INDEPENDENT SCHOOL DISTRICT NO. 832
MAHTOMEDI, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 832

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 832

School Board and Administration
as of June 30, 2016

SCHOOL BOARD

	Position
Lucy Payne	Chairperson
Julie McGraw	Clerk/Vice Chair
Kevin Donovan	Treasurer
Mike Chevalier	Director
Judith Schwartz	Director

ADMINISTRATION

Mark Larson	Superintendent of Schools
Rochel Manders	Director of Business Services

FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 832
Mahtomedi, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 832 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
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OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows 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 and the required supplementary information (RSI), 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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI 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 introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

The supplemental information, the Schedule of Expenditures of Federal Awards, and the UFARS Compliance Table 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

(continued)

Prior Year Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated November 24, 2015. In our opinion, the partial 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 November 14, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 14, 2016

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This section of Independent School District No. 832's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's assets and deferred outflows of resources were lower than its liabilities and deferred inflows of resources at June 30, 2016 by $2,095,816 (net position). The District's total net position increased by $2,370,696 during the fiscal year ended June 30, 2016.
- At June 30, 2016, the District's governmental funds reported a combined ending fund balance of $14,348,068, an increase of $6,182,419 from the prior year. The fund balance increase is largely attributable to the increase in fund balance of the Capital Projects – Building Construction Fund of $6,488,307 due to the issuance of the 2016A Tax Abatement Bonds.
- The District's General Fund unassigned fund balance increased from $2,918,858 to $3,573,902, excluding deficit reserve balances, during fiscal year 2016. This balance is in compliance with the School Board's fund balance policy, which requires a minimum unassigned fund balance of at least 8 percent of expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Supplemental information, which includes combining and individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

In the government-wide financial statements, the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds can be found in the supplemental information section.

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 or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

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

Proprietary Funds – The District maintains one type of proprietary fund. The Internal Service Fund is used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses its Internal Service Fund to account for its self-insured risk of loss for employee health insurance plans. These services have been included within governmental activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Table 1
Summary Statement of Net Position
as of June 30, 2016 and 2015

	2016	2015
Assets		
Current and other assets	$ 31,678,277	$ 24,796,544
Capital assets, net of depreciation	67,860,716	67,753,745
Total assets	**$ 99,538,993**	**$ 92,550,289**
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	**$ 4,555,833**	**$ 3,233,293**
Liabilities		
Current and other liabilities	$ 3,726,183	$ 3,252,366
Long-term liabilities, including due within one year	86,760,682	78,414,171
Total liabilities	**$ 90,486,865**	**$ 81,666,537**
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 12,812,372	$ 12,506,922
Pension plan deferments – PERA and TRA	2,891,405	6,076,635
Total deferred inflows of resources	**$ 15,703,777**	**$ 18,583,557**
Net position		
Net investment in capital assets	$ 14,765,621	$ 12,905,622
Restricted	1,243,525	1,800,899
Unrestricted	(18,104,962)	(19,173,033)
Total net position	**$ (2,095,816)**	**$ (4,466,512)**

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. The other major factor in determining net position as compared to fund balances is the liability for long-term severance, pension, and other post-employment benefits (OPEB), which impacts the unrestricted portion of net position.

Total net position increased by $2,370,696, which is mostly due to the rate of debt repayment being higher than the rate of depreciation. Total long-term liabilities increased as the District issued 2016A Tax Abatement Bonds of $7,640,000 for parking lot reconstruction projects.

Table 2 presents a summarized version of the Statement of Activities of the District:

Table 2
Summary Statement of Activities
for the Years Ended June 30, 2016 and 2015

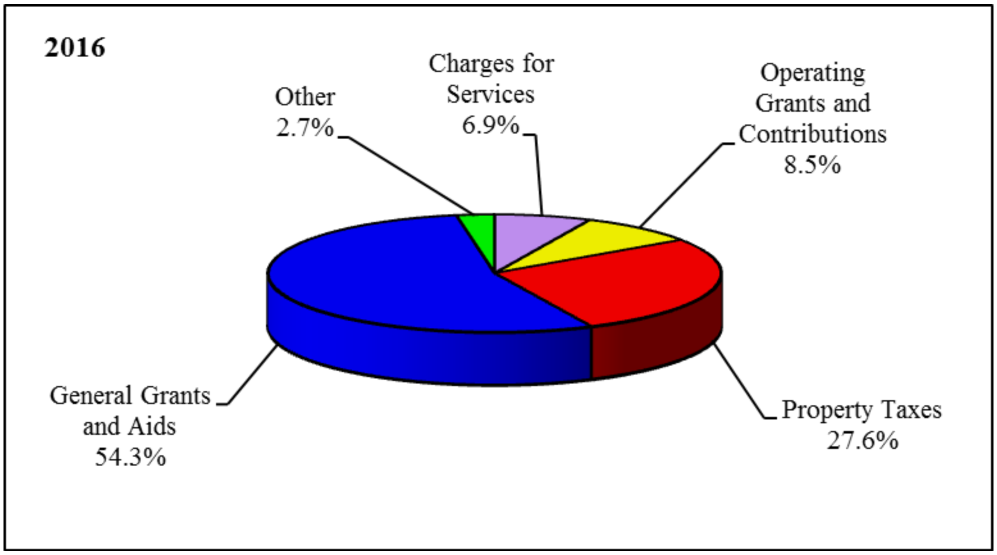
	2016	2015
Revenues		
Program revenues		
Charges for services	$ 3,129,375	$ 3,000,310
Operating grants and contributions	3,903,503	3,303,034
Capital grants and contributions	–	377,865
General revenues		
Property taxes	12,641,361	11,102,617
General grants and aids	24,822,060	23,240,959
Other	1,226,993	1,740,098
Total revenues	45,723,292	42,764,883
Expenses		
Administration	1,619,612	1,655,841
District support services	1,131,424	1,649,503
Elementary and secondary regular instruction	18,653,040	18,248,216
Vocational education instruction	527,083	497,700
Special education instruction	6,321,217	5,748,810
Instructional support services	1,857,995	1,666,593
Pupil support services	2,697,078	2,489,090
Sites and buildings	4,740,775	3,728,643
Fiscal and other fixed cost programs	115,640	110,258
Food service	1,432,468	1,398,475
Community service	1,889,306	1,718,100
Depreciation not allocated to other functions	749,146	750,341
Interest and fiscal charges on debt	1,617,812	2,580,364
Total expenses	43,352,596	42,241,934
Change in net position	2,370,696	522,949
Net position – beginning	(4,466,512)	(4,989,461)
Net position – ending	$ (2,095,816)	$ (4,466,512)

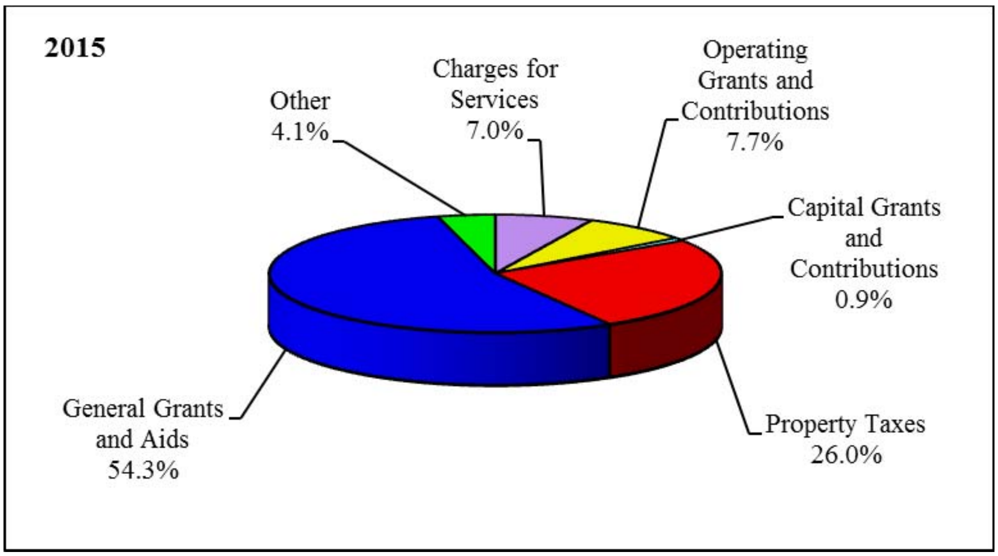
This format is similar to fund financial statements except that this is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

The increase in property taxes is due to this being the first year of revenue reported from the referendum approved by voters in November 2014.

Figures A and B show further analysis of these revenue sources and expense functions:

Figure A – Sources of Revenues for Fiscal Years 2016 and 2015



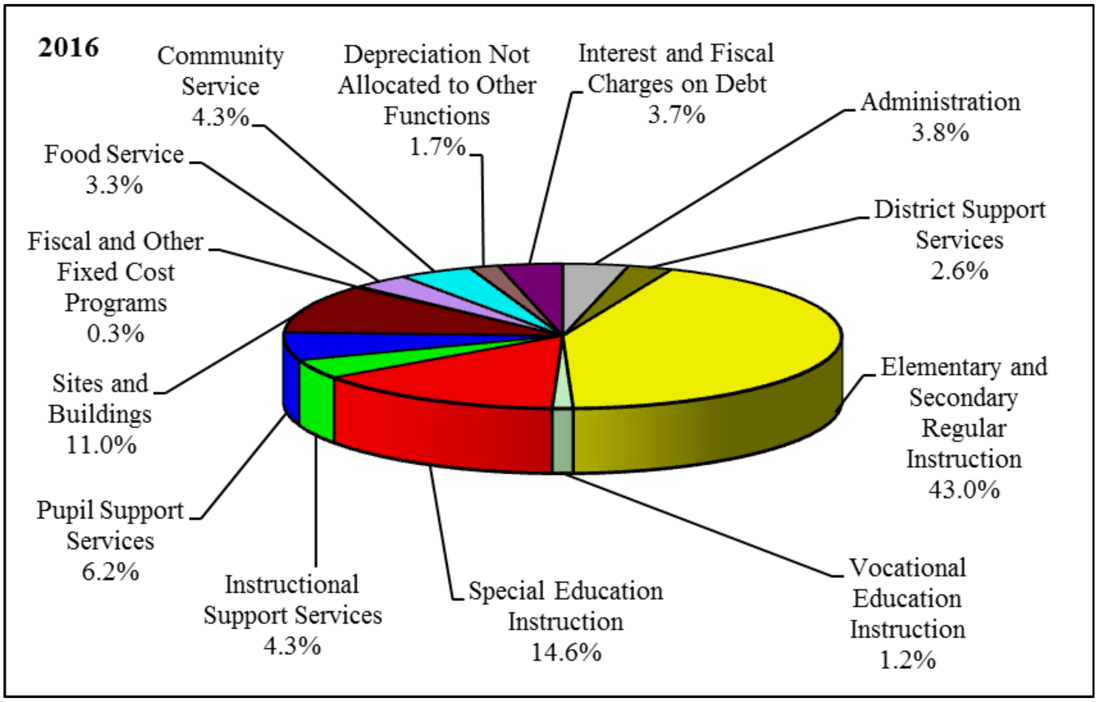


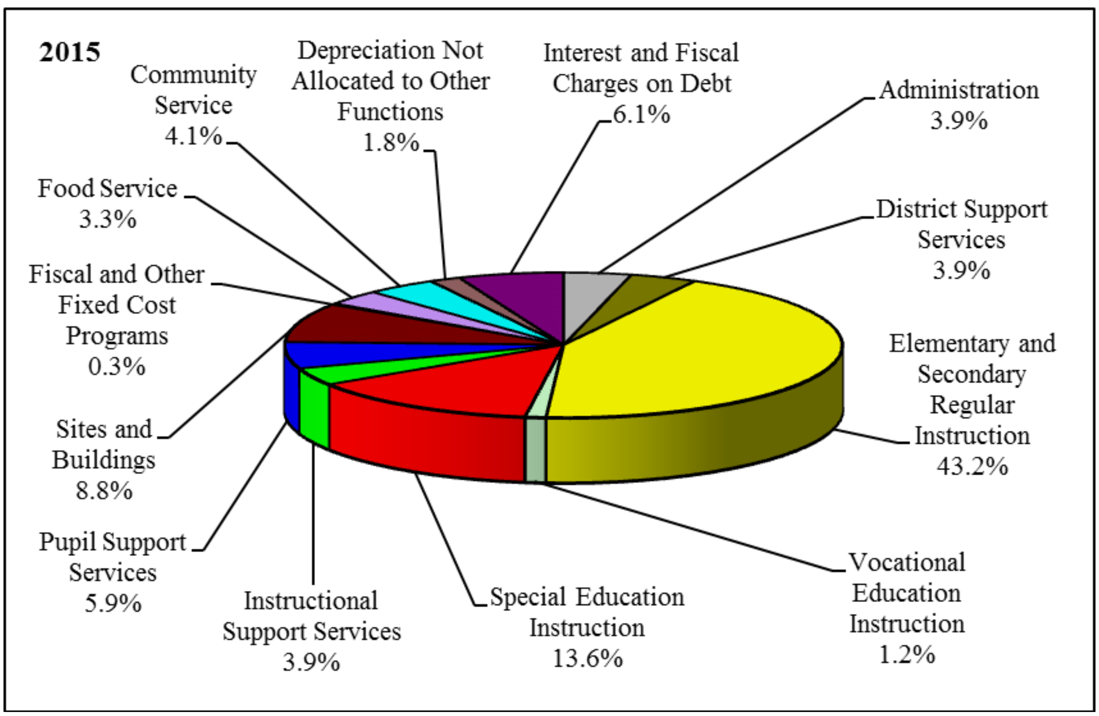
The largest share of the District's revenue is received from the state, including the aid formula and most of the operating grants. This significant reliance on the state for funding has placed tremendous pressure on local school districts as a result of limited funding due to the state's financial position in recent years.

Property taxes are generally the next largest source of funding. The level of funding property tax sources provide is not only dependent on taxpayers of the District by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

Figure B shows further analysis of these expense functions.

Figure B – Expenses for Fiscal Years 2016 and 2015





The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of the District's governmental funds:

Table 3
Governmental Fund Balances
as of June 30, 2016 and 2015

	2016	2015	Increase (Decrease)
Major funds			
General	$ 5,420,944	$ 5,362,651	$ 58,293
Capital Projects – Building Construction	6,488,307	–	6,488,307
Debt Service			
Regular	1,590,159	1,906,101	(315,942)
Other post-employment benefits	60,563	41,756	18,807
Nonmajor funds			
Food Service Special Revenue	348,549	412,688	(64,139)
Community Service Special Revenue	439,546	442,453	(2,907)
Total governmental funds	$ 14,348,068	$ 8,165,649	$ 6,182,419

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's School Board.

At June 30, 2016, the District's governmental funds reported combined fund balances of $14,348,068, an increase of $6,182,419 in comparison with the prior year. The General Fund balance increased slightly during fiscal year 2016, while the nonmajor funds (Food Service and Community Service) had a decrease to their combined fund balance of $67,046. The Food Service Special Revenue Fund balance decreased mainly due to capital outlay for equipment purchases in the current year. The Capital Projects – Building Construction Fund balance reflects the proceeds from the issuance of debt. The proceeds will be utilized for building and other capital projects in future years. The regular Debt Service Fund balance decrease is due to the repayment of debt made from funds held in escrow.

General Fund

The General Fund is used to account for all revenues and expenditures of the District not accounted for elsewhere. The General Fund is used to account for: K–12 educational activities, district instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and other legal school district expenditures not specifically designated to be accounted for in any other fund.

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	$ 36,396,902	$ 36,289,553	$ (107,349)	(0.3%)
Expenditures	$ 36,756,083	$ 36,431,952	$ (324,131)	(0.9%)

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amends the budget for known changes in circumstances such as enrollment levels, legislative funding, and employee contract settlements.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2016	Amount	Percent	Amount	Percent
Revenue and other financing sources	$ 37,117,479	$ 827,926	2.3%	$ 3,466,789	10.3%
Expenditures	(37,059,186)	$ 627,234	1.7%	$ 1,709,938	4.8%
Net change in fund balances	$ 58,293				

The largest revenue variances to budget occurred in state sources and other local sources, which were $550,016 and $326,266 more than projected in the budget, respectively. State sources were mainly over budget as a result of the pass-through of about $440,000 of state funding for pensions. The expenditure variance to budget was spread across several programs and object categories of the General Fund, with the most significant budget overage in the area of employee benefits in the elementary and secondary regular instruction program. Other sources were over budget due to higher donations being received.

The increase from the prior year was mainly due to the increased tax levy from the $2.2 million referendum approved by the voters in November 2014, improvement in the general education funding formula, and the pass-through of state funding for pensions. Expenditures increased from the prior year in salaries and benefits as anticipated with scheduled contract improvements and for the pension pass-through payments for the Teachers Retirement Association (TRA). Capital expenditures were also over prior year levels in the sites and buildings program.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund was established to account for the 2016A Tax Abatement Bonds issued during the year, and ended the year with a fund balance of $6,488,307. These funds will be utilized to support future district building projects.

Debt Service Fund

The Debt Service Fund balance ended fiscal year 2016 at $1,650,722, a decrease of $297,135. The Debt Service Fund balance is dedicated for payments on refunded bonds and for future debt service obligations.

Other Governmental Funds

The Food Service Special Revenue Fund balance decreased $64,139 in fiscal year 2016 coinciding with a planned or budgeted decrease of $77,665. The fund balance at the end of the fiscal year was $348,549, or 23.6 percent, of current year expenditures. This was the 12th year of a successful joint powers agreement for food service with Independent School District No. 834, Stillwater Area Public Schools.

The Community Service Special Revenue Fund balance decreased $2,907, compared to a planned increase of $134,555. The school aged care program expenditures for salaries and benefits exceeded the budget by $172,562 due to added staff to meet the demand of increases in enrollment. Increases in revenue partially offset this increase.

Internal Service Fund

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis. The District currently maintains one Internal Service Fund. This fund is used to account for the District's self-insured health insurance function. Operating revenues for the Internal Service Fund for fiscal year 2016 totaled $4,574,853. Operating expenses totaled $4,459,850 for health benefit claims. The net position for the Internal Service Fund as of June 30, 2016 totaled a deficit of ($66,023), a significant improvement over the prior year deficit of ($181,026).

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2016 and 2015:

Table 6
Capital Assets

	2016	2015	Increase (Decrease)
Land	$ 1,561,766	$ 1,561,766	$ –
Construction in progress	1,396,767	–	1,396,767
Buildings	71,542,871	71,491,991	50,880
Land improvements	13,658,737	13,024,513	634,224
Furniture and equipment	2,736,629	2,641,102	95,527
Less accumulated depreciation	(23,036,054)	(20,965,627)	(2,070,427)
Total	$ 67,860,716	$ 67,753,745	$ 106,971
Depreciation expense	$ 2,264,213	$ 2,298,510	$ (34,297)

The District's $2.5 million of capital asset additions in fiscal year 2016 relate to construction on parking lots, high school gymnasium, the high school roof, playground, and food service equipment.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities, together with the change from the prior year:

Table 7
Outstanding Long-Term Liabilities

	2016	2015	Increase (Decrease)
General obligation bonds payable	$ 55,075,000	$ 50,740,000	$ 4,335,000
Net (discount) premium	7,324,999	7,482,052	(157,053)
Net pension liability – PERA	3,664,042	3,485,544	178,498
Net pension liability – TRA	20,314,788	16,196,867	4,117,921
Severance benefits payable	170,094	320,749	(150,655)
Compensated absences payable	211,759	188,959	22,800
Total	$ 86,760,682	$ 78,414,171	$ 8,346,511

The increase in general obligation bonds payable is due to the issuance of new debt combined with the planned repayment schedule reflecting principal payments during fiscal year 2016.

Additional details regarding the net pension liability for both the TRA and the Public Employees Retirement Association can be found in the notes to basic financial statements.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits. (See Table 8.)

Table 8
Limitations on Debt

District's market value	$ 2,040,219,100
Limit rate	15.0%
Legal debt limit	$ 306,032,865

Additional details of the District's capital assets and long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. In the 2016 fiscal year, the Legislature added $117, or 2.0 percent, per pupil to the formula for fiscal year 2017. The ongoing demands on limited resources continue to present challenges in funding education for Minnesota schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide citizens, taxpayers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the resources it receives and utilizes. Should you have questions about these statements or need additional information, please contact Rochel Manders, Director of Business Services, (phone (651) 407-2000), Independent School District No. 832, 1520 Mahtomedi Avenue, Mahtomedi, Minnesota 55115.

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BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Net Position
as of June 30, 2016
(With Partial Comparative Information as of June 30, 2015)

	Governmental Activities	
	2016	2015
Assets		
Cash and temporary investments	$ 19,307,158	$ 11,694,552
Receivables		
Current taxes	6,885,575	6,694,315
Delinquent taxes	118,102	123,450
Accounts and interest	106,199	64,331
Due from fiduciary fund	113,550	–
Due from other governmental units	2,648,648	3,141,540
Inventory	12,943	17,313
Prepaid items	29,573	60,355
Negative net other post-employment benefits obligation	1,738,568	1,942,727
Restricted assets – temporarily restricted		
Cash and investments for debt service	717,961	1,057,961
Capital assets		
Not depreciated	2,958,533	1,561,766
Depreciated, net of accumulated depreciation	64,902,183	66,191,979
Total capital assets, net of accumulated depreciation	67,860,716	67,753,745
Total assets	99,538,993	92,550,289
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	4,555,833	3,233,293
Total assets and deferred outflows of resources	$ 104,094,826	$ 95,783,582
Liabilities		
Salaries payable	$ 131,791	$ 99,979
Accounts and contracts payable	1,209,009	824,065
Accrued interest payable	935,260	945,376
Due to other governmental units	169,093	155,593
Unearned revenue	1,281,030	1,227,353
Long-term liabilities		
Due within one year	3,461,759	3,655,101
Due in more than one year	83,298,923	74,759,070
Total long-term liabilities	86,760,682	78,414,171
Total liabilities	90,486,865	81,666,537
Deferred inflows of resources		
Property taxes levied for subsequent year	12,812,372	12,506,922
Pension plan deferments – PERA and TRA	2,891,405	6,076,635
Total deferred inflows of resources	15,703,777	18,583,557
Net position		
Net investment in capital assets	14,765,621	12,905,622
Restricted for		
Capital asset acquisition	438,515	944,315
Debt service	16,145	–
Food service	348,549	412,688
Community service	440,316	443,896
Unrestricted	(18,104,962)	(19,173,033)
Total net position	(2,095,816)	(4,466,512)
Total liabilities, deferred inflows of resources, and net position	$ 104,094,826	$ 95,783,582

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Activities
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	2016				2015
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 1,619,612	$ –	$ –	$ (1,619,612)	$ (1,655,841)
District support services	1,131,424	–	–	(1,131,424)	(1,649,503)
Elementary and secondary regular instruction	18,653,040	421,300	127,430	(18,104,310)	(17,765,617)
Vocational education instruction	527,083	–	–	(527,083)	(497,700)
Special education instruction	6,321,217	–	3,320,348	(3,000,869)	(3,012,517)
Instructional support services	1,857,995	870	–	(1,857,125)	(1,666,593)
Pupil support services	2,697,078	21,397	–	(2,675,681)	(2,484,810)
Sites and buildings	4,740,775	73,946	–	(4,666,829)	(3,280,200)
Fiscal and other fixed cost programs	115,640	–	–	(115,640)	(110,258)
Food service	1,432,468	1,035,277	375,765	(21,426)	60,183
Community service	1,889,306	1,576,585	79,960	(232,761)	(167,164)
Depreciation not allocated to other functions	749,146	–	–	(749,146)	(750,341)
Interest and fiscal charges	1,617,812	–	–	(1,617,812)	(2,580,364)
Total governmental activities	$ 43,352,596	$ 3,129,375	$ 3,903,503	(36,319,718)	(35,560,725)
General revenue					
Taxes					
Property taxes, levied for general purposes				7,112,358	5,444,375
Property taxes, levied for community service				262,629	285,295
Property taxes, levied for debt service				5,266,374	5,372,947
General grants and aids				24,822,060	23,240,959
Other general revenues				1,197,349	1,726,882
Gain on sale of assets				5,554	–
Investment earnings				24,090	13,216
Total general revenue				38,690,414	36,083,674
Change in net position				2,370,696	522,949
Net position – beginning				(4,466,512)	(4,989,461)
Net position – ending				$ (2,095,816)	$ (4,466,512)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Balance Sheet
Governmental Funds
as of June 30, 2016
(With Partial Comparative Information as of June 30, 2015)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 6,366,597	$ 6,851,738	$ 3,770,166
Cash and investments held by trustee	–	–	717,961
Receivables			
Current taxes	4,082,215	–	2,677,261
Delinquent taxes	68,381	–	47,307
Accounts and interest	51,439	881	–
Due from other funds	113,550	–	–
Due from other governmental units	2,638,427	–	529
Inventory	–	–	–
Prepaid items	25,573	–	900
Total assets	$ 13,346,182	$ 6,852,619	$ 7,214,124
Liabilities			
Salaries payable	$ 78,213	$ –	$ –
Accounts and contracts payable	397,992	364,312	–
Due to other governmental units	107,845	–	–
Unearned revenue	3,877	–	282,590
Total liabilities	587,927	364,312	282,590
Deferred inflows of resources			
Property taxes levied for subsequent year	7,302,356	–	5,262,168
Unavailable revenue – delinquent taxes	34,955	–	18,644
Total deferred inflows of resources	7,337,311	–	5,280,812
Fund balances (deficit)			
Nonspendable	25,573	–	900
Restricted	438,515	6,488,307	1,649,822
Assigned	1,428,890	–	–
Unassigned	3,527,966	–	–
Total fund balances	5,420,944	6,488,307	1,650,722
Total liabilities, deferred inflows of resources, and fund balances	$ 13,346,182	$ 6,852,619	$ 7,214,124

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2016	Total Governmental Funds 2015
$ 1,044,769	$ 18,033,270	$ 10,670,923
–	717,961	1,057,961
126,099	6,885,575	6,694,315
2,414	118,102	123,450
53,879	106,199	62,824
–	113,550	–
9,692	2,648,648	3,141,540
12,943	12,943	17,313
3,100	29,573	60,355
$ 1,252,896	$ 28,665,821	$ 21,828,681
$ 53,578	$ 131,791	$ 99,979
35,399	797,703	473,576
61,248	169,093	155,593
65,958	352,425	371,680
216,183	1,451,012	1,100,828
247,848	12,812,372	12,506,922
770	54,369	55,282
248,618	12,866,741	12,562,204
16,043	42,516	77,668
826,435	9,403,079	3,754,820
–	1,428,890	1,443,870
(54,383)	3,473,583	2,889,291
788,095	14,348,068	8,165,649
$ 1,252,896	$ 28,665,821	$ 21,828,681

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INDEPENDENT SCHOOL DISTRICT NO. 832

Reconciliation of the Balance Sheet to the Statement of Net Position Governmental Funds as of June 30, 2016 (With Partial Comparative Information as of June 30, 2015)

	2016	2015
Total fund balances – governmental funds	$ 14,348,068	$ 8,165,649
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	90,896,770	88,719,372
Accumulated depreciation	(23,036,054)	(20,965,627)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(55,075,000)	(50,740,000)
Net discount (premium)	(7,324,999)	(7,482,052)
Net pension liability – PERA	(3,664,042)	(3,485,544)
Net pension liability – TRA	(20,314,788)	(16,196,867)
Severance benefits payable	(170,094)	(320,749)
Compensated absences payable	(211,759)	(188,959)
Net other post-employment benefit obligations reported in the Statement of Net Position do not require the use of current financial resources and are not reported as assets (liabilities) in governmental funds until actually due.	1,738,568	1,942,727
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(935,260)	(945,376)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	(66,023)	(181,026)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	4,555,833	3,233,293
Deferred inflows – PERA and TRA pension plans	(2,891,405)	(6,076,635)
Deferred inflows – delinquent property taxes	54,369	55,282
Total net position – governmental activities	$ (2,095,816)	$ (4,466,512)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 7,795,116	$ –	$ 5,274,731
Investment earnings (charges)	28,214	(78)	(2,776)
Other	1,711,371	–	–
State sources	26,945,252	–	5,230
Federal sources	631,972	–	–
Total revenue	37,111,925	(78)	5,277,185
Expenditures			
Current			
Administration	1,752,516	–	–
District support services	1,150,350	–	–
Elementary and secondary regular instruction	19,288,869	–	–
Vocational education instruction	528,338	–	–
Special education instruction	6,343,824	–	–
Instructional support services	1,666,024	–	–
Pupil support services	2,695,742	–	–
Sites and buildings	3,517,883	–	–
Fiscal and other fixed cost programs	115,640	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	1,635,954	–
Debt service			
Principal	–	–	2,965,000
Interest and fiscal charges	–	–	2,269,320
Total expenditures	37,059,186	1,635,954	5,234,320
Excess (deficiency) of revenue over expenditures	52,739	(1,636,032)	42,865
Other financing sources (uses)			
Sale of assets	5,554	–	–
Premium on debt issued	–	484,339	–
Debt issued	–	7,640,000	–
Payments on bond refunding	–	–	(340,000)
Total other financing sources (uses)	5,554	8,124,339	(340,000)
Net change in fund balances	58,293	6,488,307	(297,135)
Fund balances			
Beginning of year	5,362,651	–	1,947,857
End of year	$ 5,420,944	$ 6,488,307	$ 1,650,722

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2016	Total Governmental Funds 2015
$ 263,302	$ 13,333,149	$ 11,146,001
(1,270)	24,090	13,216
2,611,862	4,323,233	4,690,566
135,931	27,086,413	25,662,936
319,794	951,766	1,245,847
3,329,619	45,718,651	42,758,566
–	1,752,516	1,625,130
–	1,150,350	1,629,882
–	19,288,869	18,275,458
–	528,338	489,000
–	6,343,824	5,713,305
–	1,666,024	1,615,312
–	2,695,742	2,477,437
–	3,517,883	3,176,091
–	115,640	110,258
1,377,841	1,377,841	1,352,306
1,890,419	1,890,419	1,678,916
128,405	1,764,359	13,396
–	2,965,000	3,830,000
–	2,269,320	3,049,341
3,396,665	47,326,125	45,035,832
(67,046)	(1,607,474)	(2,277,266)
–	5,554	532
–	484,339	7,791,412
–	7,640,000	39,315,000
–	(340,000)	(45,000,000)
–	7,789,893	2,106,944
(67,046)	6,182,419	(170,322)
855,141	8,165,649	8,335,971
$ 788,095	$ 14,348,068	$ 8,165,649

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INDEPENDENT SCHOOL DISTRICT NO. 832

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	2016	2015
Total net change in fund balances – governmental funds	$ 6,182,419	$ (170,322)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded in net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	2,549,532	1,118,679
Depreciation expense	(2,264,213)	(2,298,510)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(178,348)	(1,294)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.		
General obligation bonds payable	(7,640,000)	(39,315,000)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	3,305,000	48,605,000
Certificates of participation payable	–	225,000
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	10,116	185,546
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	157,053	(7,507,981)
Certain expenses are included in the change in net position but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability – PERA	(178,498)	553,959
Net pension liability – TRA	(4,117,921)	4,018,996
Severance benefits payable	150,655	(15,735)
Compensated absences payable	(22,800)	(15,663)
Negative net other post-employment benefits obligation	(204,159)	(524,479)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the Internal Service Fund is included in the governmental activities in the Statement of Activities.	115,003	(42,929)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	1,322,540	1,827,701
Deferred inflows – PERA and TRA pension plans	3,185,230	(6,076,635)
Deferred inflows – delinquent property taxes	(913)	(43,384)
Change in net position – governmental activities	$ 2,370,696	$ 522,949

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2016

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 7,785,444	$ 7,785,444	$ 7,795,116	$ 9,672
Investment earnings	7,000	7,000	28,214	21,214
Other	1,485,700	1,385,105	1,711,371	326,266
State sources	26,426,741	26,395,236	26,945,252	550,016
Federal sources	692,017	716,768	631,972	(84,796)
Total revenue	36,396,902	36,289,553	37,111,925	822,372
Expenditures				
Current				
Administration	1,663,988	1,651,340	1,752,516	101,176
District support services	1,390,904	1,246,846	1,150,350	(96,496)
Elementary and secondary regular instruction	18,916,266	18,713,151	19,288,869	575,718
Vocational education instruction	480,121	534,640	528,338	(6,302)
Special education instruction	6,178,334	6,087,177	6,343,824	256,647
Instructional support services	1,646,256	1,667,735	1,666,024	(1,711)
Pupil support services	2,695,757	2,837,350	2,695,742	(141,608)
Sites and buildings	3,532,617	3,441,873	3,517,883	76,010
Fiscal and other fixed cost programs	251,840	251,840	115,640	(136,200)
Total expenditures	36,756,083	36,431,952	37,059,186	627,234
Excess (deficiency) of revenue over expenditures	(359,181)	(142,399)	52,739	195,138
Other financing sources				
Sale of assets	–	–	5,554	5,554
Net change in fund balances	$ (359,181)	$ (142,399)	58,293	$ 200,692
Fund balances				
Beginning of year			5,362,651	
End of year			$ 5,420,944	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Net Position
Proprietary Fund
Internal Service Fund
as of June 30, 2016
(With Partial Comparative Information as of June 30, 2015)

	2016	2015
Assets		
Current assets		
Cash and temporary investments	$ 1,273,888	$ 1,023,629
Receivables		
Accounts and interest	–	1,507
Total assets	1,273,888	1,025,136
Liabilities		
Current liabilities		
Accounts and contracts payable	411,306	350,489
Unearned revenue	928,605	855,673
Total current liabilities	1,339,911	1,206,162
Net position		
Unrestricted	$ (66,023)	$ (181,026)

Statement of Revenue, Expenses, and Changes in Fund Net Position
Proprietary Fund
Internal Service Fund
as of June 30, 2016
(With Partial Comparative Information as of June 30, 2015)

	2016	2015
Operating revenue		
Charges for services		
Contributions from governmental funds	$ 4,574,853	$ 4,119,244
Operating expenses		
Claims and settlements	4,459,850	4,162,173
Operating income (loss)	115,003	(42,929)
Net position		
Beginning of year	(181,026)	(138,097)
End of year	$ (66,023)	$ (181,026)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 832

Statement of Cash Flows
Proprietary Fund
Internal Service Fund
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	2016	2015
Cash flows from operating activities		
Received from assessments made to other funds	$ 4,649,292	$ 4,214,215
Payments for claims	(4,399,033)	(4,091,474)
Net cash provided from operating activities	250,259	122,741
Cash and temporary investments		
Beginning of year	1,023,629	900,888
End of year	$ 1,273,888	$ 1,023,629
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	$ 115,003	$ (42,929)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts and interest receivable	1,507	(1,507)
Accounts and contracts payable	60,817	70,699
Unearned revenue	72,932	96,478
Net cash flows from operating activities	$ 250,259	$ 122,741

See notes to basic financial statements

Statement of Fiduciary Net Position
Fiduciary Fund
as of June 30, 2016

	Post-Employment Benefits Trust Fund
Assets	
Cash and temporary investments	$ 504,832
Investments	
Local government obligations	470,875
Negotiable certificates of deposit	1,183,199
MNTrust Investment Shares Portfolio	5,433
Accounts and interest receivable	14,729
Total assets	2,179,068
Liabilities	
Due to other funds	113,550
Net position	
Held in trust for other post-employment benefits	$ 2,065,518

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

	Post-Employment Benefits Trust Fund
Additions	
Investment earnings	$ 46,485
Deductions	
Benefits paid to plan members	137,942
Change in net position	(91,457)
Net position	
Beginning of year	2,156,975
End of year	$ 2,065,518

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 832 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a six-member School Board elected by voters of the District to serve four-year terms. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate entities for which the District (the primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board can elect to either control or not control extracurricular student activities. The District's School Board has elected to control and be financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these financial statements.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and 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 Statement of Changes in Fiduciary Net Position at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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 internally directed revenues are reported instead as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The government-wide 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. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as "depreciation not allocated to other functions." Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements. The Proprietary Fund (Internal Service Fund) is presented in the proprietary fund financial statements. Because the principal users of the internal services are the District's governmental activities, the financial statements of the Proprietary Fund (Internal Service Fund) are consolidated into the governmental activities in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity. Fiduciary funds are presented in the fiduciary fund financial statements by type; pension (or other benefit) trust, private-purpose trust, and agency. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

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

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. Revenues are generally considered as available if collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and use the accrual basis of accounting as described earlier in these notes.

Description of Funds

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

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by debt issue.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The Regular Debt Service Account is used for all general obligation debt service except for the financial activities of the Other Post-Employment Benefits (OPEB) Debt Service Account. The OPEB Debt Service Account is used to pay principal, interest, and related costs on the 2009A taxable OPEB bond issue.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used primarily to record financial activities of the District's child nutrition program.

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

Proprietary Funds

Internal Service Funds – The internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The District has one Internal Service Fund. The District's Internal Service Fund includes financing for self-insurance of the employee health insurance program.

Fiduciary Funds

Post-Employment Benefits Trust Fund – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgetary Information

The budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds. Actual expenditures exceeded budgeted amounts in the General Fund, Community Service Special Revenue Fund, and the Debt Service Fund by $627,234, $229,477, and $5,789, respectively. Revenues and other financing sources in excess of budget, along with available fund balance, covered these variances.

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Debt Service Fund, an escrow account is established for cash and investments held for debt service related to the issuance of refunding bonds. Interest earned in this trust account is allocated directly to the Debt Service Fund. The cash, investments, and any related interest receivable are reported as restricted assets in the government-wide financial statements.

In the Post-Employment Benefits Trust Fund, investments reported at fair value are deposited by the District in an irrevocable trust account, the use of which is restricted to paying other post-employment health insurance benefits as specified in the trust agreement. Interest earned on this trust account is allocated directly to that fund.

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. 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.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of June 30, 2016.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Purchased food and supplies are recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Prepaid Items

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

J. Property Taxes

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aid by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $690,875 of the property tax levy collectible in 2016 as revenue to the District in fiscal year 2015–2016. The remaining portion of the taxes collectible in 2016 is recorded as a deferred inflow of resources (property taxes levied for the subsequent year).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected.

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

K. Interfund Transactions

The General Fund has a receivable of $113,550 at year-end due from the Post-Employment Benefits Trust Fund to cover costs paid by the General Fund reimbursable by the Post-Employment Benefits Trust Fund.

L. Capital Assets

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. 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. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

N. Compensated Absences Payable

Under the terms of union contracts, certain employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end.

O. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

P. Pensions

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

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association (DTRFA) in 2015.

Q. Risk Management and Self-Insurance

1. **General Insurance** – 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 workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2016.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. **Self-Insurance** – The District has established an Internal Service Fund to account for and finance its self-insured risk of loss for employee health insurance plans. Under this plan, the District provides coverage to participating employees and their dependents for certain health costs as described in the plans.

   The District makes premium payments that include both employer and employee contributions to the Internal Service Fund on behalf of program participants based on rates determined by insurance company estimates of monthly claims paid for each coverage class, plus the stop-loss health insurance premium costs and administrative service charges.

   District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claim liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the Internal Service Fund's claim liabilities for the last two fiscal years were as follows:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2015	$ 279,790	$ 4,162,173	$ (4,091,474)	$ 350,489
2016	$ 350,489	$ 4,459,850	$ (4,399,033)	$ 411,306

R. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items which qualify for reporting in this category.

The first 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The third item, deferred inflows of resources related to pensions, is reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and the difference between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

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 amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

T. Net Position

In the government-wide and internal service fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

U. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the Director of Business Services is authorized to establish assignments of fund balance.

- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

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

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

V. Statement of Cash Flows

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents. The Proprietary (Internal Service) Fund's equity in the government-wide cash and investment management pool is considered to be cash equivalent.

W. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	$	10,569,067
Investments		11,620,391
Total	$	22,189,458

Cash and investments are presented in the financial statements as follows:

Statement of Net Position		
Cash and temporary investments	$	19,307,158
Restricted assets – temporarily restricted		
Cash and investments for debt service		717,961
Statement of Fiduciary Net Position		
Cash and temporary investments		504,832
Investments		
Local government obligations		470,875
Negotiable certificates of deposit		1,183,199
MNTrust Investment Shares Portfolio		5,433
Total	$	22,189,458

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

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

At year-end, the carrying amount of the District's deposits was $10,569,067 while the balance on the bank records was $10,569,067. At June 30, 2016, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The District has the following investments at year-end:

Investment Type	Credit Risk – Credit Rating	Credit Risk – Rating Agency	Fair Value Measurements Using	Interest Risk – Maturity Duration in Years – Less Than 1	Interest Risk – Maturity Duration in Years – 1 to 5	Carrying Value
Government obligations – Federal Home Loan Mortgage Corporation	AA	S&P	Level 1	$ –	$ 502,009	$ 502,009
Local government obligations	AA	S&P	Level 1	$ –	$ 470,875	470,875
U.S. treasuries	AAA	S&P	Level 1	$ 364,037	$ 353,924	717,961
Negotiable certificates of deposit	N/A	N/A	Level 1	$ 145,417	$ 1,287,338	1,432,755
Investment pools/mutual funds						
Minnesota School District Liquid Asset Fund Liquid portfolio	AAA	S&P	NAV			1,246,311
MNTrust Term Series	AAA	S&P	NAV			3,500,000
MNTrust Investment Shares Portfolio	AAA	S&P	NAV			3,750,480
Total						$ 11,620,391

N/A – Not Applicable
NAV – Net Asset Value

The Minnesota School District Liquid Asset Fund (MSDLAF), MNTrust Investment Shares Portfolio (MNTrust), and the MNTrust Term Series are regulated by Minnesota Statutes and are external investment pools, which are not registered with the Securities Exchange Commission (SEC). The District's investment in these trusts is measured at the net asset value (NAV) per share provided by the pool, which is based on an amortized cost method that approximates fair value.

MSDLAF and MNTrust investments are valued at NAV, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for MNTrust and the MSDLAF Liquid Class; the redemption notice period is 14 days for the MSDLAF MAX Class.

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers.

OPEB Trust Fund – This fund represents investments administered by the District's OPEB Trust Fund investment managers. The District's investment policy, discussed previously, extends to the OPEB Trust Fund investments.

For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statute § 356A.06, Subd. 7. The District's investment policies do not further restrict investing in specific financial instruments.

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

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds.

The District's investment policy states that the District will diversify the use of investment instruments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. The maximum percent of the District's portfolio in any instrument is as follows:

U.S. treasury obligations (bills, notes, and bonds)	100%
U.S. government agency securities and instrumentalities of government-sponsored corporations	100%
Bankers' acceptances (Ba)	75%
Commercial paper – prime (C)	75%
Repurchase agreements (Repos)	50%
Certificates of deposit (CDs)	75%
Local government investment pool	100%

Also, no more than 50 percent of the total portfolio will be with any one instrument.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policy includes limits on investment maturities as a means of managing its exposure to fair value arising from increasing interest rates.

NOTE 3 – CAPITAL ASSETS

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

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	$ 1,561,766	$ –	$ –	$ 1,561,766
Construction in progress	–	1,396,767	–	1,396,767
Total capital assets, not depreciated	1,561,766	1,396,767	–	2,958,533
Capital assets, depreciated				
Buildings	71,491,991	50,880	–	71,542,871
Land improvements	13,024,513	634,224	–	13,658,737
Furniture and equipment	2,641,102	467,661	(372,134)	2,736,629
Total capital assets, depreciated	87,157,606	1,152,765	(372,134)	87,938,237
Less accumulated depreciation for				
Buildings	(17,219,972)	(1,703,691)	–	(18,923,663)
Land improvements	(2,387,082)	(438,999)	–	(2,826,081)
Furniture and equipment	(1,358,573)	(121,523)	193,786	(1,286,310)
Total accumulated depreciation	(20,965,627)	(2,264,213)	193,786	(23,036,054)
Net capital assets, depreciated	66,191,979	(1,111,448)	(178,348)	64,902,183
Total capital assets, net	$ 67,753,745	$ 285,319	$ (178,348)	$ 67,860,716

Depreciation expense for the year ended June 30, 2016 was charged to the following governmental functions:

Elementary and secondary regular instruction	$ 45,095
Instructional support services	2,855
Pupil support services	5,760
Sites and buildings	1,436,375
Food service	23,325
Community education	1,657
Depreciation not allocated to other functions	749,146
Total depreciation expense	$ 2,264,213

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding
General obligation bonds payable					
School Building Bonds, Series 1995	06/01/1995	5.6–6.0%	$ 5,194,754	02/01/2017	$ 1,275,000
Taxable OPEB Bonds, Series 2009A	05/05/2009	3.5–5.4%	$ 3,265,000	02/01/2024	2,080,000
School Refunding Bonds, Series 2010A	05/01/2010	4.0–5.0%	$ 8,720,000	02/01/2018	4,425,000
School Refunding Bonds, Series 2012A	05/01/2012	0.3–1.4%	$ 2,135,000	02/01/2019	700,000
School Refunding Bonds, Series 2014A	11/13/2014	4.0–5.0%	$ 38,930,000	02/01/2031	38,570,000
Taxable School Refunding Bonds, Series 2014B	11/13/2014	3.4%	$ 385,000	02/01/2021	385,000
Tax Abatement Bonds, Series 2016A	06/09/2016	2.0–3.0%	$ 7,640,000	02/01/2030	7,640,000
Total general obligation bonds payable					$ 55,075,000

B. Description of Long-Term Liabilities

General Obligation School Building, Tax Abatement, and Refunding Bonds – These bonds were issued to finance acquisition and/or construction of capital facilities or to refinance the retirement (refund) of prior bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

General Obligation Taxable OPEB Bonds – These obligations were issued to finance OPEB. Assets of the OPEB Debt Service Account, together with scheduled deferred ad valorem tax revenue, are dedicated for the retirement of these obligations. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Refunding Bonds – In November 2014, the District issued $38,930,000 of General Obligation School Refunding Bonds, Series 2014A. These bonds were issued to currently refund, in advance of their stated maturities, the 2019 through 2031 maturities of the Taxable General Obligation School Building Bonds, Series 2010B. These bonds were also issued to refund, in a crossover refunding obligation, a portion of the 2016 and 2017 maturities of the District’s General Obligation School Building Bonds, Series 1995 totaling $340,000 and $340,000 on February 1, 2016 and February 1, 2017, respectively. This refunding will result in a net present value cash flow savings of $2,470,767 and a net present value benefit of $346,740.

In November 2014, the District issued $385,000 of Taxable General Obligation School Building Bonds, Series 2014. In February 2018, the proceeds of this issue will be used to refund, in a crossover refunding obligation, a portion of the 2018 maturities totaling $340,000 of the District’s General Obligation School Refunding Bonds, Series 2010A. This refunding will result in a net present value cash flow loss of ($64,847) and a net present value loss of ($31,887).

C. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including: compensated absences, severance benefits, pensions, and OPEB. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund. The District has also established a Post-Employment Benefits Trust Fund to finance OPEB obligations.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

D. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds are as follows:

Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest
2017	$ 3,225,000	$ 2,342,317
2018	3,475,000	2,330,218
2019	2,910,000	2,178,683
2020	2,995,000	2,070,573
2021	3,110,000	1,954,273
2022–2026	17,810,000	7,509,348
2027–2031	21,550,000	3,053,150
	$ 55,075,000	$ 21,438,562

F. Changes in Long-Term Liabilities

	Balance – June 30, 2015	Additions	Retirements	Balance – June 30, 2016	Due Within One Year
General obligation bonds payable	$ 50,740,000	$ 7,640,000	$ 3,305,000	$ 55,075,000	$ 3,225,000
Net (discount) premium	7,482,052	484,339	641,392	7,324,999	–
Net pension liability – PERA	3,485,544	896,843	718,345	3,664,042	–
Net pension liability – TRA	16,196,867	5,868,044	1,750,123	20,314,788	–
Severance benefits payable	320,749	31,359	182,014	170,094	25,000
Compensated absences payable	188,959	282,990	260,190	211,759	211,759
	$ 78,414,171	$ 15,203,575	$ 6,857,064	$ 86,760,682	$ 3,461,759

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. Any such restrictions which have an accumulated deficit rather than positive balance at June 30 are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. However, a description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

NOTE 5 – FUND BALANCES (CONTINUED)

A. Classifications

At June 30, 2016, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	$ –	$ –	$ –	$ 12,943	$ 12,943
Prepaid items	25,573	–	900	3,100	29,573
Total nonspendable	25,573	–	900	16,043	42,516
Restricted					
Operating capital	438,515	–	–	–	438,515
Community education programs	–	–	–	383,010	383,010
Early childhood family education programs	–	–	–	100,943	100,943
Community service	–	–	–	9,976	9,976
Food service	–	–	–	332,506	332,506
Building construction	–	6,488,307	–	–	6,488,307
Bond refunding	–	–	717,961	–	717,961
Debt service	–	–	931,861	–	931,861
Total restricted	438,515	6,488,307	1,649,822	826,435	9,403,079
Assigned					
Separation benefits	411,850	–	–	–	411,850
Student activities	197,093	–	–	–	197,093
Building carryover	272,712	–	–	–	272,712
Subsequent year budget	547,235	–	–	–	547,235
Total assigned	1,428,890	–	–	–	1,428,890
Unassigned					
Capital projects levy restricted account deficit	(3,622)	–	–	–	(3,622)
Deferred maintenance restricted account deficit	(5,451)	–	–	–	(5,451)
Health and safety restricted account deficit	(36,863)	–	–	–	(36,863)
School readiness restricted account deficit	–	–	–	(54,383)	(54,383)
Unassigned	3,573,902	–	–	–	3,573,902
Total unassigned	3,527,966	–	–	(54,383)	3,473,583
Total	$ 5,420,944	$ 6,488,307	$ 1,650,722	$ 788,095	$ 14,348,068

B. Fund Balance Policy

The School Board has formally adopted a fund balance policy. This policy states that the School Board will strive to maintain a minimum unassigned General Fund balance (excluding restricted account deficits) of 8.0 percent of total General Fund expenditures. At June 30, 2016, the unassigned fund balance of the General Fund was 9.6 percent of the total General Fund expenditures.

If the fund balance falls below 8.0 percent, 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 shall not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenditures have historically been lower than budgeted levels.

NOTE 5 – FUND BALANCES (CONTINUED)

If the fund balance is projected to decrease below 7.0 percent, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts or a combination of both.

C. Deficit Net Position

At June 30, 2016, the District's Internal Service Fund had a deficit net position of $66,023. Plan design changes have been considered to help the fund be self-supporting.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity and administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

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

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

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes 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 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded status, or have fallen below 80.0 percent, are given 1.0 percent increases.

- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0 percent. After the TRA funded ratio exceeds 90.0 percent for two consecutive years, the annual post-retirement benefit will increase to 2.5 percent.

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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.

2. TRA Benefits

The 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 Statutes 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 the 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

Step Rate Formula	Percentage per Year
Basic Plan	
First 10 years	2.2%
All years after	2.7%
Coordinated Plan	
First 10 years if service years are prior to July 1, 2006	1.2%
First 10 years if service years are July 1, 2006 or after	1.4%
All other years of service if service years are prior to July 1, 2006	1.7%
All other years of service if service years are July 1, 2006 or after	1.9%

With these provisions:

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

(b) Three percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II Benefits

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree—no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans 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.

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for the Coordinated Plan.

The District's contributions to the GERF for the year ended June 30, 2016 were $308,972. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

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

	Year Ended June 30,			
	2015		2016	
	Employee	Employer	Employee	Employer
Basic Plan	11.0%	11.5%	11.0%	11.5%
Coordinated Plan	7.5%	7.5%	7.5%	7.5%

The District's contributions to the TRA for the year ended June 30, 2016 were $1,310,240. The District's contributions were equal to the required contributions for each year as set by state statutes.

The following is a reconciliation of employer contributions in the TRA's Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Non-Employer Pension Allocations:

Employer contributions reported in the 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 the 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. The TRA has rounded percentage amounts to the nearest ten thousandths.

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

D. Merger of Duluth Teachers Retirement Fund Association (DTRFA)

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

	June 30, 2014 CAFR	Restated
Total pension liability (a)	$ 24,901,612,000	$ 25,299,564,000
Plan fiduciary net position (b)	20,293,684,000	20,519,756,000
Net pension liability (a-b)	$ 4,607,928,000	$ 4,779,808,000

E. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of $3,664,042 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 the 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 the PERA's participating employers. At June 30, 2015, the District's proportion was 0.0707 percent, which was a decrease of 0.0035 percent from its proportion measured as of June 30, 2014.

The GERF benefit provision changes during the measurement period included (1) the merger of the former Minneapolis Employees Retirement Fund division into the 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 percent. The Legislature has since set the discount rate in statute at 8.0 percent. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB Statement No. 68 accounting requirements will be increased to 8.0 percent 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 $349,428 for its proportionate share of the GERF's pension expense.

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

At June 30, 2016, the District reported its proportionate share of the 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	$ 33,979	$ 184,730
Changes in actuarial assumptions	228,184	–
Differences between projected and actual investment earnings	–	326,167
Changes in proportion	–	142,028
District's contributions to the GERF subsequent to the measurement date	308,972	–
Total	$ 571,135	$ 652,925

A total of $308,972 reported as deferred outflows of resources related to pensions resulting from district contributions to the 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 the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2017	$ (115,465)
2018	$ (115,465)
2019	$ (246,547)
2020	$ 86,715

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of $20,314,788 for its proportionate share of the TRA'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 to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.3284 percent at the end of the measurement period and 0.3515 percent for the beginning of the period.

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

District's proportionate share of net pension liability	$ 20,314,788
State's proportionate share of the net pension liability associated with the District	$ 2,491,928

For the year ended June 30, 2016, the District recognized pension expense of $1,179,200. It also recognized $440,541 as an increase to pension expense for the support provided by direct aid.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,112,791	$ –
Difference between projected and actual investment earnings	–	1,804,702
Changes in assumptions	1,561,667	–
Changes in proportion	–	433,778
District's contributions to the TRA subsequent to the measurement date	1,310,240	–
Total	$ 3,984,698	$ 2,238,480

A total of $1,310,240 reported as deferred outflows of resources related to pensions resulting from district contributions to the 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 and inflows of resources related to the TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2017	$ (194,584)
2018	$ (194,584)
2019	$ (194,584)
2020	$ 1,019,730

F. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.75% per year	3.00%
Active member payroll growth	3.50% per year	3.50–12.00% based on years of service
Investment rate of return	7.90%	8.00%

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.

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

Actuarial assumptions used in the June 30, 2015, valuation for the GERF 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. Experience studies have not been prepared for the PERA's other plans, but assumptions are reviewed annually.

The actuarial assumptions used in the June 30, 2015, valuation for the TRA 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 Statement No. 67 valuation.

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

The long-term expected rate of return on pension plan investments is 7.90 percent for the GERF and 8.00 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, 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 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%	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.90 percent for the GERF and 8.00 percent for the TRA. This is a decrease from the discount rate at the prior measurement date of 8.25 percent for the TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2016 contribution rates, 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, each of the pension plan's fiduciary net positions were 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.

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

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.90%	7.90%	8.90%
District's proportionate share of the GERF net pension liability	$ 5,761,175	$ 3,664,042	$ 1,932,131
TRA discount rate	7.00%	8.00%	9.00%
District's proportionate share of the TRA net pension liability	$ 30,921,737	$ 20,314,788	$ 11,462,983

I. Pension Plan Fiduciary Net Position

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

Detailed information about the TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at the TRA website at www.MinnesotaTRA.org; by writing to the TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-2088; or by calling (651) 296-2409 or (800) 657-3669.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

In addition, full-time teachers who are at least 50 years of age or have completed 20 years of professional service in the appropriate unit in the District shall be eligible for severance pay pursuant to the provisions in the severance pay article of the teachers' master agreement. All persons whose actual service began prior to July 1, 1989 shall be eligible for this benefit.

The full-time teachers shall accumulate 10 days of credit for each full year of actual teaching in the District up to a maximum of one year's salary as determined by the salary schedule placement. In applying these provisions, a teacher's daily rate of pay shall be the basic rate of the teacher's last day of actual service as provided in the basic salary schedule for the basic school year. These amounts are contributed directly to a health savings account and are, therefore, by definition considered OPEB under the provisions of GASB Statement No. 45.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. There are invested plan assets accumulated for payment of future benefits which are held in the Post-Employment Benefits Trust Fund.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on annual required contributions (ARC) of the District, an amount determined on an actuarially determined basis in accordance with the parameters of GASB Statement No. 45. The ARC represents a level funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the District's net OPEB obligation to the plan:

ARC	$ 164,779
Interest on net OPEB obligation	(58,282)
Adjustment to ARC	97,662
Annual OPEB cost	204,159
Contributions made	–
Increase in net OPEB obligation	204,159
Negative net OPEB obligation – beginning of year	(1,942,727)
Negative net OPEB obligation – end of year	$ (1,738,568)

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District's annual OPEB cost, the employer contribution, the percentage of annual OPEB cost contributed to the plan, and the negative net OPEB obligation (asset) for the past three years are as follows:

Fiscal Year Ended June 30,	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Negative Net OPEB Obligation (Asset)
2014	$ (68,191)	$ –	– %	$ (2,467,206)
2015	$ 524,479	$ –	– %	$ (1,942,727)
2016	$ 204,159	$ –	– %	$ (1,738,568)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was 89.2 percent funded. The actuarial accrued liability for benefits was $2,539,862, and the actuarial value of assets was $2,266,594, resulting in an unfunded actuarial accrued liability (UAAL) of $273,268. The covered payroll (annual payroll of active employees covered by the plan) was $19,404,361, and the ratio of the UAAL to the covered payroll was 1.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare 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 following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.0 percent investment rate of return (net of administrative expenses) based on the District's own investments; a 3.0 percent rate of projected salary increases; an annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent for medical insurance; and an annual healthcare trend rate of 4.0 percent for dental insurance. All rates include a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2014 for the various amortization layers ranged from 24 to 30 years.

F. Post-Employment Benefits Trust Fund

The District administers a defined benefit OPEB Plan. The assets of the plan are reported in the District's financial report in the Post-Employment Benefits Trust Fund. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The Post-Employment Benefits Trust Fund is reported using the accrual basis of accounting. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

G. Membership

Membership in the plan consisted of the following as of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	18
Active plan members	342
Total members	360

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Receivables

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

B. Legal Claims

The District has the usual and customary legal claims pending at year-end, mostly of minor nature and/or covered by insurance. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

C. Construction Commitments

At June 30, 2016, the District had construction contract commitments totaling approximately $3,000,000.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of District's Proportionate Share of Net Pension Liability
Public Employees Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0742%	$ 3,485,544	$ 3,901,247	89.34%	78.70%
06/30/2016	06/30/2015	0.0707%	$ 3,664,042	$ 3,774,394	97.08%	78.20%

Schedule of District Contributions
Public Employees Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	06/30/2015	$ 278,552	$ 278,552	$ –	$ 3,774,394	7.38%
06/30/2016	06/30/2016	$ 308,972	$ 308,972	$ –	$ 4,176,584	7.40%

Note 1: **Changes of Benefit Terms**. (1) The Minneapolis Employees Retirement Fund was merged into the GERF on January 1, 2015. (2) Revisions to Minnesota Statutes to make changes to contribution rates less prescriptive and more flexible.

Note 2: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Teachers Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.3515%	$ 16,196,867	$ 1,139,345	$ 17,336,212	$ 16,044,763	100.95%	81.50%
06/30/2016	06/30/2015	0.3284%	$ 20,314,788	$ 2,491,928	$ 22,806,716	$ 16,114,607	126.06%	76.80%

Schedule of District Contributions
Teachers Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	06/30/2015	$ 1,159,998	$ 1,159,998	$ –	$ 16,114,607	7.20%
06/30/2016	06/30/2016	$ 1,310,240	$ 1,310,240	$ –	$ 17,491,654	7.49%

Note 1: **Changes of Benefit Terms**. The DTRFA was merged into the TRA on June 30, 2015.

Note 2: **Change of Assumptions.** The annual cost of living adjustment for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent with an increase to 2.50 percent commencing in 2034. The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent.

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of Funding Progress
Other Post-Employment Benefits Plan
Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2010	$ 2,994,460	$ 2,905,712	$ 88,748	97.0 %	$ 16,983,592	0.5%
July 1, 2012	$ 2,987,759	$ 2,854,978	$ 132,781	95.6 %	$ 18,008,351	0.7%
July 1, 2014	$ 2,539,862	$ 2,266,594	$ 273,268	89.2 %	$ 19,404,361	1.4%

Schedule of District Contributions
Other Post-Employment Benefits Plan
Year Ended June 30, 2016

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Negative Net OPEB Obligation (Asset)
2011	$ 161,340	28.5 %	$ (2,741,397)
2012	$ 148,541	59.7 %	$ (2,619,484)
2013	$ 157,604	– %	$ (2,399,015)
2014	$ 169,094	– %	$ (2,467,206)
2015	$ 167,351	– %	$ (1,942,727)
2016	$ 164,779	– %	$ (1,738,568)

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 832

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2016

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 398,914	$ 645,855	$ 1,044,769
Receivables			
Current taxes	–	126,099	126,099
Delinquent taxes	–	2,414	2,414
Accounts and interest	427	53,452	53,879
Due from other governmental units	2,571	7,121	9,692
Inventory	12,943	–	12,943
Prepaid items	3,100	–	3,100
Total assets	$ 417,955	$ 834,941	$ 1,252,896
Liabilities			
Salaries payable	$ –	$ 53,578	$ 53,578
Accounts and contracts payable	9,503	25,896	35,399
Due to other governmental units	59,903	1,345	61,248
Unearned revenue	–	65,958	65,958
Total liabilities	69,406	146,777	216,183
Deferred inflows of resources			
Property taxes levied for subsequent year	–	247,848	247,848
Unavailable revenue – delinquent taxes	–	770	770
Total deferred inflows of resources	–	248,618	248,618
Fund balances			
Nonspendable for inventory	12,943	–	12,943
Nonspendable for prepaids	3,100	–	3,100
Restricted	332,506	493,929	826,435
Unassigned	–	(54,383)	(54,383)
Total fund balances	348,549	439,546	788,095
Total liabilities, deferred inflows of resources, and fund balances	$ 417,955	$ 834,941	$ 1,252,896

INDEPENDENT SCHOOL DISTRICT NO. 832

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2016

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 263,302	$ 263,302
Investment earnings (charges)	(581)	(689)	(1,270)
Other	1,035,277	1,576,585	2,611,862
State sources	55,971	79,960	135,931
Federal sources	319,794	–	319,794
Total revenue	1,410,461	1,919,158	3,329,619
Expenditures			
Current			
Food service	1,377,841	–	1,377,841
Community service	–	1,890,419	1,890,419
Capital outlay	96,759	31,646	128,405
Total expenditures	1,474,600	1,922,065	3,396,665
Net change in fund balances	(64,139)	(2,907)	(67,046)
Fund balances			
Beginning of year	412,688	442,453	855,141
End of year	$ 348,549	$ 439,546	$ 788,095

INDEPENDENT SCHOOL DISTRICT NO. 832

General Fund
Comparative Balance Sheet
as of June 30, 2016 and 2015

	2016	2015
Assets		
Cash and temporary investments	$ 6,366,597	$ 5,820,836
Receivables		
Current taxes	4,082,215	3,850,746
Delinquent taxes	68,381	62,781
Accounts and interest	51,439	52,989
Due from other funds	113,550	–
Due from other governmental units	2,638,427	3,097,945
Prepaid items	25,573	55,608
Total assets	$ 13,346,182	$ 12,940,905
Liabilities		
Salaries payable	$ 78,213	$ 49,729
Accounts and contracts payable	397,992	425,292
Due to other governmental units	107,845	87,841
Unearned revenue	3,877	14,891
Total liabilities	587,927	577,753
Deferred inflows of resources		
Property taxes levied for subsequent year	7,302,356	6,973,663
Unavailable revenue – delinquent taxes	34,955	26,838
Total deferred inflows of resources	7,337,311	7,000,501
Fund balances (deficit)		
Nonspendable for prepaid items	25,573	55,608
Restricted for capital projects levy	–	18,999
Restricted for operating capital	438,515	896,705
Restricted for deferred maintenance	–	2,722
Restricted for health and safety	–	25,889
Assigned for separation benefits	411,850	411,850
Assigned for student activities	197,093	194,406
Assigned for building carryover	272,712	478,433
Assigned for subsequent year budget	547,235	359,181
Unassigned – capital project levy restricted account deficit	(3,622)	–
Unassigned – deferred maintenance restricted account deficit	(5,451)	–
Unassigned – health and safety restricted account deficit	(36,863)	–
Unassigned	3,573,902	2,918,858
Total fund balances	5,420,944	5,362,651
Total liabilities, deferred inflows of resources, and fund balances	$ 13,346,182	$ 12,940,905

INDEPENDENT SCHOOL DISTRICT NO. 832

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 7,785,444	$ 7,795,116	$ 9,672	$ 5,472,637
Investment earnings	7,000	28,214	21,214	7,595
Other	1,385,105	1,711,371	326,266	2,070,386
State sources	26,395,236	26,945,252	550,016	25,550,634
Federal sources	716,768	631,972	(84,796)	548,906
Total revenue	36,289,553	37,111,925	822,372	33,650,158
Expenditures				
Current				
Administration				
Salaries	1,146,585	1,197,764	51,179	1,149,406
Employee benefits	418,269	456,929	38,660	399,038
Purchased services	57,521	68,588	11,067	47,901
Supplies and materials	10,500	15,187	4,687	15,200
Capital expenditures	–	112	112	–
Other expenditures	18,465	13,936	(4,529)	13,585
Total administration	1,651,340	1,752,516	101,176	1,625,130
District support services				
Salaries	468,980	406,166	(62,814)	469,179
Employee benefits	195,021	116,293	(78,728)	133,241
Purchased services	360,978	326,683	(34,295)	362,261
Supplies and materials	7,000	2,864	(4,136)	630
Capital expenditures	1,604	6,346	4,742	48,846
Other expenditures	213,263	291,998	78,735	615,725
Total district support services	1,246,846	1,150,350	(96,496)	1,629,882
Elementary and secondary regular instruction				
Salaries	12,234,495	12,193,399	(41,096)	11,834,059
Employee benefits	4,295,696	4,850,672	554,976	4,257,469
Purchased services	732,727	773,884	41,157	732,559
Supplies and materials	599,303	591,380	(7,923)	531,258
Capital expenditures	153,771	162,897	9,126	153,799
Other expenditures	697,159	716,637	19,478	766,314
Total elementary and secondary regular instruction	18,713,151	19,288,869	575,718	18,275,458

(continued)

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	283,153	281,670	(1,483)	260,936
Employee benefits	116,387	125,088	8,701	92,503
Purchased services	115,600	113,385	(2,215)	132,702
Supplies and materials	14,100	2,040	(12,060)	2,859
Capital expenditures	5,000	6,155	1,155	–
Other expenditures	400	–	(400)	–
Total vocational education instruction	534,640	528,338	(6,302)	489,000
Special education instruction				
Salaries	4,020,655	4,120,910	100,255	3,814,937
Employee benefits	1,509,066	1,640,793	131,727	1,381,188
Purchased services	246,000	332,212	86,212	313,331
Supplies and materials	100,346	97,322	(3,024)	59,873
Capital expenditures	110,610	47,698	(62,912)	54,667
Other expenditures	100,500	104,889	4,389	89,309
Total special education instruction	6,087,177	6,343,824	256,647	5,713,305
Instructional support services				
Salaries	1,058,292	1,051,009	(7,283)	1,043,869
Employee benefits	441,643	446,985	5,342	426,260
Purchased services	93,463	105,125	11,662	66,727
Supplies and materials	58,578	42,982	(15,596)	52,877
Capital expenditures	10,459	19,794	9,335	24,515
Other expenditures	5,300	129	(5,171)	1,064
Total instructional support services	1,667,735	1,666,024	(1,711)	1,615,312
Pupil support services				
Salaries	892,119	824,430	(67,689)	691,167
Employee benefits	318,330	308,538	(9,792)	252,154
Purchased services	1,550,870	1,482,038	(68,832)	1,466,160
Supplies and materials	75,341	74,753	(588)	53,670
Capital expenditures	–	5,628	5,628	1,064
Other expenditures	690	355	(335)	13,222
Total pupil support services	2,837,350	2,695,742	(141,608)	2,477,437

(continued)

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	889,659	937,710	48,051	892,666
Employee benefits	340,360	352,549	12,189	327,105
Purchased services	1,023,593	1,049,172	25,579	969,752
Supplies and materials	266,300	204,636	(61,664)	302,970
Capital expenditures	921,231	973,010	51,779	683,308
Other expenditures	730	806	76	290
Total sites and buildings	3,441,873	3,517,883	76,010	3,176,091
Fiscal and other fixed cost programs				
Employee benefits	139,701	–	(139,701)	–
Purchased services	112,139	115,640	3,501	110,258
Total fiscal and other fixed cost programs	251,840	115,640	(136,200)	110,258
Debt service				
Principal	–	–	–	225,000
Interest and fiscal charges	–	–	–	12,375
Total debt service	–	–	–	237,375
Total expenditures	36,431,952	37,059,186	627,234	35,349,248
Excess (deficiency) of revenue over expenditures	(142,399)	52,739	195,138	(1,699,090)
Other financing sources				
Sale of assets	–	5,554	5,554	532
Net change in fund balances	$ (142,399)	58,293	$ 200,692	(1,698,558)
Fund balances				
Beginning of year		5,362,651		7,061,209
End of year		$ 5,420,944		$ 5,362,651

INDEPENDENT SCHOOL DISTRICT NO. 832

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2016 and 2015

	2016	2015
Assets		
Cash and temporary investments	$ 398,914	$ 423,630
Receivables		
Accounts and interest receivable	427	–
Due from other governmental units	2,571	38,293
Inventory	12,943	17,313
Prepaid items	3,100	2,700
Total assets	$ 417,955	$ 481,936
Liabilities		
Accounts and contracts payable	$ 9,503	$ 2,841
Due to other governmental units	59,903	66,407
Total liabilities	69,406	69,248
Fund balances		
Nonspendable for inventory	12,943	17,313
Nonspendable for prepaid items	3,100	2,700
Restricted for food service	332,506	392,675
Total fund balances	348,549	412,688
Total liabilities and fund balances	$ 417,955	$ 481,936

INDEPENDENT SCHOOL DISTRICT NO. 832

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings (charges)	$ 600	$ (581)	$ (1,181)	$ 581
Other – primarily meal sales	1,056,400	1,035,277	(21,123)	1,081,004
State sources	58,200	55,971	(2,229)	58,574
Federal sources	309,600	319,794	10,194	319,076
Total revenue	1,424,800	1,410,461	(14,339)	1,459,235
Expenditures				
Current				
Salaries	129,500	106,564	(22,936)	123,457
Employee benefits	6,060	5,351	(709)	6,602
Purchased services	594,835	599,209	4,374	559,947
Supplies and materials	676,000	661,388	(14,612)	660,714
Other expenditures	1,500	5,329	3,829	1,586
Capital outlay	94,570	96,759	2,189	1,412
Total expenditures	1,502,465	1,474,600	(27,865)	1,353,718
Net change in fund balances	$ (77,665)	(64,139)	$ 13,526	105,517
Fund balances				
Beginning of year		412,688		307,171
End of year		$ 348,549		$ 412,688

INDEPENDENT SCHOOL DISTRICT NO. 832

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2016 and 2015

	2016	2015
Assets		
Cash and temporary investments	$ 645,855	$ 722,892
Receivables		
Current taxes	126,099	135,079
Delinquent taxes	2,414	3,182
Accounts and interest	53,452	9,835
Due from other governmental units	7,121	4,946
Prepaid items	–	2,047
Total assets	$ 834,941	$ 877,981
Liabilities		
Salaries payable	$ 53,578	$ 50,250
Accounts and contracts payable	25,896	45,443
Due to other governmental units	1,345	1,345
Unearned revenue	65,958	74,199
Total liabilities	146,777	171,237
Deferred inflows of resources		
Property taxes levied for subsequent year	247,848	262,848
Unavailable revenue – delinquent taxes	770	1,443
Total deferred inflows of resources	248,618	264,291
Fund balances (deficit)		
Nonspendable for prepaid items	–	2,047
Restricted for community education programs	383,010	376,310
Restricted for early childhood family education programs	100,943	93,663
Restricted for community service	9,976	–
Unassigned – school readiness restricted account deficit	(54,383)	(29,567)
Total fund balances	439,546	442,453
Total liabilities, deferred inflows of resources, and fund balances	$ 834,941	$ 877,981

INDEPENDENT SCHOOL DISTRICT NO. 832

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 302,195	$ 263,302	$ (38,893)	$ 286,345
Investment earnings (charges)	200	(689)	(889)	689
Other – primarily tuition and fees	1,453,234	1,576,585	123,351	1,539,176
State sources	71,514	79,960	8,446	49,847
Total revenue	1,827,143	1,919,158	92,015	1,876,057
Expenditures				
Current				
Salaries	868,209	1,058,703	190,494	892,118
Employee benefits	300,835	327,237	26,402	265,112
Purchased services	434,311	421,603	(12,708)	443,273
Supplies and materials	63,315	65,957	2,642	57,119
Other expenditures	16,400	16,919	519	21,294
Capital outlay	9,518	31,646	22,128	11,984
Total expenditures	1,692,588	1,922,065	229,477	1,690,900
Net change in fund balances	$ 134,555	(2,907)	$ (137,462)	185,157
Fund balances				
Beginning of year		442,453		257,296
End of year		$ 439,546		$ 442,453

INDEPENDENT SCHOOL DISTRICT NO. 832

Capital Projects – Building Construction Fund
Balance Sheet
as of June 30, 2016

Assets		
Cash and temporary investments	$	6,851,738
Receivables		
Accounts and interest		881
Total assets	$	6,852,619
Liabilities		
Accounts and contracts payable	$	364,312
Fund balances		
Restricted for building construction		6,488,307
Total liabilities and fund balances	$	6,852,619

INDEPENDENT SCHOOL DISTRICT NO. 832

Capital Projects – Building Construction Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2016

Revenue	
Local sources	
Investment earnings (charges)	$ (78)
Expenditures	
Capital outlay	
Salaries	76,226
Employee benefits	20,064
Purchased services	444,404
Capital expenditures	1,046,092
Debt service	
Fiscal charges and other	49,168
Total expenditures	1,635,954
Excess (deficiency) of revenue over expenditures	(1,636,032)
Other financing sources	
Premium on debt issued	484,339
Debt issued	7,640,000
Total other financing sources	8,124,339
Net change in fund balances	6,488,307
Fund balances	
Beginning of year	–
End of year	$ 6,488,307

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INDEPENDENT SCHOOL DISTRICT NO. 832

Debt Service Fund
Balance Sheet by Account
as of June 30, 2016
(With Comparative Totals as of June 30, 2015)

	Regular Debt Service Account	OPEB Debt Service Account	Totals 2016	Totals 2015
Assets				
Cash and temporary investments	$ 3,545,495	$ 224,671	$ 3,770,166	$ 3,703,565
Cash and investments held by trustee	717,961	–	717,961	1,057,961
Receivables				
Current taxes	2,505,130	172,131	2,677,261	2,708,490
Delinquent taxes	44,170	3,137	47,307	57,487
Due from other governmental units	494	35	529	356
Prepaid items	900	–	900	–
Total assets	$ 6,814,150	$ 399,974	$ 7,214,124	$ 7,527,859
Liabilities				
Unearned revenue	$ 282,590	$ –	$ 282,590	$ 282,590
Deferred inflows of resources				
Property taxes levied for subsequent year	4,923,844	338,324	5,262,168	5,270,411
Unavailable revenue – delinquent taxes	17,557	1,087	18,644	27,001
Total deferred inflows of resources	4,941,401	339,411	5,280,812	5,297,412
Fund balances				
Nonspendable for prepaid items	900	–	900	–
Restricted for bond refunding	717,961	–	717,961	1,057,961
Restricted for debt service	871,298	60,563	931,861	889,896
Total fund balances	1,590,159	60,563	1,650,722	1,947,857
Total liabilities, deferred inflows of resources, and fund balances	$ 6,814,150	$ 399,974	$ 7,214,124	$ 7,527,859

INDEPENDENT SCHOOL DISTRICT NO. 832

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
Budget and Actual
Year Ended June 30, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016		
		Actual	
	Budget	Regular Debt Service Account	OPEB Debt Service Account
Revenue			
Local sources			
Property taxes	$ 5,434,315	$ 4,927,262	$ 347,469
Investment earnings (charges)	–	(2,776)	–
State sources	–	4,885	345
Federal sources	–	–	–
Total revenue	5,434,315	4,929,371	347,814
Expenditures			
Debt service			
Principal	2,965,001	2,750,000	215,000
Interest	2,263,530	2,149,523	114,007
Fiscal charges and other	–	5,790	–
Total expenditures	5,228,531	4,905,313	329,007
Excess (deficiency) of revenue over expenditures	205,784	24,058	18,807
Other financing sources (uses)			
Premium on debt issued	–	–	–
Debt issued	–	–	–
Payments on bond refunding	–	(340,000)	–
Total other financing sources (uses)	–	(340,000)	–
Net change in fund balances	$ 205,784	(315,942)	18,807
Fund balances			
Beginning of year		1,906,101	41,756
End of year		$ 1,590,159	$ 60,563

		2015
Total	Over (Under) Budget	Actual
$ 5,274,731	$ (159,584)	$ 5,387,438
(2,776)	(2,776)	4,351
5,230	5,230	3,462
–	–	377,865
5,277,185	(157,130)	5,773,116
2,965,000	(1)	3,605,000
2,263,530	–	2,866,663
5,790	5,790	170,303
5,234,320	5,789	6,641,966
42,865	(162,919)	(868,850)
–	–	7,791,412
–	–	39,315,000
(340,000)	(340,000)	(45,000,000)
(340,000)	(340,000)	2,106,412
(297,135)	$ (502,919)	1,237,562
1,947,857		710,295
$ 1,650,722		$ 1,947,857

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures		Passed Through to Subrecipients	Noncash Assistance
U.S. Department of Education					
Passed through Minnesota Department of Education					
Special education cluster					
Special Education – Grants to States	84.027	$ 481,819			
Special Education – Preschool Grants	84.173	15,174			
Total special education cluster			$ 496,993		
Title I – Grants to Local Educational Agencies	84.010		62,307	$ 2,289	
Special Education – Grants for Infants and Families	84.181		7,550		
Supporting Effective Instruction State Grant	84.367		56,185	$ 482	
Passed through Northeast Metropolitan Intermediate School District No. 916					
Career and Technical Education – Basic Grants to States	84.048		8,938		
U.S. Department of Agriculture					
Passed through Minnesota Department of Education					
Child nutrition cluster					
School Breakfast Program	10.553	19,435			
National School Lunch Program	10.555	300,358			$ 68,947
Total child nutrition cluster			319,793		
Total federal awards			$ 951,766		

Note 1: This Schedule of Expenditures of Federal Awards is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* when applicable. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: The District did not elect to use the 10 percent de minimis indirect cost rate.

Note 3: 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.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the School Board and Management of
Independent School District No. 832
Mahtomedi, 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. 832 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 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.

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001 to be a material weakness.

(continued)

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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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002 to be a significant deficiency.

COMPLIANCE AND OTHER MATTERS

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

DISTRICT'S RESPONSES TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 14, 2016

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

To the School Board and Management of
Independent School District No. 832
Mahtomedi, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 832's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on 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 Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

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OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page 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 on the previous page. 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

PURPOSE OF THIS REPORT

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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 14, 2016

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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 832
Mahtomedi, 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. 832 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 14, 2016.

MINNESOTA LEGAL COMPLIANCE

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Questioned Costs as items 2016-003 and 2016-004. 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.

DISTRICT'S REPONSES TO FINDINGS

The District's responses to the legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The District's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 14, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 832

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through entities answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued?		X Unmodified __ Qualified __ Adverse __ Disclaimer
Internal control over financial reporting:		
Material weakness(es) identified?	X Yes	__ No
Significant deficiencies identified?	X Yes	__ No
Noncompliance material to the financial statements noted?	__ Yes	X None reported

Federal Awards

Internal controls over major federal award programs:		
Material weakness(es) identified?	__ Yes	X No
Significant deficiencies identified?	__ Yes	X No
Type of auditor's report issued on compliance for major programs?		X Unmodified __ Qualified __ Adverse __ Disclaimer
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	__ Yes	X No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education special education cluster consisting of:	
– Special Education – Grants to States	84.027
– Special Education – Preschool Grants	84.173

Threshold for distinguishing type A and B programs.	$ 750,000	
Does the auditee qualify as a low-risk auditee?	X Yes	__ No

B. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESS

2016-001 Preparation of Adjusting Journal Entries

Criteria – Preparation of the trial balance should be completely handled by Independent School District No. 832 (the District), including adjusting all account balances to be fairly stated for completion of the annual financial report.

Condition – The District had our firm prepare adjusting journal entries to make the general ledger fairly stated. Auditing standards consider the identification by the auditor of a misstatement that was not initially identified by the audit entity to be a deficiency in the related internal control.

Questioned Costs – Not applicable.

Context – This affected several areas including escrow investments, capital assets, contracts payable, debt, and various related expenditures across multiple funds.

Repeat Finding – This is a current year finding.

Cause – The District experienced turnover multiple times in the Accounting Supervisor position during the year and during the timing of the year-end reconciliations.

Effect – Because some account balances were not completely adjusted at the start of the financial audit, adjusting journal entries prepared by the auditor were required to fairly state all account balances in the general ledger.

Recommendation – We recommend that the District continue to review practices to ensure all account balances are fairly stated at the start of the annual financial audit.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review account balance adjustment procedures to fairly state the financial statements prior to the start of the annual audit to ensure proper financial statement preparation. The District has separately issued a Corrective Action Plan related to this finding.

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

SIGNIFICANT DEFICIENCY

2016-002 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – The District has limited segregation of duties in several areas, including the processing of general disbursements and payroll transactions.

Questioned Costs – Not applicable.

Context – The condition applies to multiple areas as noted above.

Repeat Finding – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the District's business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected in a timely manner in the normal course of business.

Recommendation – We recommend that the District continue its efforts to segregate duties as best it can within the limits of what the District considers to be cost beneficial.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District intends to review policies, procedures, and transaction cycles, and work with the District's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness. The District has separately issued a Corrective Action Plan related to this finding.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT

2016-003 Claims and Disbursements

Criteria – Minnesota Statute § 471.425, Subd. 2.

Condition – Minnesota Statutes require districts to pay each vendor obligation according to the terms of each contract or within 35 days after the receipt of the goods or services or the invoice for the goods or services. If such obligations are not paid within the appropriate time period, the District must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For one disbursement selected for testing, the District did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

Questioned Costs – Not applicable.

Context – One of forty disbursements tested were not in compliance. This is a current year and prior year finding.

Repeat Finding – This is a current year and prior year finding.

Cause – This was an oversight by district personnel.

Effect – Certain payments made to vendors were not paid within the timeframe as required by state statute, and the vendors were not paid interest to which they were entitled.

Recommendation – We recommend that the District review claims and disbursement payment procedures in place to ensure future compliance with this statute.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review the payment procedures and will properly pay all invoices within the 35-day time limit. The District has separately issued a Corrective Action Plan related to this finding.

D. FINDINGS – MINNESOTA LEGAL COMPLIANCE AUDIT (CONTINUED)

2016-004 Withholding Affidavit

Criteria – Minnesota Statute § 270C.66.

Condition – Before making final settlement with any contractor under a contract requiring the employment of employees for wages by said contractor or subcontractors, the District must obtain a certificate by the Commissioner of Revenue that the contractor or subcontractor has complied with the withholding requirements of Minnesota Statute § 290.92 (either Commissioner of Revenue Form IC134 or a Contractor's Withholding Affidavit). The District did not obtain the required certificate for one contract completed during fiscal 2016.

Questioned Costs – Not applicable.

Context – One contract tested was not in compliance.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District did not obtain the required documentation of either a Contractor's Withholding affidavit or Commissioner of Revenue Form IC134.

Recommendation – We recommend that the District review purchasing procedures and obtain required documentation for future contracts.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District intends to review the state statute and obtain the required documents for all future contracts completed as required. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 832

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2016

		Audit		UFARS		Audit – UFARS	
General Fund							
Total revenue		$	37,111,925	$	37,111,925	$	–
Total expenditures		$	37,059,186	$	37,059,186	$	–
Nonspendable							
460	Nonspendable fund balance	$	25,573	$	25,573	$	–
Restricted							
403	Staff development	$	–	$	–	$	–
405	Deferred maintenance	$	(5,451)	$	(5,451)	$	–
406	Health and safety	$	(36,863)	$	(36,863)	$	–
407	Capital projects levy	$	(3,622)	$	(3,622)	$	–
408	Cooperative revenue	$	–	$	–	$	–
409	Alternative facility program	$	–	$	–	$	–
413	Projects funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
424	Operating capital	$	438,515	$	438,515	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
445	Career and technical programs	$	–	$	–	$	–
448	Achievement and integration	$	–	$	–	$	–
449	Safe schools levy	$	–	$	–	$	–
450	Pre-kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
467	Long-term facilities maintenance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	1,428,890	$	1,428,890	$	–
Unassigned							
422	Unassigned fund balance	$	3,573,902	$	3,573,902	$	–
Food Service							
Total revenue		$	1,410,461	$	1,410,459	$	2
Total expenditures		$	1,474,600	$	1,474,599	$	1
Nonspendable							
460	Nonspendable fund balance	$	16,043	$	16,043	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	332,506	$	332,506	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Community Service							
Total revenue		$	1,919,158	$	1,919,158	$	–
Total expenditures		$	1,922,065	$	1,922,066	$	(1)
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	383,010	$	383,010	$	–
432	ECFE	$	100,943	$	100,943	$	–
440	Teacher development and evaluation						
444	School readiness	$	(54,383)	$	(54,383)	$	–
447	Adult basic education	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	9,976	$	9,976	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

INDEPENDENT SCHOOL DISTRICT NO. 832

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2016

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ (78)	$ (78)	$ –
Total expenditures		$ 1,635,954	$ 1,635,955	$ (1)
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
407	Capital projects levy	$ –	$ –	$ –
409	Alternative facility program	$ –	$ –	$ –
413	Project funded by COP	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ 6,488,307	$ 6,488,307	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ 4,929,371	$ 4,929,371	$ –
Total expenditures		$ 4,905,313	$ 4,905,313	$ –
Nonspendable				
460	Nonspendable fund balance	$ 900	$ 900	$ –
Restricted				
425	Bond refundings	$ 717,961	$ 717,961	$ –
451	QZAB payments	$ –	$ –	$ –
Restricted				
464	Restricted fund balance	$ 871,298	$ 871,298	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Internal Service				
Total revenue		$ 4,574,853	$ 4,574,853	$ –
Total expenditures		$ 4,459,850	$ 4,459,850	$ –
422	Net position	$ (66,023)	$ (66,023)	$ –
OPEB Revocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ 46,485	$ 46,484	$ 1
Total expenditures		$ 137,942	$ 137,942	$ –
422	Net position	$ 2,065,518	$ 2,065,518	$ –
OPEB Debt Service Fund				
Total revenue		$ 347,814	$ 347,814	$ –
Total expenditures		$ 329,007	$ 329,008	$ (1)
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ 60,563	$ 60,563	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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