materials	42,269	(33,270)	(42,905)	(9,635)
Capital expenditures	5,314	5,314	5,849	535
Other expenditures	714	714	829	115
Total pupil support services	<u>5,652,658</u>	<u>5,707,858</u>	<u>5,902,796</u>	<u>194,938</u>

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Expenditures				
Sites and buildings				
Salaries	\$ 1,981,370	\$ 2,004,623	\$ 1,891,901	\$ (112,722)
Employee benefits	624,646	603,702	576,197	(27,505)
Purchased services	2,019,041	1,954,572	1,600,371	(354,201)
Supplies and materials	648,670	627,381	496,760	(130,621)
Capital expenditures	536,435	671,835	863,848	192,013
Other expenditures	48,769	48,769	45,257	(3,512)
Total sites and buildings	<u>5,858,931</u>	<u>5,910,882</u>	<u>5,474,334</u>	<u>(436,548)</u>
Fiscal and other fixed cost programs				
Purchased services	<u>213,800</u>	<u>212,441</u>	<u>212,044</u>	<u>(397)</u>
Debt service:				
Principal	334,880	418,494	336,810	(81,684)
Interest and fiscal charges	-	-	81,685	81,685
Total debt service	<u>334,880</u>	<u>418,494</u>	<u>418,495</u>	<u>1</u>
Total expenditures	<u>61,232,805</u>	<u>61,371,307</u>	<u>60,679,186</u>	<u>(692,121)</u>
Excess of revenues over (under) expenditures	(1,730,285)	(1,685,023)	239,502	1,924,525
Other Financing Sources				
Proceeds from sale of capital assets	<u>1,500</u>	<u>126,551</u>	<u>105,637</u>	<u>(20,914)</u>
Net change in fund balance	<u>\$ (1,728,785)</u>	<u>\$ (1,558,472)</u>	345,139	<u>\$ 1,903,611</u>
Fund Balance				
Beginning of year			<u>16,611,595</u>	
End of year			<u>\$ 16,956,734</u>	

Independent School District No. 877
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2016
(with Comparative Totals as of June 30, 2015)

	Special Revenue			Debt Service	Total Nonmajor Funds	
	Food Service	Community Service	Total	Post Employment Benefits Debt Service Fund	2016	2015
Assets						
Cash and investments	\$ 220,610	\$ 198,579	\$ 419,189	\$ 774,199	\$ 1,193,388	\$ 594,927
Current property taxes receivable	-	226,190	226,190	628,548	854,738	462,967
Delinquent property taxes receivable	-	6,479	6,479	6,619	13,098	15,559
Accounts receivable	-	16,053	16,053	-	16,053	530
Due from Department of Education	5,827	41,955	47,782	411	48,193	53,483
Due from other Minnesota school districts	-	24,206	24,206	-	24,206	27,169
Due from Federal Government through Department of Education	50,379	-	50,379	-	50,379	19,832
Due from other governmental units	2,006	6,715	8,721	-	8,721	6,608
Inventory	97,331	-	97,331	-	97,331	46,898
Prepaid items	-	7,572	7,572	-	7,572	63,156
Total assets	\$ 376,153	\$ 527,749	\$ 903,902	\$ 1,409,777	\$ 2,313,679	\$ 1,291,129
Liabilities						
Accounts payable	\$ 19,370	\$ 41,389	\$ 60,759	\$ -	\$ 60,759	\$ 46,365
Salaries and benefits payable	22,062	172,007	194,069	-	194,069	114,137
Due to other Minnesota districts	-	-	-	-	-	40
Due to other governmental units	-	360	360	-	360	610
Due to other funds	-	-	-	-	-	12,263
Unearned revenue	77,323	35,128	112,451	-	112,451	84,514
Total liabilities	118,755	248,884	367,639	-	367,639	257,929
Deferred Inflows of Resources						
Unavailable revenue - property taxes levied For subsequent year's expenditures	-	464,451	464,451	1,290,641	1,755,092	940,490
Unavailable revenue - delinquent property taxes	-	6,479	6,479	6,619	13,098	15,559
Total deferred inflows of resources	-	470,930	470,930	1,297,260	1,768,190	956,049
Fund Balances						
Nonspendable	97,331	7,572	104,903	-	104,903	110,054
Restricted	160,067	12,213	172,280	112,517	284,797	58,542
Unassigned	-	(211,850)	(211,850)	-	(211,850)	(91,445)
Total fund balances	257,398	(192,065)	65,333	112,517	177,850	77,151
Total liabilities, deferred inflows of resources, and fund balances	\$ 376,153	\$ 527,749	\$ 903,902	\$ 1,409,777	\$ 2,313,679	\$ 1,291,129

Independent School District No. 877
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2016
(with Comparative Totals for the Year Ended June 30, 2015)

	Special Revenue			Debt Service	Total Nonmajor Funds	
	Food Service	Community Service	Total	Post Employment	2016	2015
Revenues						
Local property taxes	\$ -	\$ 442,429	\$ 442,429	\$ 494,687	\$ 937,116	\$ 973,390
Other local and county revenues	2,029	2,748,690	2,750,719	641	2,751,360	2,666,633
Revenue from state sources	174,893	509,028	683,921	4,125	688,046	591,887
Revenue from federal sources	1,213,264	-	1,213,264	-	1,213,264	1,110,398
Sales and other conversion of assets	1,683,217	-	1,683,217	-	1,683,217	1,598,817
Total revenues	<u>3,073,403</u>	<u>3,700,147</u>	<u>6,773,550</u>	<u>499,453</u>	<u>7,273,003</u>	<u>6,941,125</u>
Expenditures						
Current						
Food service	2,841,565	-	2,841,565	-	2,841,565	2,852,980
Community education and services	-	3,823,465	3,823,465	-	3,823,465	3,736,631
Capital outlay						
Food service	-	-	-	-	-	7,540
Community education and services	-	12,838	12,838	-	12,838	20,792
Debt service						
Interest and fiscal charges	-	-	-	494,436	494,436	494,438
Total expenditures	<u>2,841,565</u>	<u>3,836,303</u>	<u>6,677,868</u>	<u>494,436</u>	<u>7,172,304</u>	<u>7,112,381</u>
Excess of revenues over (under) expenditures	231,838	(136,156)	95,682	5,017	100,699	(171,256)
Other Financing Sources						
Insurance proceeds	-	-	-	-	-	500
Net change in fund balances	231,838	(136,156)	95,682	5,017	100,699	(170,756)
Fund Balances						
Beginning of year	<u>25,560</u>	<u>(55,909)</u>	<u>(30,349)</u>	<u>107,500</u>	<u>77,151</u>	<u>247,907</u>
End of year	<u>\$ 257,398</u>	<u>\$ (192,065)</u>	<u>\$ 65,333</u>	<u>\$ 112,517</u>	<u>\$ 177,850</u>	<u>\$ 77,151</u>

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local and county revenues	\$ 2,210	\$ 2,500	\$ 2,029	\$ (471)
Revenue from state sources	190,245	175,387	174,893	(494)
Revenue from federal sources	1,085,432	1,202,402	1,213,264	10,862
Sales and other conversion of assets	1,628,377	1,679,236	1,683,217	3,981
Total revenues	<u>2,906,264</u>	<u>3,059,525</u>	<u>3,073,403</u>	<u>13,878</u>
Expenditures				
Food service				
Salaries	1,022,718	1,035,791	1,037,528	1,737
Employee benefits	550,215	519,274	483,899	(35,375)
Purchased services	154,925	148,132	151,313	3,181
Supplies and materials	1,140,121	1,212,957	1,166,519	(46,438)
Capital expenditures	7,600	4,000	-	(4,000)
Other expenditures	3,000	10,000	2,306	(7,694)
Total expenditures	<u>2,878,579</u>	<u>2,930,154</u>	<u>2,841,565</u>	<u>(88,589)</u>
Net change in fund balances	<u>\$ 27,685</u>	<u>\$ 129,371</u>	231,838	<u>\$ 102,467</u>
Fund Balance				
Beginning of year			<u>25,560</u>	
End of year			<u>\$ 257,398</u>	

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u> Amounts	<u>Variance with</u> Final Budget - Over (Under)
	<u>Original</u>	<u>Final</u>		
Revenues				
Local property taxes	\$ 491,163	\$ 490,671	\$ 442,429	\$ (48,242)
Other local and county revenues	2,519,054	2,599,420	2,748,690	149,270
Revenue from state sources	382,898	458,018	509,028	51,010
Total revenues	<u>3,393,115</u>	<u>3,548,109</u>	<u>3,700,147</u>	<u>152,038</u>
Expenditures				
Community education and services				
Salaries	2,289,139	2,319,583	2,524,702	205,119
Employee benefits	626,644	601,103	724,000	122,897
Purchased services	282,070	292,115	314,594	22,479
Supplies and materials	253,100	243,400	250,592	7,192
Capital expenditures	22,000	18,500	12,838	(5,662)
Other expenditures	9,350	9,050	9,577	527
Total expenditures	<u>3,482,303</u>	<u>3,483,751</u>	<u>3,836,303</u>	<u>352,552</u>
Excess of revenues over (under) expenditures	<u>\$ (89,188)</u>	<u>\$ 64,358</u>	<u>\$ (136,156)</u>	<u>\$ (200,514)</u>
Fund Balance				
Beginning of year			<u>(55,909)</u>	
End of year			<u>\$ (192,065)</u>	

Independent School District No. 877
Combining Statement of Fiduciary Net Position
June 30, 2016

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
Assets			
Current			
Investments			
Brokered money market	\$ 47,436	\$ 1,048,400	\$ 1,095,836
Fixed income	4,907,784	-	4,907,784
Equities	2,552,667	-	2,552,667
Mutual funds	5,727,140	-	5,727,140
Total investments	<u>13,235,027</u>	<u>1,048,400</u>	<u>14,283,427</u>
Accounts and interest receivable	<u>85,446</u>	<u>-</u>	<u>85,446</u>
Total assets	<u>\$ 13,320,473</u>	<u>\$ 1,048,400</u>	<u>\$ 14,368,873</u>
Liabilities			
Accounts payable	<u>\$ 56,219</u>	<u>\$ -</u>	<u>\$ 56,219</u>
Net Position			
Held in trust for OPEB	\$ 13,264,254	\$ -	\$ 13,264,254
Held in trust for HRA	<u>-</u>	<u>1,048,400</u>	<u>1,048,400</u>
Total net position	<u>\$ 13,264,254</u>	<u>\$ 1,048,400</u>	<u>\$ 14,312,654</u>

Combining Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2016

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
Additions			
Contributions	\$ 189,915	\$ 267,329	\$ 457,244
Investment income			
Interest, dividends, change in fair value	395,977	15,166	411,143
Less investment expenses	<u>(68,229)</u>	<u>-</u>	<u>(68,229)</u>
Net investment income	<u>327,748</u>	<u>15,166</u>	<u>342,914</u>
Total additions	<u>517,663</u>	<u>282,495</u>	<u>800,158</u>
Deductions			
Employee benefit deductions	<u>867,232</u>	<u>-</u>	<u>867,232</u>
Change in net position	<u>(349,569)</u>	<u>282,495</u>	<u>(67,074)</u>
Net Position			
Beginning of year	<u>13,613,823</u>	<u>765,905</u>	<u>14,379,728</u>
End of year	<u>\$ 13,264,254</u>	<u>\$ 1,048,400</u>	<u>\$ 14,312,654</u>

Independent School District No. 877
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	\$ 192,164
Commodities Program - Cash	10.555	37,985
School Breakfast	10.553	163,904
Type A Lunch	10.555	759,938
Summer Food Service	10.559	<u>59,273</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		1,213,264
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A Cluster		
Title I, Part A	84.010	410,637
Title II, Part A - Improving Teacher Quality	84.367	116,217
Special Education Cluster		
Special Education	84.027	916,803
Coordinated Early Intervening Services	84.027	60,000
Handicapped Early Education	84.173	<u>20,208</u>
Total Special Education Cluster		997,011
Through Wright County Interagency Early Intervention Committee		
Special Education - Infants and Toddlers	84.181	27,806
Through Wright Technical Institute		
Carl Perkins	84.048A	<u>1,244</u>
Total Department of Education		<u>1,552,915</u>
Total Federal Expenditures		<u>\$ 2,766,179</u>

Independent School District No. 877
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

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OTHER DISTRICT INFORMATION

Independent School District No. 877
Deferred Tax Levies
(Unaudited)

Calendar Year Levied	Collected	School Refunding Bond of 2012					School Building Bonds of 2015	Total
		School Building Refunding Bonds of 1999	School Building Bonds of 2003	Alternative Facilities Bonds of 2005	Taxable OPEB Bonds of 2009	Alternative Facilities Bonds of 2013		
2015	2016	\$ 2,134,020	\$ 2,561,685	\$ 840,945	\$ 1,290,437	\$ 319,699	\$ 1,004,769	\$ 8,151,555
2016	2017	2,135,490	2,572,867	838,163	1,290,681	311,876	1,004,769	8,153,846
2017	2018	2,125,541	2,566,410	-	2,207,194	246,356	1,004,769	8,150,270
2018	2019	2,108,741	2,571,660	-	2,224,541	243,994	1,004,769	8,153,705
2019	2020	2,112,167	2,563,260	-	2,240,207	231,131	1,004,769	8,151,534
2020	2021	645,731	4,022,130	-	2,258,912	223,204	1,004,769	8,154,746
2021	2022	-	4,747,470	-	2,186,378	215,355	1,004,769	8,153,972
2022	2023	-	4,755,660	-	-	2,265,165	1,004,769	8,025,594
2023	2024	-	-	-	-	-	6,291,519	6,291,519
2024	2025	-	-	-	-	-	6,311,416	6,311,416
2025	2026	-	-	-	-	-	6,315,459	6,315,459
2026	2027	-	-	-	-	-	6,312,794	6,312,794
2027	2028	-	-	-	-	-	6,310,658	6,310,658
2028	2029	-	-	-	-	-	6,315,960	6,315,960
		<u>\$ 11,261,690</u>	<u>\$ 26,361,142</u>	<u>\$ 1,679,108</u>	<u>\$ 13,698,350</u>	<u>\$ 4,056,780</u>	<u>\$ 45,895,958</u>	<u>\$ 102,953,028</u>

Independent School District No. 877
Property Tax Levies, Rates, and Valuations
Last 10 Fiscal Years
(Unaudited)

Year Collectible	Net Tax Capacity Valuations	Tax Capacity Rates	General Fund	Community Service Fund	Debt Service Fund	OPEB Debt Service Fund	Total All Funds
2007	\$ 31,211,062	0.31663	\$ 5,024,291	\$ 469,777	\$ 7,578,738	\$ -	\$ 13,072,806
2008	33,777,333	0.28308	5,548,494	468,565	7,072,607	-	13,089,666
2009	34,865,502	0.26180	5,680,660	565,908	6,650,262	-	12,896,830
2010	32,763,398	0.28085	5,673,327	564,269	6,035,737	838,712	13,112,045
2011	30,210,896	0.31952	5,580,632	590,417	6,664,340	518,688	13,354,077
2012	27,627,448	0.35165	5,407,118	560,963	6,650,801	518,688	13,137,570
2013	25,795,102	0.36930	5,353,503	549,781	6,362,376	520,630	12,786,290
2014	26,369,245	0.33882	5,040,652	479,555	6,259,996	492,256	12,272,459
2015	28,598,205	0.35375	5,102,489	444,304	7,363,703	496,186	13,406,682
2016	30,076,092	0.34489	6,299,838	464,451	5,807,758	1,290,641	13,862,688

Source: School Tax Report

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

Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ending June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 14, 2016.

Internal Control over Financial Reporting

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

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

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.

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Compliance and Other Matters

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

Purpose of this Report

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

BerganKDV Ltd.

St. Cloud, Minnesota

October 14, 2016



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

BerganKDV, Ltd.

Independent Auditor's Report

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Report on Compliance for Each Major Federal Program

We have audited the compliance of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost, in Accordance with the Uniform Guidance.

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Management's Responsibility

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

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Auditor's Responsibility

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

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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 the District's compliance.



Opinion on Each Major Federal Program

In our opinion, Independent School District No. 877 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.

Report on Internal Control over Compliance

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

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

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

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

A handwritten signature in cursive script that reads "BerganKDV Ltd." followed by a period.

St. Cloud, Minnesota
October 14, 2016

**Independent School District No. 877
Schedule of Findings and Questioned Costs in
Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? No

Noncompliance material to financial statements noted? No

Federal Awards

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

- Material weakness(es) identified? No
- Significant deficiency(ies) identified? No

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516? No

Identification of Major Programs

CFDA No.: 10.555, 10.553, and 10.559

Name of Federal Program or Cluster: Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low risk auditee? Yes

**Independent School District No. 877
Schedule of Findings and Questioned Costs in
Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None



Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota as of and for the year ended June 30, 2016, and the related notes to financial statements, and have issued our report thereon dated October 14, 2016.

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

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

The purpose of this report is 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.

St. Cloud, Minnesota
October 14, 2016

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Independent School District No. 877
Uniform Financial Accounting and Reporting Standards
Compliance Table
For the Year Ended June 30, 2016

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 General Fund				06 Building Construction Fund			
Total Revenue	\$ 60,918,688	\$ 60,918,691	\$ (3)	Total revenue	\$ 154,563	\$ 154,563	\$ -
Total Expenditures	60,679,186	60,679,188	(2)	Total expenditures	12,899,547	12,899,549	(2)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	262,877	262,876	1	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	62,695	62,695	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	(64,860)	(64,860)	-	413 Building Projects Funded by COP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Program	-	-	-	464 Restricted fund balance	18,338,175	18,338,174	1
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
413 Building Projects Funded by COP/LP	-	-	-	463 Unassigned fund balance	-	-	-
414 Operating Debt	-	-	-	07 Debt Service Fund			
416 Levy Reduction	-	-	-	Total revenue	\$ 7,388,481	\$ 7,388,480	\$ 1
417 Taconite Building Maintenance	-	-	-	Total expenditures	7,264,449	7,264,448	1
424 Operating Capital	614,500	614,501	(1)	<i>Nonspendable:</i>			
426 \$ 25 Taconite	-	-	-	460 Nonspendable fund balance	-	-	-
427 Disabled Accessibility	-	-	-	<i>Restricted/reserved:</i>			
428 Learning and Development	-	-	-	425 Bond refunding	-	-	-
434 Area Learning Center	-	-	-	451 QZAB and QSCB Payments	-	-	-
435 Contracted Alternative Programs	-	-	-	<i>Restricted:</i>			
436 State Approved Alternative Program	-	-	-	464 Restricted fund balance	1,567,390	1,567,390	-
438 Gifted and Talented	-	-	-	<i>Unassigned:</i>			
440 Teacher Development and Evaluations	103,247	103,247	-	463 Unassigned fund balance	-	-	-
441 Basic Skills Programs	-	-	-	08 Trust Fund			
445 Career Technical Programs	-	-	-	Total revenue	\$ 282,495	\$ 282,495	\$ -
446 First Grade Preparedness	-	-	-	Total expenditures	-	-	-
448 Achievement and Integration Revenue	-	-	-	<i>Unassigned:</i>			
449 Safe School Crime	-	-	-	422 Unassigned fund balance (net position)	1,048,400	1,048,400	-
450 Transaction for Pre-Kindergarten	-	-	-	20 Internal Service Fund			
451 QZAB and QSCB Payments	-	-	-	Total revenue	\$ -	\$ -	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total expenditures	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned fund balance (net position)	-	-	-
464 Restricted fund balance	-	-	-	25 OPEB Revocable Trust			
<i>Committed:</i>				Total revenue	\$ -	\$ -	\$ -
418 Committed for separation	4,165,436	4,165,436	-	Total expenditures	-	-	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned fund balance (net position)	-	-	-
462 Assigned fund balance	2,073,836	2,073,838	(2)	25 OPEB Irrevocable Trust			
<i>Unassigned:</i>				Total revenue	\$ 517,663	\$ 517,663	\$ -
422 Unassigned fund balance (net position)	9,739,003	9,738,999	4	Total expenditures	867,232	867,233	(1)
02 Food Services Fund				<i>Unassigned:</i>			
Total revenue	\$ 3,073,403	\$ 3,073,405	\$ (2)	422 Unassigned fund balance (net position)	13,264,254	13,264,253	1
Total expenditures	2,841,565	2,841,567	(2)	47 OPEB Debt Service			
<i>Nonspendable:</i>				Total revenue	\$ 499,453	\$ 499,453	\$ -
460 Nonspendable fund balance	97,331	97,331	-	Total expenditures	494,436	494,438	(2)
<i>Restricted/reserved:</i>				<i>Nonspendable:</i>			
452 OPEB liabilities not held in trust	-	-	-	460 Nonspendable fund balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
464 Restricted fund balance	160,067	160,067	-	464 Restricted fund balance	112,517	112,517	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
463 Unassigned fund balance	-	-	-	463 Unassigned fund balance	-	-	-
04 Community Service Fund				05 OPEB Irrevocable Trust			
Total revenue	\$ 3,700,147	\$ 3,700,150	\$ (3)	Total revenue	\$ 517,663	\$ 517,663	\$ -
Total expenditures	3,836,303	3,836,306	(3)	Total expenditures	867,232	867,233	(1)
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable fund balance	7,572	7,572	-	422 Unassigned fund balance (net position)	13,264,254	13,264,253	1
<i>Restricted/reserved:</i>				47 OPEB Debt Service			
426 \$ 25 Taconite	-	-	-	Total revenue	\$ 499,453	\$ 499,453	\$ -
431 Community Education	(124,082)	(124,082)	-	Total expenditures	494,436	494,438	(2)
432 ECFE	(27,519)	(27,519)	-	<i>Nonspendable:</i>			
440 Teacher Development and Evaluation	-	-	-	460 Nonspendable fund balance	-	-	-
444 School Readiness	(38,190)	(38,190)	-	<i>Restricted:</i>			
447 Adult Basic Education	12,213	12,213	-	464 Restricted fund balance	112,517	112,517	-
452 OPEB Liabilities not Held in Trust	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				463 Unassigned fund balance	-	-	-
464 Restricted fund balance	-	-	-	05 OPEB Irrevocable Trust			
<i>Unassigned:</i>				Total revenue	\$ 517,663	\$ 517,663	\$ -
463 Unassigned fund balance	(22,059)	(22,061)	2	Total expenditures	867,232	867,233	(1)