Independent School District No. 271
Bloomington, Minnesota

Financial Statements

June 30, 2016

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Independent School District No. 271
Board of Education and Administration
June 30, 2016

Board of Education	Position	Term Expires
Maureen Bartolotta	Chair	January 6, 2020
Dawn Steigauf	Vice Chair	January 1, 2018
Nelly Korman	Clerk	January 6, 2020
Jim Sorum	Treasurer	January 1, 2018
Tom Bennett	Director	January 1, 2018
Dick Bergstrom	Director	January 6, 2020
Ric Oliva	Director	January 1, 2018

Administration	
Les Fujitake	Superintendent
Rod Zivkovich	Executive Director of Finance and Support Services
Kim Agate	Controller

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Independent Auditor's Report

To the School Board
Independent School District No. 271
Bloomington, 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. 271, Bloomington, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, 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, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bergan KDV Ltd.

Minneapolis, Minnesota
November 28, 2016

Independent School District No. 271
Management's Discussion and Analysis

This section of the Independent School District No. 271, Bloomington Public Schools' (the "District") annual financial report presents the Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The MD&A is required supplementary information specified in the GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999*. Certain comparative information is required to be presented in the MD&A between the current year (2015-2016) and the prior year (2014-2015).

FINANCIAL HIGHLIGHTS

- Total net position at June 30, 2016 was a negative $28.6 million, consistent with prior year's balance.
- Overall program and general revenues were $174.0 million, $100,000 more than related expenses of $173.9 million.
- Total General Fund balance (under the governmental fund presentation) decreased $2.2 million from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of four parts:

- Independent Auditor's Report
- Management's Discussion and Analysis
- Basic financial statements
- Required supplementary information

The basic financial statements include two kinds of statements that present different views of the District:

1. The government-wide financial statements provide both short-term and long-term information about the District's overall financial status. These include:
   - The Statement of Net Position
   - The Statement of Activities
2. The fund financial statements focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.
   - The governmental funds statements examine how basic services, such as regular and special education were financed in the short-term, as well as what remains for future spending.
   - Proprietary funds statements present short-term and long-term financial information about the activities the District operates like businesses, such as dental and medical self insurance, retiree severance and vacation funds.
   - Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others. The District is the Agent for the Bloomington Education Cable Television Fund. The District is also holding funds to be paid to Bloomington Kennedy graduates for college scholarships.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 on the following page shows how the various parts of this annual report are arranged and how they relate to one another.

Figure A-1
Organization of the District's Annual Financial Report

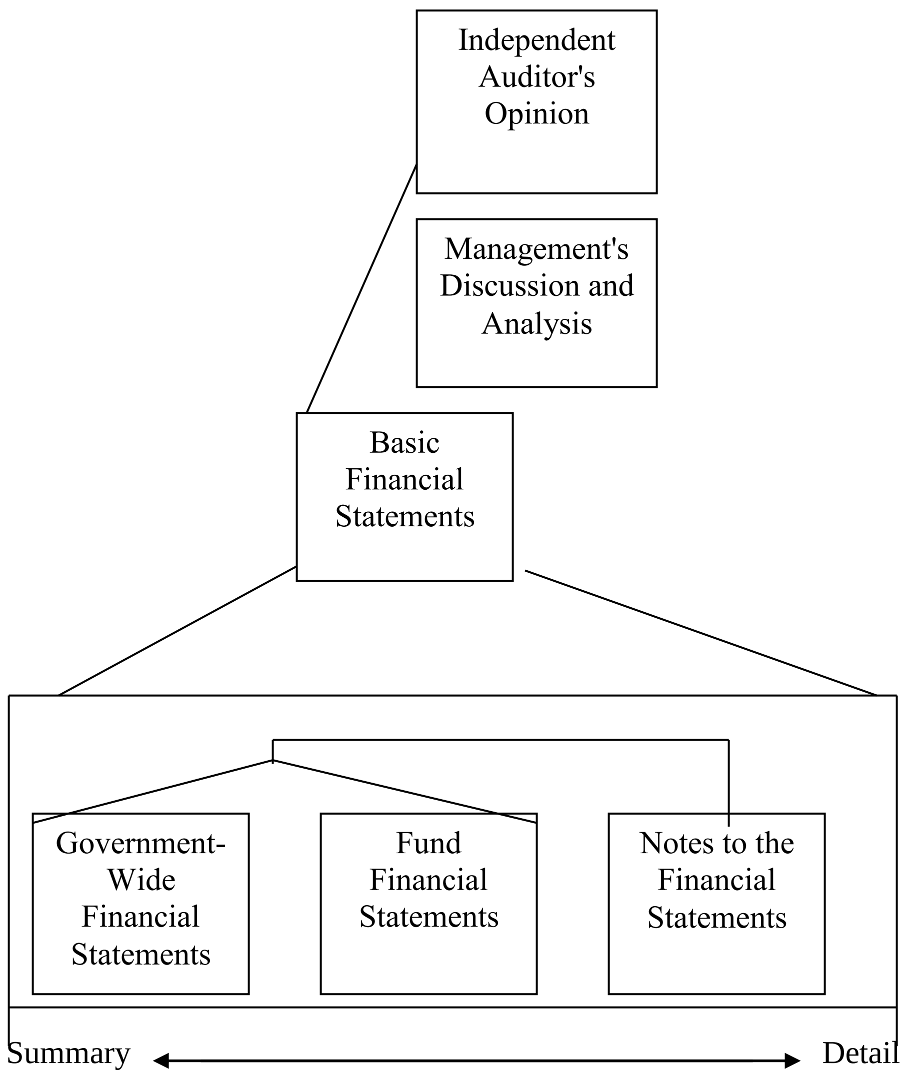


Figure A-2 on the following page summarizes the major features of the District's financial statements, including the portion of the District's activities which they cover and the types of information that they contain. The remainder of this overview section of the MD&A highlights the structure and contents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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

		Fund Financial Statements		
	Government-Wide Financial Statements	Government Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except Fiduciary Funds)	The activities of the District that are not proprietary or fiduciary, such as special education, food service, community education and building maintenance	Activities the District operates similar to private businesses, such as self-insured dental fund	Instances in which the District administers resources on behalf of someone else, such as Bloomington Educational Cable and student activities accounts
Required Financial Statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances	• Statement of Net Position • Statement of Revenues, Expenses and Changes in Net Position • Statement of Cash Flows	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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

The two government-wide financial statements report the District's net position and how they have changed. Net Position, the difference between the District's assets and deferred outflows of resources and 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 an indicator of whether its financial position is improving or deteriorating, respectively.

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

In the government-wide financial statements, the District's activities are presented in one category titled governmental activities.

- **Governmental Activities**: Most of the District's basic services are included here, such as regular and special education, transportation and administration. State formula aid and property taxes finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, not the District as a whole. "Non-major" funds such as, food service and community service do not meet the threshold to be classified as "major" funds.

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 (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

FUND FINANCIAL STATEMENTS (CONTINUED)

The District has three kinds of funds:

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

- **Proprietary Funds***:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District uses internal service funds to report activities that provide supplies and services for its other programs and activities. The District currently has four internal service funds; the Self-Insured Dental Fund, Self-Insured Medical Benefits Fund, Other Post Employment Benefits (OPEB) Fund and the Retiree Benefits Fund.

- **Fiduciary Funds***:* The District is the trustee, or fiduciary, for assets that belong to others, such as the Bloomington Educational Cable Television Fund or the Bloomington Kennedy Trust Fund for scholarships. The District is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

FUND FINANCIAL STATEMENTS (CONTINUED)

Net Position: The District's combined net position on June 30, 2016 was $28.6 million, consistent with the prior year's balance. (See Figure A-3.)

Figure A-3
Net Position - Governmental Activities

	Year Ended 2016	Year Ended 2015	Percentage Change
Assets			
Current and other assets	$ 140,903,218	$ 148,044,025	-4.82%
Capital assets	117,767,322	113,691,673	3.58%
Total assets	258,670,540	261,735,698	-1.17%
Deferred Outflows of Resources	21,241,015	15,205,306	39.69%
Total assets and deferred outflows of resources	$ 279,911,555	$ 276,941,004	15.12%
Liabilities			
Other liabilities	$ 21,406,282	$ 18,298,740	16.98%
Long-term liabilities	230,117,731	215,910,524	6.58%
Total liabilities	$ 251,524,013	$ 234,209,264	7.39%
Deferred Inflows of Resources	$ 56,968,639	$ 71,365,782	-20.17%
Net Position			
Net investment in capital assets	22,276,496	20,004,706	11.36%
Restricted	8,901,935	5,820,489	52.94%
Unrestricted	(59,759,528)	(54,459,237)	9.73%
Total net position	$ (28,581,097)	$ (28,634,042)	-0.18%

Changes in Net Position: The District's total revenues were $174.0 million for the year ended June 30, 2016. (See figure A-4.) Property taxes and state formula aid accounted for 68.9% of the District's revenue. (See Figure A-5.) Another 22.3% came from grants and contributions restricted for specific programs. The remainder came from fees charged for services and miscellaneous sources. The total cost of all programs and services was $173.9 million. The District's expenses are predominantly related to direct instruction, instructional, and pupil support services (75%). (See Figure A-6.) The District's administration declined 0.2% to 3.3% of total costs.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-4
Change in Net Position

	Year Ended 2016	Year Ended 2015	Percentage Change
Revenues			
Program revenues			
Charges for services	$ 10,468,370	$ 9,498,218	10.21%
Operating grants and contributions	38,778,820	37,403,551	3.68%
General revenues			
Property taxes	49,698,871	48,925,456	1.58%
State aid-formula grants	70,108,319	67,893,421	3.26%
Other	4,925,948	3,512,166	40.25%
Total revenues	173,980,328	167,232,812	4.03%
Expenses			
Administration	5,761,695	5,735,679	0.45%
District support services	5,207,778	7,524,938	-30.79%
Elementary and secondary regular instruction	68,118,039	65,461,638	4.06%
Vocational education instruction	1,392,876	1,391,586	0.09%
Special education instruction	29,516,553	25,702,311	14.84%
Instructional support services	9,807,416	8,299,213	18.17%
Pupil support services	12,305,295	9,823,520	25.26%
Sites and buildings	12,776,433	11,621,473	9.94%
Fiscal and other fixed cost programs	303,514	341,147	-11.03%
Food service	5,151,844	4,989,831	3.25%
Community education and services	12,222,971	11,979,000	2.04%
Unallocated depreciation	7,694,248	7,298,698	5.42%
Interest and fiscal charges on long-term debt	3,668,721	4,413,521	-16.88%
Total expenses	173,927,383	164,582,555	5.68%
Increase in net position	52,945	2,650,257	-98.00%
Net Position			
Net position - beginning, as previously stated	(28,634,042)	65,215,347	-143.91%
Change in accounting principle	-	(96,499,646)	
Net position - beginning, as restated	(28,634,042)	(31,284,299)	-8.47%
End of year	$ (28,581,097)	$ (28,634,042)	-0.18%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-5
Source of Revenues for Fiscal Year 2016

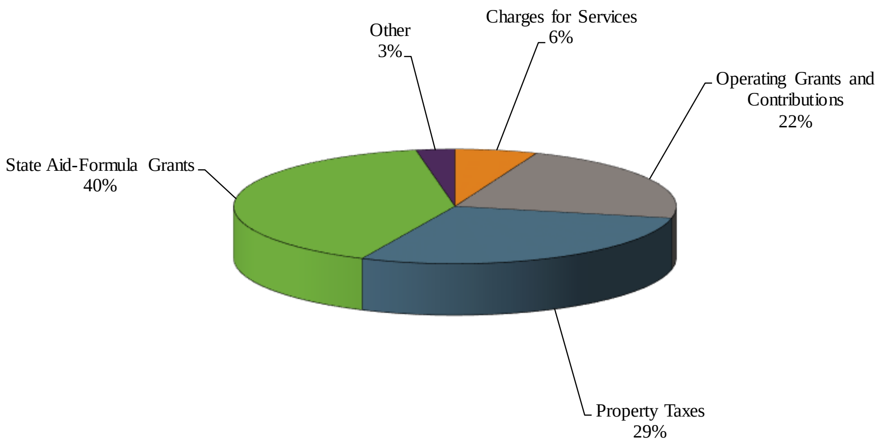
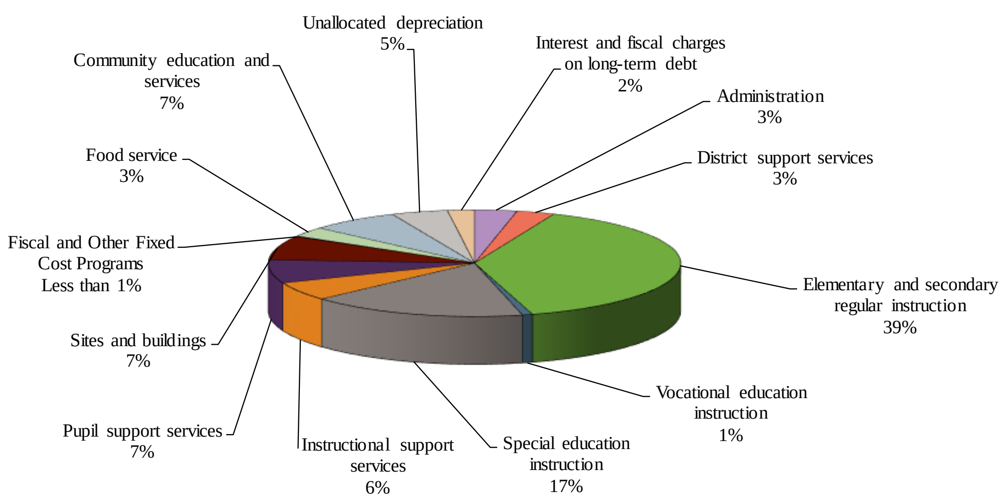


Figure A-6
Expenses for Fiscal Year 2016



GOVERNMENTAL ACTIVITIES

Figure A-7 presents the cost of District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs).

Figure A-7

Net Cost of Governmental Activities
Year Ended June 30, 2016

	Total Cost of Services	Net Cost of Services
Administrative	$ 5,761,695	$ 5,761,695
District support services	5,207,778	5,207,778
Elementary and secondary regular instruction	68,118,039	53,399,576
Vocational education instruction	1,392,876	1,324,539
Special education instruction	29,516,553	12,069,721
Instructional support services	9,807,416	9,732,332
Pupil support services	12,305,295	11,947,533
Sites and buildings	12,776,433	12,018,663
Fiscal and other fixed cost programs	303,514	303,514
Food service	5,151,844	36,654
Community education and services	12,222,971	1,515,219
Unallocated depreciation	7,694,248	7,694,248
Interest and fiscal charges on long-term debt	3,668,721	3,668,721
Total	$ 173,927,383	$ 124,680,193

- Approximately 6% or $10.5 million, of expenses were paid by users of District services through various fees and charges.
- Other specific program costs are offset with grants and contributions totaling $38.8 million, or 22.3%, of expenses for 2015-2016.
- The net cost of District services ($124.7 million) was paid for with local property taxes, state aid, federal grants and from District fund balances when expenses exceed revenues.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the end of the 2015-2016 fiscal year, the District's governmental funds reported a combined fund balance of $40,862,872, a decrease of $13,017,653 from the June 30, 2015 combined fund balance of $53,880,525. The decrease is due to a $10.5 million spend down of Alternative Facilities projects fund balance and a $3.0 million planned spend down of the General Committed Operating Referendum Fund Balance.

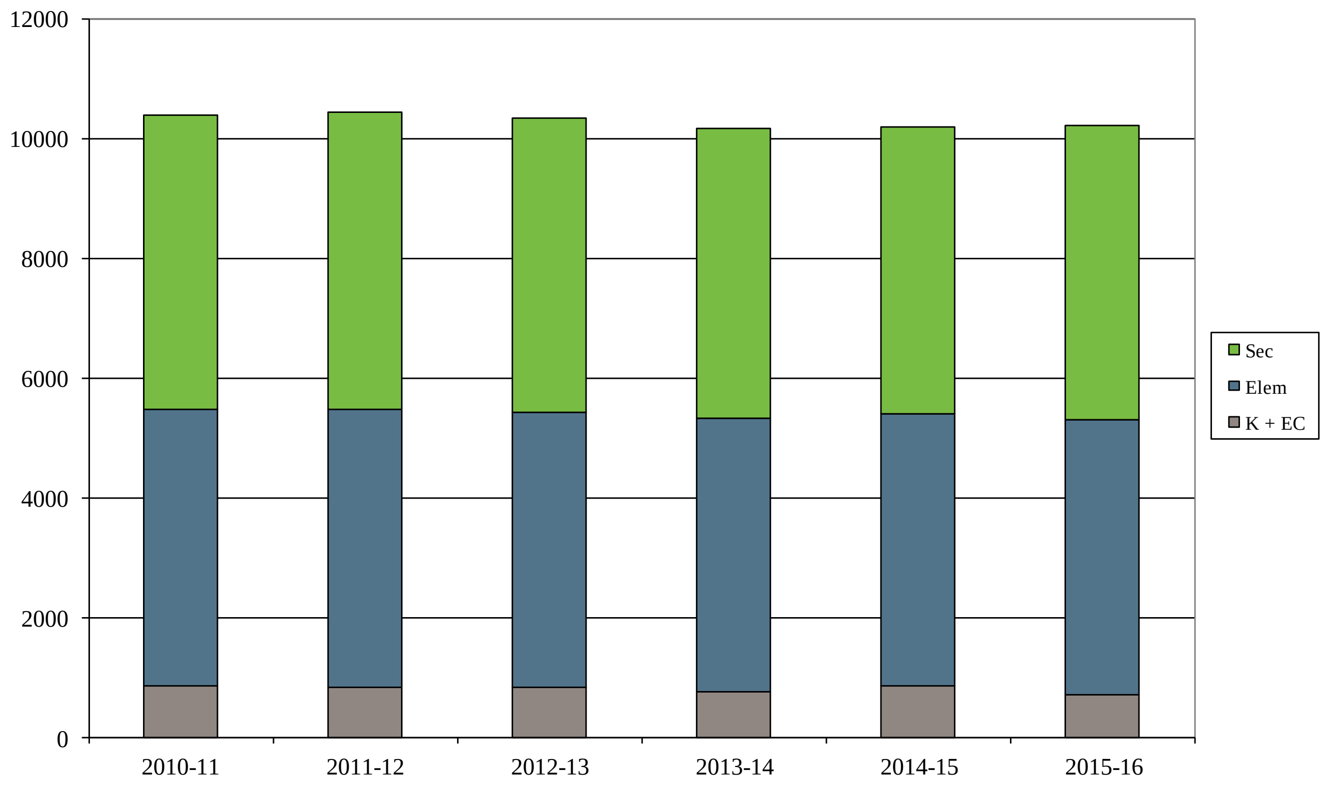
GENERAL FUND

The General Fund is the District's primary operating fund, providing instructional services to students from kindergarten through grade 12. In addition, the costs of pupil transportation and operating capital expenditures for equipment, facilities and health and safety are included in the full reporting of the General Fund.

School funding in Minnesota is driven largely by pupil enrollment. In 2015-2016, the District saw a decrease of 40 average daily membership (ADM) over 2014-2015. Current ADM is 10,159.

The graph below illustrates the current trend in student enrollment over the previous five years.

ADM (Average Daily Memberships)



GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District amended the annual operating budget. The budget amendments account for enrollment changes, previous year carryover and amendments to federal and other grant programs.

While the District's amended budget for the General Fund projected a net decrease in the fund balance of $4.8 million, the actual performance shows a net decrease of $2.2 million.

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

Actual revenues were $140.5 million, or $4.1 million over the budget of $136.4 million, due to the increase in special education revenue, enrollment over projections and reclassification of programming. Actual expenditures were $142.4 million, or $1.3 million over the budget of $141.1 million. The increase was due to reclassification of programming mentioned above. This was due to the timing of capital projects, security and technology spending compiled with the reduction of administrative costs.

Figure A-8
General Fund Expenditures

	Final Budget	Net Actual Amounts	Variance with Final Budget - Over (Under)
Administrative	$ 5,870,347	$ 5,677,589	$ (192,758)
District support services	3,960,275	4,251,229	290,954
Elementary and secondary regular instruction	64,185,555	65,537,460	1,351,905
Vocational education instruction	1,798,022	1,385,534	(412,488)
Special education instruction	27,622,040	29,481,211	1,859,171
Instructional support services	8,976,777	8,575,279	(401,498)
Pupil support services	11,316,466	11,462,941	146,475
Sites and buildings	3,458,687	8,789,187	5,330,500
Fiscal and other fixed cost programs	387,175	332,554	(54,621)
Capital outlay	7,423,680	6,846,930	(576,750)
Debt service	69,844	69,845	1
Total	$ 135,068,868	$ 142,409,759	$ 7,340,891

FOOD SERVICE FUND

The Food Service Fund is used to record financial activity for the purpose of preparation and service of milk, meals and snacks in connection with school and community service activities. The Food Service Fund revenues exceeded expenditures by $12,282 in 2015-2016.

This Fund continues to meet the District's established fund balance goals.

COMMUNITY SERVICE FUND

The Community Service Fund is used to record financial activities of the Community Services Preschool to Senior Citizens Programs. The Community Service Fund balance increased $560,217 in 2015-2016. The increase is a result of increased revenue from participation and lower expenditures.

This Fund continues to meet the District's established fund balance goals.

DEBT SERVICE FUND

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction, operating capital or for initial or refunding bonds. The Debt Service Fund balance for 2015-2016 totaled $675,609. The fund balance was $1.6 million in 2014-2015.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the District had invested $117.8 million in a broad range of capital assets, including school buildings, athletic facilities, computers and audio-visual equipment. (See Figure A-9.) (More detailed information about capital assets can be found in Note 5 to the financial statements.)

Figure A-9
Capital Assets

	Year Ended 2016	Year Ended 2015
Land	$ 2,166,126	$ 2,166,126
Construction in progress	3,098,675	2,472,677
Buildings and buildings improvement	107,957,967	103,666,754
Furniture and equipment	4,544,554	5,386,116
Total capital assets	$ 117,767,322	$ 113,691,673

DEBT ADMINISTRATION

Figure A-10
Outstanding Long-Term Liabilities

	Year Ended 2016	Year Ended 2015
General Obligation (G.O.) Bonds and Loans	$ 118,062,916	$ 127,012,444
Benefits Payable	1,712,908	1,636,021
Total Long-Term Liabilities	$ 119,775,824	$ 128,648,465

DEBT ADMINISTRATION (CONTINUED)

At year-end, the District had $119.8 million in long-term liabilities, including G.O. bonds, capital leases, severance benefits and compensated absences. (More detailed information about the District's long-term liabilities is presented in Note 6 to the financial statements). The decrease was due to refunding of bonds in December 2015.

The June 30, 2016, Debt Service Fund balance of $0.7 million is available for meeting future debt service obligations, in addition to levied property taxes payable in 2016.

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of the following existing circumstances that could significantly affect its financial health in the future:

- The District continues to position itself financially for anticipated flat or limited funding in the future. The District's 2016-2017 budget required a $2.5 million budget cut. The District is anticipating an additional $1.5 to $2.5 million budget cut for 2017-2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it is entrusted with.

If you have questions about this report or need additional financial information, contact the Finance Office, Independent School District No. 271, 1350 West 106th Street, Bloomington, Minnesota 55431-4126.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 271
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash and investments	$ 98,282,103
Current property taxes receivable	25,120,034
Delinquent property taxes receivable	411,812
Accounts receivable	147,375
Interest receivable	395,034
Due from Department of Education	13,465,498
Due from other Minnesota school districts	104,106
Due from Federal Government through Department of Education	2,162,180
Due from other governmental units	185,190
Inventory	538,415
Prepaid items	91,471
Capital assets not being depreciated	
Land	2,166,126
Construction in progress	3,098,675
Capital assets net of depreciation	
Buildings and building improvements	107,957,967
Furniture and equipment	4,544,554
Total assets	258,670,540
Deferred Outflows of Resources	
Deferred outflows related to pensions	21,241,015
Total assets and deferred outflows of resources	$ 279,911,555
Liabilities	
Accounts and contracts payable	$ 3,424,435
Salaries and benefits payable	13,836,064
Interest payable	2,035,424
Due to other Minnesota school sistricts	1,199,928
Due to other governmental units	55,285
Unearned revenue	855,146
Net bond principal payable	
Due within one year	7,280,000
Due in more than one year	110,436,853
Loan payable	
Due within one year	49,308
Due in more than one year	296,755
Compensated absences payable	
Due within one year	129,304
Due in more than one year	1,163,739
Severance payable	
Due within one year	41,987
Due in more than one year	377,878
Unfunded opeb obligation	3,963,812
Net pension liability	106,378,095
Total liabilities	251,524,013
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	45,892,269
Deferred amount on refunding	572,600
Deferred inflows related to pensions	10,503,770
Total deferred inflows of resources	56,968,639
Net Position	
Net investment in capital assets	22,276,496
Restricted for	
Other purposes	8,901,935
Unrestricted	(59,759,528)
Total net position	(28,581,097)
Total liabilities, deferred inflows of resources, and net position	$ 279,911,555

See notes to financial statements.

Independent School District No. 271
Statement of Activities
Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	$ 5,761,695	$ -	$ -	$ -	$ (5,761,695)
District support services	5,207,778	-	-	-	(5,207,778)
Elementary and secondary regular instruction	68,118,039	619,497	14,098,966	-	(53,399,576)
Vocational education instruction	1,392,876	-	68,337	-	(1,324,539)
Special education instruction	29,516,553	1,012,479	16,434,353	-	(12,069,721)
Instructional support services	9,807,416	-	75,084	-	(9,732,332)
Pupil support services	12,305,295	98,624	259,138	-	(11,947,533)
Sites and buildings	12,776,433	181,107	576,663	-	(12,018,663)
Fiscal and other fixed cost programs	303,514	-	-	-	(303,514)
Food service	5,151,844	1,896,061	3,219,129	-	(36,654)
Community education and services	12,222,971	6,660,602	4,047,150	-	(1,515,219)
Unallocated depreciation	7,694,248	-	-	-	(7,694,248)
Interest and fiscal charges on long-term debt	3,668,721	-	-	-	(3,668,721)
Total governmental activities	$ 173,927,383	$ 10,468,370	$ 38,778,820	$ -	(124,680,193)
General revenues					
Taxes					
Property taxes, levied for general purposes					34,068,178
Property taxes, levied for debt service					10,704,953
Property taxes, levied for community service					1,919,066
Property taxes, levied for capital projects					3,006,674
State aid-formula grants					70,108,319
Other general revenues					4,489,180
Investment income					436,768
Total general revenues					124,733,138
Change in net position					52,945
Net position - beginning, as restated					(28,634,042)
Net position - ending					$ (28,581,097)

See notes to financial statements.

Independent School District No. 271
Balance Sheet - Governmental Funds
June 30, 2016

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 38,468,172	$ 5,307,760	$ 14,129,646	$ 6,205,385	$ 64,110,963
Current property taxes receivable	19,114,715	4,734,599	-	1,270,720	25,120,034
Delinquent property taxes receivable	306,375	83,738	-	21,699	411,812
Accounts receivable	86,340	-	-	61,035	147,375
Interest receivable	131,984	-	24,017	-	156,001
Due from Department of Education	12,979,135	111,466	57,666	317,231	13,465,498
Due from Federal Government					
Through Department of Education	1,798,280	-	-	363,900	2,162,180
Due from other Minnesota school districts	44,224	-	-	59,882	104,106
Due from other governmental units	185,190	-	-	-	185,190
Inventory	405,186	-	-	133,229	538,415
Prepaid items	72,908	-	-	18,563	91,471
Total assets	$ 73,592,509	$ 10,237,563	$ 14,211,329	$ 8,451,644	$ 106,493,045
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	$ 823,866	$ -	$ 2,113,597	$ 56,678	$ 2,994,141
Contracts payable	14,682	-	407,601	-	422,283
Salaries and benefits payable	11,065,486	-	5,441	1,034,446	12,105,373
Due to other Minnesota school districts	1,199,928	-	-	-	1,199,928
Due to other governmental units	54,510	-	-	775	55,285
Interfund payable	1,515,965	-	-	164,678	1,680,643
Unearned revenue	589,822	-	-	265,324	855,146
Total liabilities	15,264,259	-	2,526,639	1,521,901	19,312,799
Deferred inflows of resources					
Property tax levied for subsequent year's expenditures	33,874,627	9,476,015	-	2,541,627	45,892,269
Unavailable revenue - delinquent property taxes	316,524	85,939	-	22,642	425,105
Total deferred inflows of resources	34,191,151	9,561,954	-	2,564,269	46,317,374
Fund balances					
Nonspendable for					
Inventory	405,186	-	-	133,229	538,415
Prepaid items	72,908	-	-	18,563	91,471
Restricted for					
Capital projects levy	2,524,462	-	-	-	2,524,462
Operating capital	5,287,810	-	-	-	5,287,810
State approved alternative program	1,089,663	-	-	-	1,089,663
Alternative facilities program	-	-	11,684,690	-	11,684,690
Fund purpose	-	675,609	-	4,213,682	4,889,291
Committed for					
Medical assistance/ third party	413,100	-	-	-	413,100
Wellness	90,965	-	-	-	90,965
Uniform and instrument replacement	98,025	-	-	-	98,025
Operating referendum	1,323,054	-	-	-	1,323,054
Transportation bus purchases	1,000,000	-	-	-	1,000,000
Transportation building	870,188	-	-	-	870,188
Transportation	3,761,142	-	-	-	3,761,142
Athletic activities	170,945	-	-	-	170,945
Site Department Carryover Funds	746,189	-	-	-	746,189
Staff development	185,150	-	-	-	185,150
Unassigned	6,098,312	-	-	-	6,098,312
Total fund balances	24,137,099	675,609	11,684,690	4,365,474	40,862,872
Total liabilities, deferred inflows of resources, and fund balances	$ 73,592,509	$ 10,237,563	$ 14,211,329	$ 8,451,644	$ 106,493,045

Independent School District No. 271
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2016

Total fund balances - governmental funds	$ 40,862,872
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	240,899,137
Less accumulated depreciation	(123,131,815)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(110,125,000)
Loan payable	(346,063)
Bond premiums	(7,591,853)
Deferred amount on refunding	(572,600)
Compensated absences payable	(1,293,043)
Severance payable	(419,865)
Net OPEB obligation	(3,963,812)
Net pension liability	(106,378,095)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows related to pensions	21,241,015
Deferred inflows related to pensions	(10,503,770)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	425,105
The retiree benefit and OPEB internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	23,042,499
The dental and self insured medical benefit plans internal service funds are used by management to charge the costs of the self-insured plans. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position and interfund activity is removed.	11,309,615
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(2,035,424)
Total net position - governmental activities	$ (28,581,097)

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 34,013,331	$ 9,801,159	$ 3,006,674	$ 2,803,028	$ 49,624,192
Other local and county revenues	4,761,137	19,911	40,899	6,088,975	10,910,922
Revenue from state sources	98,515,370	1,114,660	576,663	3,606,356	103,813,049
Revenue from federal sources	3,143,124	-	-	3,340,261	6,483,385
Sales and other conversion of assets	19,634	-	-	1,874,346	1,893,980
Interdistrict revenue	-	-	-	930,812	930,812
Total revenues	140,452,596	10,935,730	3,624,236	18,643,778	173,656,340
Expenditures					
Current					
Administration	5,677,589	-	-	-	5,677,589
District support services	4,251,229	-	-	-	4,251,229
Elementary and secondary regular instruction	65,537,460	-	-	190,394	65,727,854
Vocational education instruction	1,385,534	-	-	-	1,385,534
Special education instruction	29,481,211	-	-	-	29,481,211
Instructional support services	8,575,279	-	-	-	8,575,279
Pupil support services	11,462,941	-	-	-	11,462,941
Sites and buildings	8,789,187	-	1,139,555	-	9,928,742
Fiscal and other fixed cost programs	332,554	-	-	-	332,554
Food service	-	-	-	5,106,705	5,106,705
Community education and services	-	-	-	12,174,196	12,174,196
Capital outlay					
Administration	16,698	-	-	-	16,698
District support services	734,609	-	-	-	734,609
Elementary and secondary regular instruction	1,813,521	-	-	-	1,813,521
Special education instruction	40,830	-	-	-	40,830
Instructional support services	1,170,010	-	-	-	1,170,010
Pupil support services	397,050	-	-	-	397,050
Sites and buildings	2,674,212	-	12,972,468	-	15,646,680
Food service	-	-	-	-	-
Community education and services	-	-	-	15,093	15,093
Debt service					
Principal	44,344	42,487,066	-	270,000	42,801,410
Interest and fiscal charges	25,501	4,665,251	-	602,556	5,293,308
Total expenditures	142,409,759	47,152,317	14,112,023	18,358,944	222,033,043
Excess of revenues over (under) expenditures	(1,957,163)	(36,216,587)	(10,487,787)	284,834	(48,376,703)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	58,203	-	-	-	58,203
Bond issuance	-	29,390,000	-	-	29,390,000
Bond premium	-	5,910,847	-	-	5,910,847
Transfers in	-	-	-	302,494	302,494
Transfers out	(302,494)	-	-	-	(302,494)
Total other financing sources (uses)	(244,291)	35,300,847	-	302,494	35,359,050
Net change in fund balances	(2,201,454)	(915,740)	(10,487,787)	587,328	(13,017,653)
Fund Balances					
Beginning of year	26,338,553	1,591,349	22,172,477	3,778,146	53,880,525
End of year	$ 24,137,099	$ 675,609	$ 11,684,690	$ 4,365,474	$ 40,862,872

See notes to financial statements.

Independent School District No. 271
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2016

Net change in fund balances - total governmental funds	$ (13,017,653)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the useful lives as depreciation expense.	
Capital outlays	13,197,121
Depreciation expense	(9,033,789)
Loss on disposal	(87,683)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(76,887)
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(1,018,347)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	42,801,410
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
Pension expense	(1,005,443)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	171,221
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(4,457,481)
Proceeds from long-term debt are recognized as an other financing source, increasing fund balance in the governmental fund statements, but have no effect on net position in the Statement of Activities.	(29,390,000)
The retiree benefit internal service funds are used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities and obligations.	246,653
The dental and self-insured medical benefit plans internal service funds are used by management to charge the costs of the self insured plans. The increase in net position is reported within the governmental activities in the Statement of Activities.	1,649,144
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	74,679
Change in net position - governmental activities	$ 52,945

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 34,457,878	$ 34,155,634	$ 34,013,331	$ (142,303)
Other local and county revenues	4,188,759	4,274,859	4,761,137	486,278
Revenue from state sources	92,653,892	93,667,016	98,515,370	4,848,354
Revenue from federal sources	4,293,276	4,293,276	3,143,124	(1,150,152)
Sales and other conversion of assets	-	-	19,634	19,634
Total revenues	135,593,805	136,390,785	140,452,596	4,061,811
Expenditures				
Current				
Administration	5,849,757	5,870,347	5,677,589	(192,758)
District support services	5,184,895	3,960,275	4,251,229	290,954
Elementary and secondary regular instruction	63,465,201	64,185,555	65,537,460	1,351,905
Vocational education instruction	2,161,441	1,798,022	1,385,534	(412,488)
Special education instruction	27,601,040	27,622,040	29,481,211	1,859,171
Instructional support services	8,468,925	8,976,777	8,575,279	(401,498)
Pupil support services	10,178,466	11,316,466	11,462,941	146,475
Sites and buildings	9,286,205	9,458,687	8,789,187	(669,500)
Fiscal and other fixed cost programs	387,175	387,175	332,554	(54,621)
Capital outlay				
Administration	121,517	18,076	16,698	(1,378)
District support services	2,522,261	571,165	734,609	163,444
Elementary and secondary regular instruction	369,338	350,846	1,813,521	1,462,675
Vocational education instruction	6,000	6,000	-	(6,000)
Special education instruction	57,500	36,500	40,830	4,330
Instructional support services	930,487	2,972,158	1,170,010	(1,802,148)
Pupil support services	688,425	689,425	397,050	(292,375)
Sites and buildings	2,442,510	2,779,510	2,674,212	(105,298)
Debt service				
Principal	46,410	46,410	44,344	(2,066)
Interest and fiscal charges	23,434	23,434	25,501	2,067
Total expenditures	139,790,987	141,068,868	142,409,759	1,340,891
Excess of revenues over (under) expenditures	(4,197,182)	(4,678,083)	(1,957,163)	2,720,920
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	300,000	225,000	58,203	(166,797)
Transfers out	(304,976)	(304,976)	(302,494)	2,482
Total other financing sources (uses)	(4,976)	(79,976)	(244,291)	(164,315)
Net change in fund balance	$ (4,202,158)	$ (4,758,059)	(2,201,454)	$ 2,556,605
Fund Balance				
Beginning of year			26,338,553	
End of year			$ 24,137,099	

See notes to financial statements.

Independent School District No. 271
Statement of Net Position - Proprietary Funds
June 30, 2016

	Governmental Activities - Internal Service Funds
Assets	
Cash and cash equivalents	$ 20,222,876
Investments	13,948,264
Interfund receivable	1,680,643
Interest receivable	239,033
Total assets	$ 36,090,816
Liabilities and Net Position	
Liabilities	
Accounts payable	$ 8,011
Incurred but not reported claims	1,730,691
Benefits payable	1,293,043
Unearned revenue	4,538,687
Total liabilities	7,570,432
Net position	
Unrestricted	28,520,384
Total liabilities and net position	$ 36,090,816

See notes to financial statements.

Independent School District No. 271
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2016

	Governmental Activities - Internal Service Funds
Operating Revenue	
Charges for services	$ 21,043,929
District contribution	512,465
Total revenue	21,556,394
Operating Expenses	
Salaries and benefits	33,000
Employee benefits	18,680,145
Administrative	1,518,526
Total operating expenses	20,231,671
Operating income	1,324,723
Nonoperating Revenue	
Investment income	249,309
Change in net position	1,574,032
Net Position	
Beginning of year	26,946,352
End of year	$ 28,520,384

See notes to financial statements.

Independent School District No. 271
Statement of Cash Flows - Proprietary Funds
As of June 30, 2016

	Governmental Activities - Internal Service Funds
Cash Flows - Operating Activities	
Receipts from employee contributions	$ 21,263,060
Receipts from district contributions	570,056
Employee claims paid	(18,010,743)
Payments to employees	(576,546)
Payments to suppliers	(1,510,515)
Net cash flows - operating activities	1,735,312
Cash Flows - Investment Activities	
Investment purchases	(158,216)
Interest received	177,934
Net cash flows - investment activities	19,718
Net change in cash and cash equivalents	1,755,030
Cash and Cash Equivalents	
Beginning of year	18,467,846
End of year	$ 20,222,876
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	$ 1,324,723
Adjustments to reconcile operating income	
To net cash flows - operating activities	
Accounts payable	8,011
Benefits payable	57,591
Incurred but not reported dental claims	125,856
Interfund receivable	(45,044)
Unearned revenue	264,175
Net adjustments	410,589
Net cash flows - operating activities	$ 1,735,312

See notes to financial statements.

Independent School District No. 271
Statement of Fiduciary Net Position
Year Ended June 30, 2016

	Agency Fund	Private Purpose Trust Fund
Assets		
Current		
Cash and investments	$ 278,873	$ 109,418
Liabilities		
Accounts payable	$ 109,729	$ -
Other liabilities	164,183	-
Total liabilities	$ 278,873	-
Net Position		
Held in trust		$ 109,418

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

	Private Purpose Trust Fund
Additions	
Interest revenue	$ 242
Deductions	
Scholarships	15,483
Change in net position	(15,241)
Net Position	
Beginning of year	124,659
End of year	$ 109,418

See notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

B. Basic Financial Statement Information

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, 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.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of restricted fund balances exist: committed, assigned, unassigned.

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 revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Amounts reported as program revenues include charges to customers or applicants for goods, services or privileges provided, operating grants and contributions and capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Description of Funds

Major Funds:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

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

Capital Projects – Building Construction Fund – This Fund is used to account for financial resources used for the acquisition or construction of major capital facilities funded with bond issues or special levies.

Nonmajor Funds:

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

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

OPEB Debt Service – This Fund is used to account for the accumulation of resources for, and payment of, the 2009A OPEB Bonds.

Fiduciary Funds:

Agency Fund – This Fund is used to account for assets held by the District for the Bloomington education cable television.

Private Purpose Trust Fund – This Fund is used to account for assets held by the District to be used for scholarships.

Proprietary Funds:

Internal Service Funds – These Funds are used to account for self insured employee dental and medical costs and related stop loss insurance and retiree benefits and OPEB obligations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments

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

All governmental, fiduciary, and proprietary funds of the District, except for the OPEB Fund, participate in a government-wide investment pool. Cash balances from these funds are combined and invested to the extent available in authorized investments. Earnings from such investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. The investment pool of the District functions essentially as a demand account for all participating funds. All highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and the State Investment Pool. Investments are stated at fair value.

The District's cash and cash equivalents in its OPEB Internal Service Fund are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition. For all other proprietary funds, the District maintains an internal investment pool; each fund's position in this pool is considered a cash equivalent.

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

Minnesota School District Liquid Asset Fund (MSDLAF) and the Minnesota Trust Investment Shares are external investment pools not registered with the Securities and Exchange Commission (SEC) that follow the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

Interest is allocated among the funds based on the monthly cash balance.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

Capital assets are defined by the District as assets with an initial individual cost of more than $2,000 and an estimated useful life in excess of one year. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for buildings and building improvements and 3 to 20 years for furniture and equipment.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

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

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

L. Long-Term Obligations

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

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

M. Compensated Absences

The District compensates most full-time classified employees upon termination of employment for unused vacation up to a set maximum. At June 30, 2016, the District recorded a liability of $1,293,043 for unused vacation in the Internal Service Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences (Continued)

District employees are entitled to sick leave at various rates for each month of full-time service. Certain employees are compensated for unused sick leave upon termination of employment; unused sick leave also enters into the calculation of some employee's severance pay.

N. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in TRA Note 7.

O. Fund Equity

1. Classification

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include inventory and prepaid items.

- Restricted Fund Balances – These are amounts that are restricted to specific purposes either by constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through enabling legislation.

- Committed Fund Balances – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) through resolution.

- Assigned Fund Balances – The School Board delegates to the Superintendent, the authority to assign fund balances for specific purposes.

- Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Fund Equity (Continued)

1. Classification (Continued)

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

2. Minimum Fund Balance Policy

The District will strive to maintain a General Fund unassigned minimum fund balance of 5% and a maximum of 8% of General Fund operating expenditures. When the District is projected to drop below its minimum fund balance, District administration shall initiate measures to either generate additional revenue or to reduce expenditures through a budget reduction plan, or a combination of both.

P. Net Position

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

Q. Use of Estimates

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

R. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: The District has a policy in place to address custodial credit risk for deposits, stating all deposits will be invested at financial institutions that are members of the Federal Deposit Insurance Corporation (FDIC) system and be willing and capable of posting collateral or private insurance for funds in excess of FDIC insurable limits and in amounts required by the District. The District had certificates of deposit of totaling $ 49,447,070 at June 30, 2016, the District was not exposed to custodial credit risk on deposits as it was fully insured by FDIC.

B. Investments

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

Investment	Weighted Average Maturities (in Years)	Fair Value	Moody's/ S&P Rating
Pooled Investments			
MSDLAF+ Liquid Class	N/A	$ 4,636,739	AAAm
MSDLAF+ Max Class	N/A	1,556,400	AAAm
Minnesota Trust Investment Shares	N/A	17,992,956	AAAm
Negotiable Certificates of Deposit	0.26	496,144	N/A
Term Series	0.20	14,000,000	AAAm
Total pooled investments		38,682,239	
OPEB Investments			
Minnesota Trust Investment Shares	N/A	740,441	AAAm
Negotiable Certificates of Deposit	0.52	3,053,683	N/A
Local Government Obligations	0.25	2,160,351	Aa2
Total OPEB investments		5,954,475	
Capital Project Investments			
Minnesota Trust Investment Shares	N/A	336,465	AAAm
Negotiable Certificates of Deposit	0.23	498,095	N/A
Term Series	0.02	3,750,000	AAAm
Total capital projects investments		4,584,560	
Total investments		$ 49,221,274	

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk: The District's investment policy states investments will be managed in a manner to attain market rate of return through various economic and budgetary cycles while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: The District's policy states it may invest in any type of security allowed by *Minnesota Statutes* with limits. In addition, commercial paper must be rated at the highest classifications by two of the four nationally recognized rating services.

Concentration of Credit Risk: The District's investment policy states investments shall be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector, limiting investments in securities that have higher credit risks, investing in securities with varying maturities and continuously investing a portion of the portfolio in readily available funds to ensure appropriate liquidity is maintained in order to meet ongoing obligations. The policy does not state the maximum percentage of the District's investment portfolio that may be invested in a single type of investment instrument.

Custodial Credit Risk – Investments: The District's investment policy states all investment securities shall be held in third party safekeeping by an institution designated as custodial agent. For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

- Investments of $ 49,221,274 are valued using a quoted market prices (Level 1 inputs)

C. Deposits and Investments

Summary of cash, deposits, and investments as of June 30, 2016:

Deposits	$ 49,447,070
Investments (Note 3.B.)	49,221,274
Petty cash	2,050
Total deposits and investments	$ 98,670,394

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Deposits and Investments (Continued)

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

Statement of Net Position	
Cash and investments	$ 98,282,103
Statement of Fiduciary Net Position	
Agency fund	278,873
Private purpose trust fund	109,418
Total	$ 98,670,394

NOTE 3 – INTERFUND TRANSACTIONS

A. Interfund Transfers

	Transfers Out: General
Transfer in	
Nonmajor funds	$ 302,494

A transfer was made from the General Fund to the other nonmajor funds to subsidize certain costs at the Pond and Southwood Early Learning Centers.

B. Interfund Receivable/Payable

	General	Other Nonmajor	Total
Interfund receivable			
Internal service fund	$ 1,515,965	$ 164,678	$ 1,680,643

An interfund receivable/payable was established to present July and August dental and health insurance premiums withheld and owed to the Internal Service Funds.

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land and land improvements	$ 2,166,126	$ -	$ -	$ 2,166,126
Construction in progress	2,472,677	3,098,675	2,472,677	3,098,675
Total capital assets not being depreciated	4,638,803	3,098,675	2,472,677	5,264,801
Capital assets being depreciated				
Buildings and building improvements,	207,831,852	11,996,583	-	219,828,435
furniture and equipment	15,689,570	574,540	458,209	15,805,901
Total capital assets being depreciated	223,521,422	12,571,123	458,209	235,634,336
Less accumulated Depreciation for				
Buildings and building improvements	104,165,098	7,705,370	-	111,870,468
Furniture and equipment	10,303,454	1,328,419	370,526	11,261,347
Total accumulated depreciation	114,468,552	9,033,789	370,526	123,131,815
Total capital assets being depreciated, net	109,052,870	3,537,334	87,683	112,502,521
Governmental activities, capital assets, net	$ 113,691,673	$ 6,636,009	$ 2,560,360	$ 117,767,322

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

Administration	$ 2,625
District support services	181,009
Elementary and secondary regular instruction	247,171
Vocational education instruction	3,318
Special education instruction	12,888
Community service	14,742
Instructional support	39,889
Pupil support	807,246
Food service	30,653
Unallocated	7,694,248
Total depreciation expense	$ 9,033,789

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2009A OPEB Bonds	04/15/09	4.00%-5.25%	$ 12,545,000	02/01/25	$ 11,460,000	$ 290,000
2013A Alternative Faclities Bonds	06/04/13	3.00%-5.00%	16,275,000	02/01/34	16,175,000	-
2013B School Refunding Bonds	06/04/13	1.50%-2.00%	11,780,000	02/01/20	8,085,000	2,060,000
2014A School Refunding Bonds	12/30/14	1.08%	23,490,000	02/01/20	19,050,000	4,440,000
2014B Alternative Facilities Bonds	12/30/14	3.47%	25,965,000	02/01/38	25,965,000	-
2015A School Refunding Bonds	12/30/15	2.00-5.00%	29,390,000	02/01/24	29,390,000	490,000
Build America Bonds	09/29/10	6.15%	600,000	05/15/22	346,063	49,308
Total G.O. bonds					110,471,063	7,329,308
Unamortized bond premiums					7,591,853	
Other long-term liabilities:						
Compensated absences payable					1,293,043	129,304
Severance payable					419,865	41,987
Total long-term Liabilities					$ 119,775,824	$ 7,500,599

The long-term bond liabilities listed above were issued to finance the acquisition, construction, and refurbishing of School facilities, purchase capital assets, refinance (refund) previous bond issues or to finance the District's OPEB obligation.

On December 30, 2015, the District issued $29,390,000 G.O. School Building Refunding Bonds, Series 2015A for the current refunding of the 2016 through 2024 maturities of the G.O. School Building Refunding Bonds, Series 2006C. The net present value savings was $5,174,578 and the refunding lowered debt service payments by $5,612,988.

Bonds will be retired with assets from the Debt Service Funds while the compensated absences and severance liabilities will be liquidated by the General and Internal Service Funds.

B. Minimum Debt Payments for Bonds and Loans

Year Ending	G.O. Bonds			Build America Bonds		
June 30,	Principal	Interest	Total	Principal	Interest	Total
2017	$ 7,280,000	$ 4,703,556	$ 11,983,556	$ 49,308	$ 20,536	$ 69,844
2018	6,990,000	4,285,581	11,275,581	52,387	17,457	69,844
2019	7,195,000	3,998,631	11,193,631	55,658	14,186	69,844
2020	7,580,000	3,699,033	11,279,033	59,134	10,710	69,844
2021	8,090,000	3,383,481	11,473,481	62,827	7,018	69,845
2022-2026	31,915,000	10,691,607	42,606,607	66,749	3,095	69,844
2027-2031	6,215,000	6,553,725	12,768,725	-	-	-
2032-2036	24,860,000	4,835,001	29,695,001	-	-	-
Total	$110,125,000	$ 42,566,591	$152,691,591	$ 346,063	$ 73,002	$ 419,065

NOTE 5 – LONG-TERM DEBT (CONTINUED)

C. Changes in Long-Term Liabilities

	Beginning Balance, Restated	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 123,490,000	$ 29,390,000	$ 42,755,000	$ 110,125,000
Unamortized Bond Premiums	3,129,971	5,910,847	1,448,965	7,591,853
Loans	392,473	-	46,410	346,063
Compensated Absence Payable	1,235,452	1,189,322	1,131,731	1,293,043
Severance benefits payable	400,569	19,296	-	419,865
Total long-term liabilities	$ 128,648,465	$ 36,509,465	$ 45,382,106	$ 119,775,824

NOTE 6 – FUND BALANCES

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

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

A. Restricted/Reserved Fund Equity
Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. The balance as of June 30, 2016, is a deficit (negative) $191,583, which is presented within unassigned fund balance for purposes of reporting in accordance with generally accepted accounting principles.

Restricted/Reserved for Capital Projects Levy – This balance represents available resources from the capital projects levy to be used for building construction. All interest income attributable to the capital projects levy must be credited to this account.

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

Restricted/Reserved for State Approved Alternative Programs – Per *Minnesota Statutes*, section 123.05, subd. 2, each district that is a member of a state approved alternative learning program must restrict/reserve revenue in an amount equal to the sum of (1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to section 126.10 subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved public alternative program, plus (2) the amount of basic skills revenue generated by pupils attending the alternative learning program.

NOTE 6 – FUND BALANCES (CONTINUED)

A. Restricted/Reserved Fund Equity (Continued)

Restricted/Reserved for Alternative Facility Program – This restricted account represents the balance of two different programs; Alternative Facilities (1a) and Health and Safety related Alternative Facilities (1b). A District can only have revenue in one of the two programs. Alternative Facilities (1a) program balance represents the resources available for approved expenditures based on the 10 year plan for Alternative Facilities (1b) represents the restricted amounts remaining from projects over $500,000 that are based on criteria of the health and safety program under *Minnesota Statues* 123B.59, subd.1b.

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

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

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

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

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statues* 124D.16). The balance as of June 30, 2016 is a deficit (negative) $35,232, which is presented within the Restricted/Reserved for Community Education Programs Fund balance for purposes of reporting in accordance with generally accepted accounting principles.

B. Committed Fund Equity

Committed for Medical Assistance/Third Party – This balance represents revenues received from the state and expenditures associated with Medical Assistance.

Committed for Wellness – This balance represents resources committed for employee wellness programs.

Committed for Uniform and Instrument Replacement – This balance represents resources committed to purchase high school uniforms and future instrument replacement.

Committed for Operating Referendum – This balance represents resources committed from the operating referendum.

NOTE 6 – FUND BALANCES (CONTINUED)

B. Committed Fund Equity (Continued)

Committed for Transportation Bus Purchases – This balance represents resources committed for future bus purchases.

Committed for Transportation Building – This balance represents resources committed for future Transportation Center Building maintenance to improve the heating and ventilation systems.

Committed for Transportation – This balance represents the accumulation of the activity to provide the district transportation.

Committed for Athletic Activities – This balance represents unspent athletic and activities dollars to differentiate between athletics and activities and K-12 operating funding.

Committed for Encumbrances – This balance represents resources committed for budget carryovers from the prior year.

Committed for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue.

C. Government-Wide Restrictions

Net position restricted for "Other Purposes" are comprised of the total General Fund restricted fund balances, the Food Service Fund and Community Service Fund balances.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

A. Plan Description

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

Tier II Benefits

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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.

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

C. Contribution Rate

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

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

D. Merger of DTRFA

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

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

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	8.00%
Wage inflation	3.00%
Projected salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.00%
Mortality Assumption	
Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

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

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

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

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2015 is 5.73 years. The "Difference between Expected and Actual Experience" and Changes of Assumptions" use the amortization period of 5.73 years in the schedule presented. The amortization period for "Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68. The "Changes in Proportion" uses a rounded amortization period of 5.0 years.

F. Discount Rate
The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Net Pension Liability

On June 30, 2016, the District reported a liability of $82,947,927 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 1.3409% at the end of the measurement period and 1.3465% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 82,947,927
State's proportionate share of the net pension liability associated with the district	10,174,529

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

For the year ended June 30, 2016, the district recognized pension expense of $5,862,705. It also recognized $1,798,725 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,250,242	$ -
Net difference between projected and actual earnings on plan investments	-	6,344,034
Changes in assumptions	6,376,489	-
Changes in proportion	1,882,978	-
District's contributions to TRA subsequent to the measurement date	5,043,106	-
Total	$ 17,552,815	$ 6,344,034

$5,043,106 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Net Pension Liability (Continued)
Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2017	$ 140,089
2018	140,089
2019	140,086
2020	4,749,152
2021	996,259

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

District proportionate share of NPL		
1% decrease (7.0%)	Current (8.0%)	1% increase (9.0%)
$ 126,257,481	$ 82,947,927	$ 46,804,852

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

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

Public Employees' Retirement Association

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

General Employees Retirement Fund (GERF)

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

B. Benefits Provided

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

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

GERF Benefits

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

C. Contributions

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions (Continued)

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were $2,011,764. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

GERF Pension Costs

At June 30, 2016, the District reported a liability of $23,430,168 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.4521%, which was a decrease of 0.022% from its proportion measured as of June 30, 2014.

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

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

For the year ended June 30, 2016, the District recognized pension expense of $2,197,609 for its proportionate share of GERF's pension expense.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 217,285	$ 1,181,279
Changes in actuarial assumptions	1,459,150	-
Difference between projected and actual investments earnings	-	2,085,718
Changes in proportion and differences between contributions made and district's proportion share of contributions	-	892,739
District's contributions to GERF subsequent to the measurement date	2,011,765	-
Total	$ 3,688,200	$ 4,159,736

$2,011,765 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	$ (733,199)
2018	(733,198)
2019	(1,571,411)
2020	554,507

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

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

GERF

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

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014.

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rates

The discount rate used to measure the total pension liability was 7.9% for GERF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate 6.9%	Current Discount Rate 7.9%	1% Increase in Discount Rate 8.9%
District's proportionate share of the GERF net pension liability	$ 36,840,553	$ 23,430,168	$ 12,355,251

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

B. Funding Policy

Retirees contribute to the healthcare plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Corporate Health. Resolution assigned the authority to establish and amend benefit provisions to the School Board. Some employee groups also receive a direct payment from the District toward insurance after retirement. Also, by definition some severance benefits provided by the District are included in the Other Post Employment Benefits (OPEB(liability calculation. The required contributions are based on projected pay-as-you-go financing requirements. For 2016, the District contributed $1,020,618 to the plan. As of June 30, 2016, the District decided to pay retiree benefits on a pay-as-you-go basis rather than draw from the OPEB Plan. Administrative costs of the plan are financed through investment earnings. As of July 1, 2014, the most recent actuarial valuation date, there were approximately 39 retirees receiving health benefits from the District's health plan. The plan has a total of 1,803 active participants and dependents. That total excludes 143 employees that are not yet eligible to receive benefits.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$ 2,096,023
Interest on net OPEB obligation	103,091
Adjustment to ARC	(160,149)
Annual OPEB cost (expense)	2,038,965
Contributions made	(1,020,618)
Increase in net OPEB obligation	1,018,347
Net OPEB obligation - beginning of year	2,945,465
Net OPEB obligation - end of year	$ 3,963,812

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2014, 2015, and 2016 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	$ 2,038,965	$ 1,020,618	50.1%	$ 3,963,812
6/30/2015	2,021,323	1,088,567	53.9%	2,945,465
6/30/2014	1,264,672	881,825	69.7%	2,012,709

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $15,275,357 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $15,275,357. The covered payroll (annual payroll of active employees covered by the plan) was $95,047,759 and the ratio of the UAAL to the covered payroll was 16.1%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

On July 1, 2014, the actuarial valuation date, the projected unit credit with 30-year amortization of the unfunded liability method was used. The actuarial assumptions included a 3.5% discount rate. At the time of the actuarial study, the District was not planning on prefunding for this benefit. At this actuarial valuation date, the annual healthcare cost trend rate was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5% after eight years. The UAAL is being amortized as a level dollar amount on an open basis. The remaining amortization period at June 30, 2016 was 28 years.

On April 15, 2009, the District issued $12,545,000 G.O. Taxable OPEB Bonds, Series 2009A to fund the OPEB liability. Since these proceeds were placed in a revocable trust, the funding of the obligation does not qualify as funding the liability under GASB Statement No. 45. The activity related to the OPEB revocable trust can be noted in the OPEB Internal Service Fund. As of June 30, 2016, the ending market value of these assets was $14,688,705.

NOTE 9 – CONTINGENCIES

A. Lawsuits

There are several lawsuits pending in which the District is involved. The District estimates the potential claims against the District, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the District.

B. Program Compliance

Federal and state program activities are subject to financial and compliance regulation. To the extent any expenditures are disallowed or other compliance features are not met, a liability to the respective grantor agencies could result.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance to address these risks. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in insurance coverage from the past year.

On July 1, 1993, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of $1,200 for each dental care claim. The General, Food Service, Community Service, and Agency Funds of the District participate in the program and make payments to the Dental Insurance Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Dental Insurance Internal Service Fund includes a reserve of $1,193,408 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2016 is $20,000 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts for the past three years were as follows:

	Balance Beginning of Year	Claims, Expense, and Estimates	Claims Payments	Balance End of Year
2013-2014	$ 19,500	$ 1,039,511	$ (1,036,511)	$ 22,500
2014-2015	22,500	1,080,404	(1,076,904)	26,000
2015-2016	26,000	1,093,998	(1,099,998)	20,000

NOTE 10 – RISK MANAGEMENT (CONTINUED)

During 2010, the District began to self-insure for health benefits. A stop-loss policy was purchased that limits the District's loss to $200,000 at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 125% of the prior year's claims. Settled claims have not exceeded this commercial coverage in any of the past three years.

The General, Food Service, Community Service, and Agency Funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund does not include a reserve for catastrophe losses. The total claims liability reported in the Fund at June 30, 2016 is $1,710,691 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts for the past three years were as follows:

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2013-2014	$ 1,378,835	$ 15,443,100	$ (15,443,100)	$ 1,378,835
2014-2015	1,378,835	14,571,178	(14,371,178)	1,578,835
2015-2016	1,578,835	17,042,601	(16,910,745)	1,710,691

NOTE 11 – COMMITMENTS

At June 30, 2016, the District had various construction contract commitments for projects outstanding totaling $6,949,040.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 271
Schedule of Funding Progress - Other Post Employment Benefits
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014	$ -	$ 15,275,357	$ 15,275,357	0.0%	$ 95,047,759	16.1%
7/1/2012	-	10,095,492	10,095,492	0.0%	82,247,255	12.3%
7/1/2010	-	14,671,699	14,671,699	0.0%	63,975,688	22.9%

Independent School District No. 271
Schedule of District's Proportionate Share
of Net Pension Liability - GERF Retirement Fund
Last Ten Years*

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.4741%	$ 22,270,843	$ 24,890,469	89.5%	78.7%
2016	0.4521%	23,430,168	26,129,960	89.7%	78.2%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	1.3465%	$ 62,045,751	$ 4,364,762	$ 66,410,513	$ 61,461,929	100.9%	81.5%
2016	1.3409%	82,947,927	10,174,529	93,122,456	68,056,160	121.9%	76.8%

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

Independent School District No. 271
Schedule of District Contributions -
GERF Retirement Fund
Last Ten Years*

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 1,804,559	$ 1,804,559	$ -	$ 24,890,469	7.25%
2015	1,959,747	1,959,747	-	26,129,960	7.50%
2016	2,011,764	2,011,764	-	26,823,520	7.50%

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

Schedule of District Contributions -
TRA Retirement Fund
Last Ten Years*

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 4,302,335	$ 4,302,335	$ -	$ 61,461,929	7.00%
2015	5,104,212	5,104,212	-	68,056,160	7.50%
2016	5,043,106	5,043,106	-	67,241,413	7.50%

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

See notes to required supplementary information.

Independent School District No. 271
Notes to the Required Supplementary Information

TRA Retirement Funds

Changes of benefit terms
The DTRFA was merged into TRA on June 30, 2015.

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

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SUPPLEMENTARY INFORMATION

Independent School District No. 271
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and investments	$ 1,480,220	$ 4,082,324	$ 5,562,544
Current property taxes receivable	-	832,885	832,885
Delinquent property taxes receivable	-	14,195	14,195
Accounts receivable	9,496	51,539	61,035
Due from Department of Education	-	317,231	317,231
Due from other Minnesota school districts	-	59,882	59,882
Due from Federal Government through Department of Education	51,752	312,148	363,900
Inventory	133,229	-	133,229
Prepaid items	13,536	5,027	18,563
Total assets	$ 1,688,233	$ 5,675,231	$ 7,363,464
Liabilities			
Accounts payable	$ 17,600	$ 39,078	$ 56,678
Salaries and benefits payable	324,708	709,738	1,034,446
Due to other governmental units	-	775	775
Interfund payable	86,654	78,024	164,678
Unearned revenue	115,078	150,246	265,324
Total liabilities	544,040	977,861	1,521,901
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	1,665,996	1,665,996
Unavailable revenue - delinquent property taxes	-	14,667	14,667
Total deferred inflows of resources	-	1,680,663	1,680,663
Fund Balances			
Nonspendable			
Inventory	133,229	-	133,229
Prepaid items	13,536	5,027	18,563
Restricted:			
Community education programs	-	2,171,104	2,171,104
Adult basic education	-	670,214	670,214
Early childhood family and education programs	-	170,362	170,362
Fund purpose	997,428	-	997,428
Total fund balances	1,144,193	3,016,707	4,160,900
Total liabilities, deferred inflows of resources, and fund balances	$ 1,688,233	$ 5,675,231	$ 7,363,464

OPEB Debt Service	Total Nonmajor Funds
$ 642,841	$ 6,205,385
437,835	1,270,720
7,504	21,699
-	61,035
-	317,231
-	59,882
-	363,900
-	133,229
-	18,563
$ 1,088,180	$ 8,451,644
$ -	$ 56,678
-	1,034,446
-	775
-	164,678
-	265,324
-	1,521,901
875,631	2,541,627
7,975	22,642
883,606	2,564,269
-	133,229
-	18,563
-	2,171,104
-	670,214
-	170,362
204,574	1,202,002
204,574	4,365,474
$ 1,088,180	$ 8,451,644

Independent School District No. 271
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2016

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenues			
Local property taxes	$ -	$ 1,916,968	$ 1,916,968
Other local and county revenues	25,512	6,062,138	6,087,650
Revenue from state sources	323,423	3,282,933	3,606,356
Revenue from federal sources	2,895,706	444,555	3,340,261
Sales and other conversion of assets	1,874,346	-	1,874,346
Interdistrict revenue	-	930,812	930,812
Total revenues	5,118,987	12,637,406	17,756,393
Expenditures			
Current			
Elementary and secondary regular			
Instruction	-	190,394	190,394
Food service	5,106,705	-	5,106,705
Community education and services	-	12,174,196	12,174,196
Capital outlay			
Community education and services	-	15,093	15,093
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	5,106,705	12,379,683	17,486,388
Excess of revenues over (under) expenditures	12,282	257,723	270,005
Other Financing Source			
Transfers In	-	302,494	302,494
Net change in fund balances	12,282	560,217	572,499
Fund Balances			
Beginning of year	1,131,911	2,456,490	3,588,401
End of year	$ 1,144,193	$ 3,016,707	$ 4,160,900

OPEB Debt Service	Total Nonmajor Funds
$ 886,060	$ 2,803,028
1,325	6,088,975
-	3,606,356
-	3,340,261
-	1,874,346
-	930,812
887,385	18,643,778
-	190,394
-	5,106,705
-	12,174,196
-	15,093
270,000	270,000
602,556	602,556
872,556	18,358,944
14,829	284,834
-	302,494
14,829	587,328
189,745	3,778,146
$ 204,574	$ 4,365,474

Independent School District No. 271
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local and county revenues	$ 221,001	$ 221,001	$ 25,512	$ (195,489)
Revenue from state sources	261,738	261,738	323,423	61,685
Revenue from federal sources	2,729,979	2,729,979	2,895,706	165,727
Sales and other conversion of assets	1,948,672	1,948,672	1,874,346	(74,326)
Total revenues	5,161,390	5,161,390	5,118,987	(42,403)
Expenditures				
Current				
Food service	5,149,640	5,149,640	5,106,705	(42,935)
Capital outlay				
Food service	10,000	10,000	-	(10,000)
Total expenditures	5,159,640	5,159,640	5,106,705	(52,935)
Excess of revenues over (under) expenditures	$ 1,750	$ 1,750	12,282	$ 10,532
Fund balance				
Beginning of year			1,131,911	
End of year			$ 1,144,193	

Independent School District No. 271
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 1,994,361	$ 1,994,361	$ 1,916,968	$ (77,393)
Other local and county revenues	5,344,518	5,344,518	6,062,138	717,620
Revenue from state sources	2,885,002	2,885,002	3,282,933	397,931
Revenue from federal sources	569,185	569,185	444,555	(124,630)
Interdistrict revenue	763,520	763,520	930,812	167,292
Total revenues	11,556,586	11,556,586	12,637,406	1,080,820
Expenditures				
Current				
Elementary and secondary regular Instruction	375,000	375,000	190,394	(184,606)
Community education and services	11,525,331	11,585,732	12,174,196	588,464
Capital outlay				
Community education and services	47,165	49,165	15,093	(34,072)
Total expenditures	11,947,496	12,009,897	12,379,683	369,786
Excess of revenues over (under) expenditures	(390,910)	(453,311)	257,723	711,034
Other Financing Sources				
Transfers in	304,976	304,976	302,494	(2,482)
Net change in fund balance	$ (85,934)	$ (148,335)	560,217	$ 708,552
Fund Balance				
Beginning of year			2,456,490	
End of year			$ 3,016,707	

Independent School District No. 271
Combining Statement of
Net Position - Internal Service Funds
June 30, 2016

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Assets					
Cash and cash equivalents	$ 8,114,761	$ 1,370,329	$ 9,997,345	$ 740,441	$ 20,222,876
Investments	-	-	-	13,948,264	13,948,264
Interfund receivable	-	90,050	1,590,593	-	1,680,643
Interest receivable	-	-	-	239,033	239,033
Total assets	$ 8,114,761	$ 1,460,379	$ 11,587,938	$ 14,927,738	$ 36,090,816
Liabilities					
Accounts payable	$ -	$ 1,440	$ 6,571	$ -	$ 8,011
Incurred but not reported claims	-	20,000	1,710,691	-	1,730,691
Benefits Payable	1,293,043	-	-	-	1,293,043
Unearned revenue	-	245,531	4,293,156	-	4,538,687
Total liabilities	1,293,043	266,971	6,010,418	-	7,570,432
Net Position					
Unrestricted	6,821,718	1,193,408	5,577,520	14,927,738	28,520,384
Total liabilities and net position	$ 8,114,761	$ 1,460,379	$ 11,587,938	$ 14,927,738	$ 36,090,816

Independent School District No. 271
Combining Statement of Revenues, Expenses. and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2016

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Operating revenues					
Charges for services	$ -	$ 1,262,431	$ 19,781,498	$ -	$ 21,043,929
Contribution	512,465	-	-	-	512,465
Total revenue	512,465	1,262,431	19,781,498	-	21,556,394
Operating expenses					
Salaries and benefits	-	33,000	-	-	33,000
Employee benefits	543,546	1,093,998	17,042,601	-	18,680,145
Administrative	-	86,577	1,431,699	250	1,518,526
Total operating expenses	543,546	1,213,575	18,474,300	250	20,231,671
Operating income (loss)	(31,081)	48,856	1,307,198	(250)	1,324,723
Nonoperating revenues					
Investment income	24,129	2,679	26,237	196,264	249,309
Change in net position	(6,952)	51,535	1,333,435	196,014	1,574,032
Net position					
Beginning of year	6,828,670	1,141,873	4,244,085	14,731,724	26,946,352
End of year	$ 6,821,718	$ 1,193,408	$ 5,577,520	$ 14,927,738	$ 28,520,384

Independent School District No. 271
Combining Statement of Cash Flows -
Internal Service Funds
Year Ended June 30, 2016

	Internal Service Funds				
	Retiree Benefits	Dental Insurance	Self Insured Medical Benefits	OPEB	Total
Cash Flows - Operating Activities					
Receipts from employee contributions	$ -	$ 1,270,483	$ 19,992,577	$ -	$ 21,263,060
Receipts from district contributions	570,056	-	-	-	570,056
Employee claims paid	-	(1,099,998)	(16,910,745)	-	(18,010,743)
Payments to employees	(543,546)	(33,000)	-	-	(576,546)
Payments to suppliers	-	(85,137)	(1,425,128)	(250)	(1,510,515)
Net cash flows - operating activities	26,510	52,348	1,656,704	(250)	1,735,312
Cash Flows - Investment Activities					
Investment purchases	-	-	-	(158,216)	(158,216)
Interest received	24,129	2,679	26,237	124,889	177,934
Net cash flows - investment activities	24,129	2,679	26,237	(33,327)	19,718
Net change in cash and cash equivalents	50,639	55,027	1,682,941	(33,577)	1,755,030
Cash and Cash Equivalents					
Beginning of year	8,064,122	1,315,302	8,314,404	774,018	18,467,846
End of year	$ 8,114,761	$ 1,370,329	$ 9,997,345	$ 740,441	$ 20,222,876
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities					
Operating income (loss)	$ (31,081)	$ 48,856	$ 1,307,198	$ (250)	$ 1,324,723
Adjustments to reconcile operating income (loss) to net cash flows - operating activities					
Accounts payable	-	1,440	6,571	-	8,011
Benefits payable	57,591	-	-	-	57,591
Incurred but not reported claims	-	(6,000)	131,856	-	125,856
Interfund receivable	-	(4,983)	(40,061)	-	(45,044)
Unearned revenue	-	13,035	251,140	-	264,175
Net adjustments	57,591	3,492	349,506	-	410,589
Net cash flows - operating activities	$ 26,510	$ 52,348	$ 1,656,704	$ (250)	$ 1,735,312

Independent School District No. 271
Statement of Changes in Agency Fund
Assets and Liabilities
Year Ended June 30, 2016

	June 30, 2015	Additions	Deductions	June 30, 2016
Assets				
Cash and investments	$ 258,636	$ 363,329	$ (343,092)	$ 278,873
Liabilities				
Accounts payable	$ 113,196	$ 213,974	$ (217,441)	$ 109,729
Salaries and benefits payable	-	79,625	(74,664)	4,961
Other liabilities	145,440	171,768	(153,025)	164,183
Total liabilities	$ 258,636	$ 465,367	$ (445,130)	$ 278,873

Independent School District No. 271
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2016

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 140,452,596	$ 140,452,596	$ -
Total expenditures		142,409,759	142,409,760	(1)
Nonspendable:				
460	Nonspendable fund balance	478,094	478,094	-
Restricted/Reserved:				
403	Staff Development	-	-	-
405	Deferred Maintenance	-	-	-
406	Health and Safety	(191,583)	(191,583)	-
407	Capital Projects Levy	2,524,462	2,524,462	-
408	Cooperative Programs	-	-	-
409	Alternative Facility Program	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
414	Operating Debt	-	-	-
416	Levy Reduction	-	-	-
417	Taconite Building Maintenance	-	-	-
424	Operating Capital	5,287,810	5,287,810	-
426	$25 Taconite	-	-	-
427	Disabled Accessibility	-	-	-
428	Learning and Development	-	-	-
434	Area Learning Center	-	-	-
435	Contracted Alternative Programs	-	-	-
436	State Approved Alternative Program	1,089,663	1,089,663	-
438	Gifted and Talented	-	-	-
440	Teacher Development and Evaluation	-	-	-
441	Basic Skills Programs	-	-	-
445	Career Technical Programs	-	-	-
448	Achievement and Integration Revenue	-	-	-
449	Safe School Crime	-	-	-
450	Transition to Pre-Kindergarten	-	-	-
451	QZAB and QSCB Payments	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
453	Unfunded Severance and Retirement Levy	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Committed:				
418	Committed for separation	-	-	-
461	Committed	8,658,758	8,658,758	-
Assigned:				
462	Assigned fund balance	-	-	-
Unassigned:				
422	Unassigned fund balance	6,289,895	6,289,891	4
02 Food Services Fund				
Total Revenue		$ 5,118,987	$ 5,118,984	$ 3
Total Expenditures		5,106,705	5,106,705	-
Nonspendable:				
460	Nonspendable fund balance	146,765	146,764	1
Restricted/Reserved:				
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	997,428	997,427	1
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total Revenue		$ 12,637,406	$ 12,637,404	$ 2
Total Expenditures		12,379,683	12,379,682	1
Nonspendable:				
460	Nonspendable fund balance	5,027	5,027	-
Restricted/Reserved:				
426	$25 Taconite	-	-	-
431	Community Education	2,206,337	2,206,337	-
432	ECFE	170,362	170,362	-
440	Teacher Development and Evaluation	-	-	-
444	School Readiness	(35,233)	(35,232)	(1)
447	Adult Basic Education	670,214	670,214	-
452	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ 3,624,236	$ 3,624,236	$ -
Total expenditures		14,112,023	14,112,026	(3)
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/Reserved:				
407	Capital Projects Levy	-	-	-
409	Alternative Facility Program	11,684,690	11,684,689	1
413	Building Projects Funded by COP/LP	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total Revenue		$ 10,935,730	$ 10,935,731	$ (1)
Total Expenditures		47,152,317	47,152,319	(2)
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/Reserved:				
425	Bond refunding	-	-	-
451	QZAB and QSCB payments	-	-	-
Restricted:				
464	Restricted fund balance	675,609	675,609	-
Unassigned:				
463	Unassigned fund balance	-	-	-
08 Trust Fund				
Total Revenue		$ 242	$ 242	$ -
Total Expenditures		15,483	15,483	-
Unassigned:				
422	Unassigned fund balance (net position)	109,418	109,418	-
20 Internal Service Fund				
Total Revenue		$ 21,609,439	$ 21,609,439	$ -
Total Expenditures		20,231,421	20,231,422	(1)
Unassigned:				
422	Unassigned fund balance (net position)	13,592,646	13,592,645	1
25 OPEB Revocable Trust				
Total Revenue		$ 196,264	$ 196,264	$ -
Total Expenditures		250	250	-
Unassigned:				
422	Unassigned fund balance (net position)	14,927,738	14,927,737	1
45 OPEB Irrevocable Trust				
Total Revenue		$ -	$ -	$ -
Total Expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
47 OPEB Debt Service				
Total Revenue		$ 887,385	$ 887,385	$ -
Total Expenditures		872,556	872,556	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted:				
425	Bond refundings	-	-	-
464	Restricted fund balance	204,574	204,574	-
Unassigned:				
463	Unassigned fund balance	-	-	-

Independent School District No. 271
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child nutrition cluster		
Commodities programs (noncash assistance)	10.555	$ 317,644
School breakfast	10.553	579,556
Summer food service	10.559	72,880
Type a lunch	10.555	1,885,659
After school snack	10.555	39,967
Total child nutrition cluster and U.S. Department of Agriculture		2,895,706
Institute of Museum and Library Services		
Through Minnesota Department of Education		
Library Services Technology Act	45.310	75,084
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	1,316,639
Title II, Part A - improving teacher quality	84.367	288,763
Title III, Part A - language enhancement	84.365	180,411
Special education cluster		
Special education	84.027	1,266,518
Handicapped early education	84.173	33,830
Total special education cluster		1,300,348
Infants and toddlers	84.181	51,877
Adult basic education		
Adult basic education	84.002	163,864
Adult basic education literacy	84.002A	90,295
Total adult basic education		254,159
Through Independent School District No. 273:		
Carl Perkins	84.048A	41,050
Direct from federal government		
Indian elementary and secondary school assistance	84.060	28,179
Total U.S. Department of Education		3,461,426
Total federal expenditures		$ 6,432,216

See notes to federal expenditures.

Independent School District No. 271
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2016

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used. Other inventories are stated at cost as determined on a FIFO basis.

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

Independent Auditor's Report

To the School Board
Independent School District No. 271
Bloomington, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 271, Bloomington, Minnesota, as of and for the year ending June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 28, 2016.

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

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

Internal Control over Financial Reporting

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

Compliance and Other Matters

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

Purpose of this Report

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 28, 2016

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

Independent Auditor's Report

To the School Board
Independent School District No. 271
Bloomington, Minnesota

Report on Compliance for Each Major Federal Program
We have audited the compliance of Independent School District No. 271, Bloomington, Minnesota, with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the compliance of Independent School District No. 271.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 271, Bloomington, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 would not necessarily identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be a material weakness. However, material weaknesses may exist that have not been identified.

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 28, 2016

Independent School District No. 271
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance
June 30, 2016

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

CFDA No.:	10.553, 10.555 and 10.559
Name of Federal Program or Cluster	Child Nutrition Cluster
CFDA No.:	84.367
Name of Federal Program or Cluster:	Title II
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	Yes

Independent School District No. 271
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance
June 30, 2016

SECTION II – FINANCIAL STATEMENT FINDINGS

There were no material weaknesses or significant deficiencies noted.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs noted.

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Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 271
Bloomington, 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. 271, Bloomington, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, and have issued our report thereon dated November 28, 2016.

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

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

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

Bergan KDV Ltd.

Minneapolis, Minnesota
November 28, 2016

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Prompt Payment of Claims

Minnesota Statutes 471.425, subd. 2 requires that bills are to be paid within the time period set by the terms of the contract or within the standard payment period. The standard payment period is 35 days from receipt of goods or services or invoice for District's with a school board that meets monthly.

CORRECTIVE ACTION TAKEN:

For items tested for the year ended June 30, 2016, we noted all disbursements were paid within the terms of the contract or within the standard payment period.