INDEPENDENT SCHOOL DISTRICT NO. 831
FOREST LAKE, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 831

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 831

School Board and Administration
Year Ended June 30, 2016

SCHOOL BOARD

	Board Position During 2015–2016
Robert Rapheal	Chairperson (President)
Dan Kieger	Vice Chairperson (Vice President)
Gail Theisen	Clerk
Julie Corcoran	Treasurer
Karen Morehead	Director
Luke Odegaard	Director
Jill Olson	Director

ADMINISTRATION

Linda Madsen	Superintendent
Lawrence Martini	Director of Business Services

FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 831
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

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

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

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

The introductory and other district information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

(continued)

Prior Year Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated December 17, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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

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

Minneapolis, Minnesota
December 14, 2016

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This section of Independent School District No. 831's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2015 by $16,936,222 (net position deficit). The District's total net position decreased by $607,045 during the fiscal year ended June 30, 2016.

- Government-wide revenues totaled $86,590,125 and were $607,045 less than expenses of $87,197,170.

- The General Fund's total fund balance (under the governmental fund presentation) increased to $2,444,268, or $157,138 over the prior year, compared to an increase of $44,220 planned in the budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Independent Auditor's Report;

- Management's Discussion and Analysis;

- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;

- Required supplementary information; and

- Supplemental information consisting of combining and individual fund statements and schedules.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

- To assess the overall health of the District requires consideration of additional 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 shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

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

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with Minnesota statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

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

Proprietary Funds – The District maintains one type of proprietary fund. The internal service funds are used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for the self-insurance activities of the district employees' medical and dental claims. These services have been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

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

	2016	2015
Assets		
Current and other assets	$ 111,428,199	$ 35,454,352
Capital assets, net of depreciation	56,787,159	50,216,927
Total assets	**$ 168,215,358**	**$ 85,671,279**
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	**$ 10,353,130**	**$ 8,806,920**
Liabilities		
Current and other liabilities	$ 19,966,450	$ 12,289,601
Long-term liabilities, including due within one year	149,712,108	69,572,264
Total liabilities	**$ 169,678,558**	**$ 81,861,865**
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 18,778,139	$ 16,184,226
Pension plan deferments – PERA and TRA	7,048,013	12,761,285
Total deferred inflows of resources	**$ 25,826,152**	**$ 28,945,511**
Net position		
Net investment in capital assets	$ 31,389,004	$ 31,611,377
Restricted	1,126,272	1,187,313
Unrestricted	(49,451,498)	(49,127,867)
Total net position	**$ (16,936,222)**	**$ (16,329,177)**

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

Total net position decreased by $607,045, from current year operating results. The District issued $75,000,000 in building bonds during the year. Construction activity related to the building bonds issued increased the asset and liability balances reported in the table above.

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

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

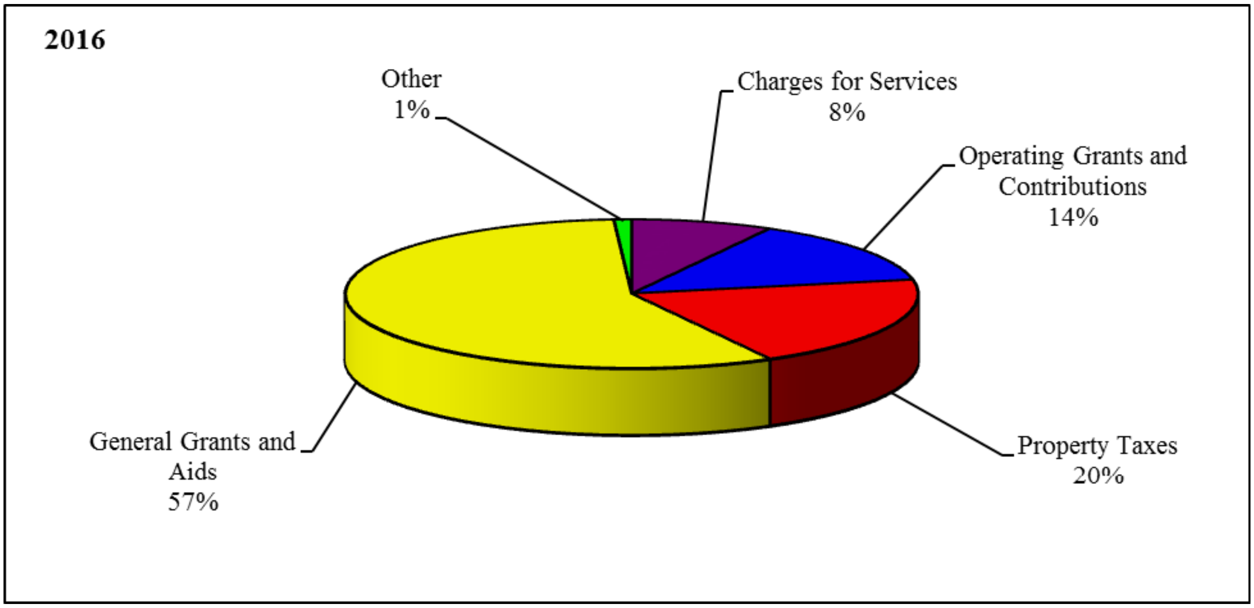
	2016	2015
Revenues		
Program revenues		
Charges for services	$ 6,847,529	$ 6,423,354
Operating grants and contributions	12,672,382	11,968,641
General revenues		
Property taxes	17,057,514	17,571,864
General grants and aids	49,382,999	49,259,872
Other	629,701	1,193,682
Total revenues	86,590,125	86,417,413
Expenses		
Administration	3,796,645	3,226,706
District support services	2,322,473	3,072,069
Elementary and secondary regular instruction	29,008,857	29,472,957
Vocational education instruction	954,911	863,577
Special education instruction	12,558,342	12,018,150
Instructional support services	4,610,217	5,120,151
Pupil support services	11,046,015	10,278,319
Sites and buildings	8,776,019	7,444,141
Fiscal and other fixed cost programs	526,412	379,529
Food service	4,276,582	4,138,798
Community service	4,531,548	4,321,014
Depreciation not allocated to other functions	2,545,922	2,488,510
Interest and fiscal charges	2,243,227	1,019,716
Total expenses	87,197,170	83,843,637
Change in net position	(607,045)	2,573,776
Net position – beginning	(16,329,177)	(18,902,953)
Net position – ending	**$ (16,936,222)**	**$ (16,329,177)**

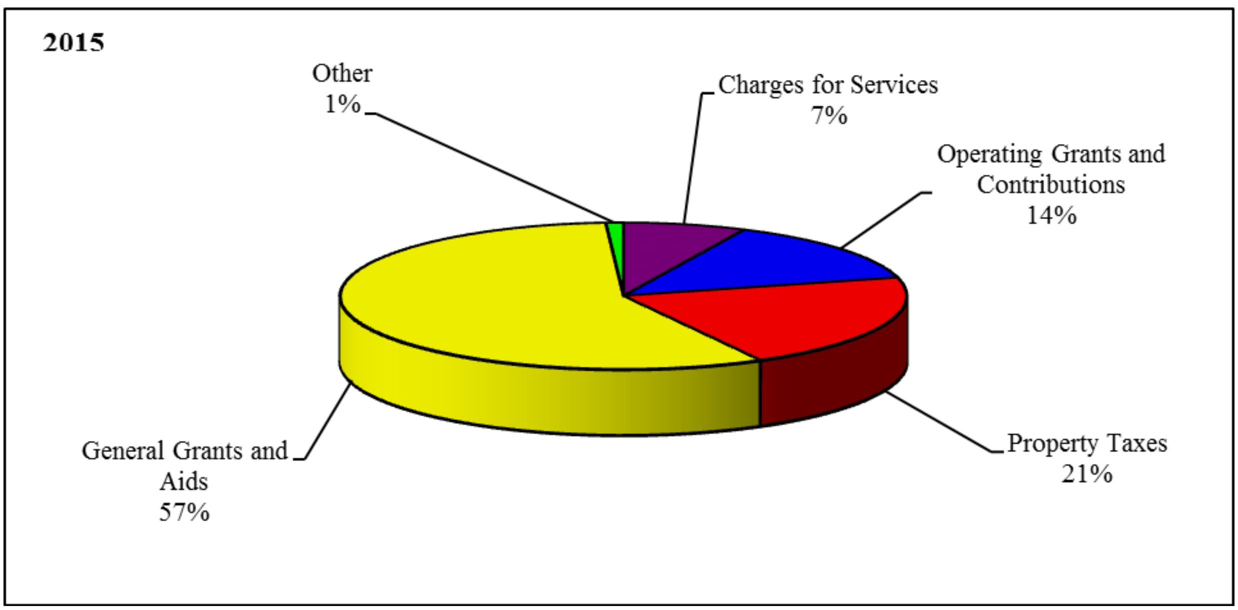
This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

The cost of all governmental activities this year was $87,197,170. Some of the cost was paid directly by users of the programs totaling $6,847,529. The state and federal government subsidized certain programs directly with grants and contributions totaling $12,672,382. However, the bulk of the costs were paid for by the taxpayers of the entire state totaling $49,382,999, and local district taxpayers totaling $17,057,514. Other sources totaling $629,701 were also recognized, rounding out total revenues of the District.

Figure A shows further analysis of these revenue sources:

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



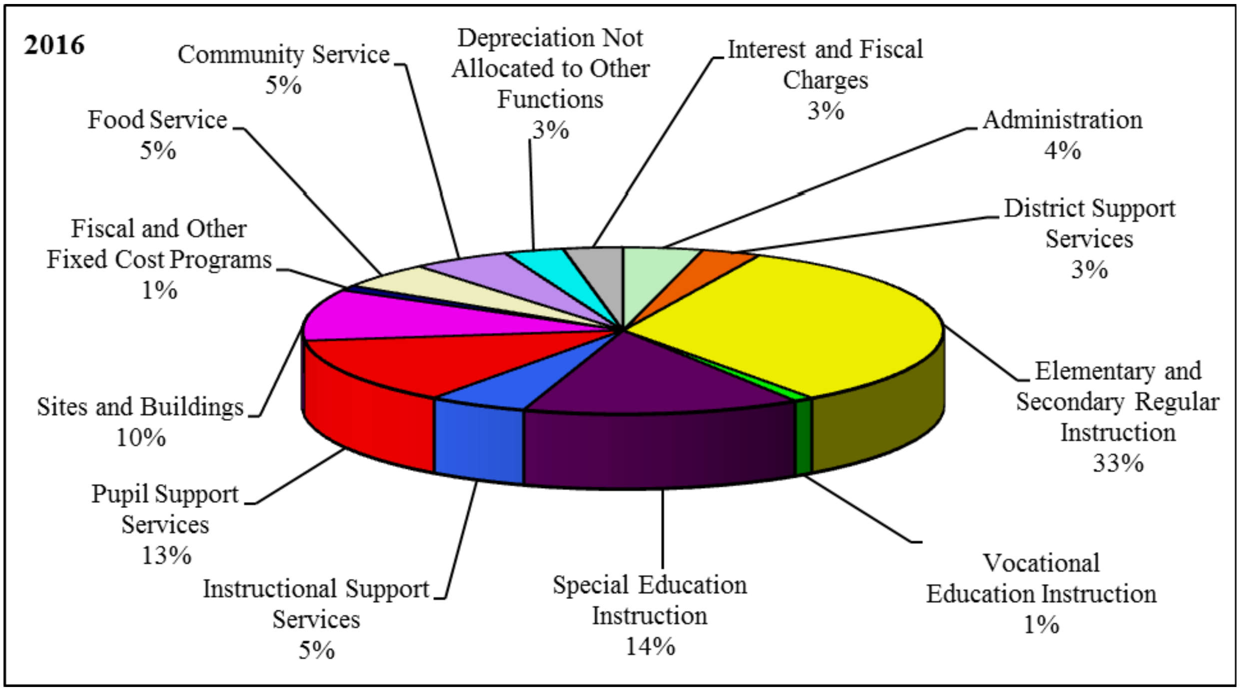


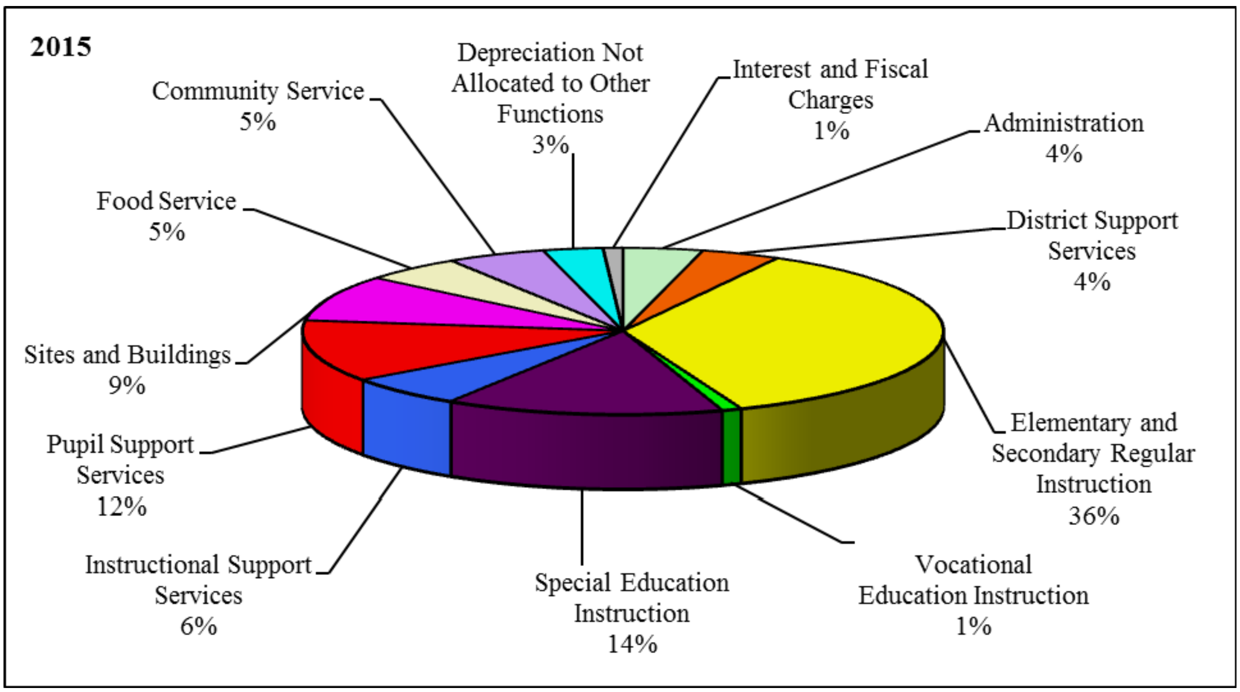
The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants. This significant reliance on the state for funding has placed pressure on local school districts as a result of limited funding increases in recent years.

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

Figure B shows further analysis of the expense functions:

Figure B – Expenses for Fiscal Years 2016 and 2015





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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

	2016	2015	Increase (Decrease)
Major funds			
General	$ 2,444,268	$ 2,287,130	$ 157,138
Capital Projects – Building Construction	65,256,137	(1,416,144)	66,672,281
Debt Service	1,090,325	975,639	114,686
Nonmajor funds			
Food Service Special Revenue	(369,918)	1,200	(371,118)
Community Service Special Revenue	549,193	558,065	(8,872)
Total governmental funds	$ 68,970,005	$ 2,405,890	$ 66,564,115

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

At June 30, 2016, the District's governmental funds reported combined fund balances of $68,970,005, an increase of $66,564,115 in comparison with the prior year. Approximately 0.4 percent of this amount ($304,955) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form ($278,417), 2) restricted for particular purposes ($67,970,285), or 3) assigned for particular purposes ($416,348).

ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue and other financing sources	$ 71,317,836	$ 70,817,836	$ (500,000)	(0.7%)
Expenditures and other financing uses	$ 71,273,616	$ 70,773,616	$ (500,000)	(0.7%)

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amended the budget for known significant changes in circumstances such as: updated enrollment estimates, legislative changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, insurance premium changes, special education tuition changes, or for new debt issued.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2016 Actual	Amount	Percent	Amount	Percent
Revenue and other financing sources	$ 72,245,270	$ 1,427,434	2.0%	$ (287,514)	(0.4%)
Expenditures	72,088,132	$ 1,314,516	1.9%	$ (2,063,411)	(2.8%)
Net change in fund balances	$ 157,138				

The fund balance of the General Fund increased $157,138, compared to an increase of $44,220 approved in the budget.

Actual revenue and other financing sources for fiscal year 2016 were 2.0 percent more than projected, while actual expenditures were 1.9 percent over budget. State sources accounted for the majority of the favorable revenue and other financing sources variance to budget. Conservative budgeting for general education and special education, along with the pass-through of state funding for pensions contributed to state sources exceeding budget. The expenditure variance in 2016 was spread across several programs and object categories. The pension pass-through payments for the Teachers Retirement Association (TRA) plan of nearly $800,000, like revenues, were not anticipated in the budget for expenditures. The District also recognized more spending for purchased services over the prior year and to budget.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities and as authorized by the District's alternative facilities levy as approved by the Minnesota Department of Education and building bonds issued by the District. At June 30, 2016, the District had a total fund balance of $65,256,137, which reflects an increase of $66,672,281. During 2016, $75,000,000 of building bonds were issued as approved by taxpayers of the District.

Debt Service Fund

The Debt Service Fund revenues and other financing sources exceeded expenditures and other financing uses by $114,686 in the current year, compared to a $52,408 fund balance increase anticipated in the budget. The funding of the Debt Service Fund is largely controlled with each individual debt obligation's financing plan. The remaining fund balance of $1,090,325 at June 30, 2016 is available for meeting future debt service obligations.

The District issued refunding bonds in the current that were used to reduce future debt service payments and related debt levies for taxpayers of the District.

Food Service Special Revenue Fund

The Food Service Special Revenue Fund ended the year with expenditures exceeding revenues, reducing equity by $371,118, compared to a planned fund balance decrease of $186,460. This fund ended 2016 with a fund balance deficit of $369,918.

Community Service Special Revenue Fund

The Community Service Special Revenue Fund ended the year with expenditures exceeding revenues, reducing equity by $8,872, compared to a planned fund balance decrease of $136,832.

Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost reimbursement basis. The District currently maintains two internal service funds used to account for the District's self-insured health and dental insurance functions.

Operating revenues for the internal service funds for fiscal 2016 totaled $9,872,629. Operating expenses totaled $9,886,685 for self-insured health and dental benefit claims.

The net position for internal service funds as of June 30, 2016 totaled $2,476,645, which represents a decrease of $10,687 in net position from the prior year.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

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

Table 6
Capital Assets

	2016	2015	Increase (Decrease)
Land	$ 1,885,726	$ 1,885,726	$ –
Construction in progress	5,909,030	578,045	5,330,985
Buildings	85,463,104	85,463,104	–
Building and land improvements	17,360,133	15,715,486	1,644,647
Furniture and equipment	21,149,699	21,017,531	132,168
Intangibles	1,895,000	–	1,895,000
Less accumulated depreciation	(76,875,533)	(74,442,965)	(2,432,568)
Total	$ 56,787,159	$ 50,216,927	$ 6,570,232
Depreciation expense	$ 2,835,938	$ 2,778,195	$ 57,743

By the end of fiscal year 2016, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

The changes presented in the table above reflect the ongoing activity of projects at district sites during fiscal year 2016, including the activity of the Capital Projects – Building Construction Fund.

The District defines capital assets as those with an initial, individual cost of $5,000 or more, which benefit more than one fiscal year.

Additional details about capital assets can be found in the notes to basic financial statements.

Long-Term Liabilities

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

Table 7
Outstanding Long-Term Liabilities

	2016	2015	Increase (Decrease)
General obligation bonds payable	$ 90,530,000	$ 20,040,000	$ 70,490,000
Certificates of participation payable	2,770,000	2,880,000	(110,000)
Unamortized premium/discount	3,404,370	899,539	2,504,831
Capital lease payable	216,759	285,136	(68,377)
Net pension liability – PERA	12,168,555	11,762,537	406,018
Net pension liability – TRA	37,437,605	30,481,444	6,956,161
Severance benefits payable	2,305,655	2,499,798	(194,143)
Compensated absences payable	879,164	723,810	155,354
Total	$ 149,712,108	$ 69,572,264	$ 80,139,844

The increase in general obligation bonds payable and unamortized premium/discount in the table above is due to the issuance of $75,000,000 of building bonds, $10,285,000 of refunding bonds, and the related premium on bonds issued. Scheduled debt and refunding payments partially offset the increase from new debt issued in the current year.

The decrease in certificates of participation and capital leases payable is due to the planned repayment schedules for principal payments made in fiscal 2016.

The differences in the Public Employee Retirement Association and the TRA net pension liabilities reflect the change in the District's proportionate share of these state-wide pension obligations.

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

Table 8
Limitations on Debt

District's market value	$ 4,484,223,100
Limit rate	15.0%
Legal debt limit	$ 672,633,465

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. For the 2017 fiscal year, the Legislature added $119, or 2.0 percent, per pupil to the basic general education funding formula. The ongoing demands on limited resources continue to present challenges in funding education for Minnesota schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our 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 receives. If you have questions about these statements or need additional financial information, contact the Business Services Department at (651) 982-8125. The address is: Independent School District No. 831, 6100 North 210th Street, Forest Lake, Minnesota 55025.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Governmental Activities	
	2016	2015
Assets		
Cash and temporary investments	$ 89,801,101	$ 14,080,624
Receivables		
Current taxes	10,781,007	9,448,163
Delinquent taxes	416,566	506,757
Accounts and interest	220,865	140,117
Due from other governmental units	7,299,160	8,810,236
Due from fiduciary fund	998,193	–
Inventory	75,907	97,684
Prepaid items	202,510	185,298
Net other post-employment benefit asset	1,632,890	2,185,473
Capital assets		
Not depreciated	7,794,756	2,463,771
Depreciated, net of accumulated depreciation	48,992,403	47,753,156
Total capital assets, net of accumulated depreciation	56,787,159	50,216,927
Total assets	168,215,358	85,671,279
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	10,353,130	8,806,920
Total assets and deferred outflows of resources	$ 178,568,488	$ 94,478,199
Liabilities		
Aid anticipation certificates payable	$ 2,947,355	$ –
Salaries payable	3,198,570	1,991,837
Accounts and contracts payable	10,322,440	7,467,490
Accrued interest payable	765,348	471,405
Due to other governmental units	223,357	158,639
Unearned revenue	1,883,191	1,657,667
Claims incurred, but not reported	626,189	542,563
Long-term liabilities		
Due within one year	4,493,287	5,449,062
Due in more than one year	145,218,821	64,123,202
Total long-term liabilities	149,712,108	69,572,264
Total liabilities	169,678,558	81,861,865
Deferred inflows of resources		
Property taxes levied for subsequent year	18,778,139	16,184,226
Pension plan deferments – PERA and TRA	7,048,013	12,761,285
Total deferred inflows of resources	25,826,152	28,945,511
Net position		
Net investment in capital assets	31,389,004	31,611,377
Restricted for		
Capital asset acquisition	80,523	–
Debt service	462,467	607,886
Food service	–	1,200
Community service	566,646	578,227
Other purposes (state funding restrictions)	16,636	–
Unrestricted	(49,451,498)	(49,127,867)
Total net position	(16,936,222)	(16,329,177)
Total liabilities, deferred inflows of resources, and net position	$ 178,568,488	$ 94,478,199

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016				2015
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 3,796,645	$ –	$ 41,769	$ (3,754,876)	$ (3,221,886)
District support services	2,322,473	–	–	(2,322,473)	(3,072,019)
Elementary and secondary regular instruction	29,008,857	1,148,811	1,279,335	(26,580,711)	(27,444,090)
Vocational education instruction	954,911	4,621	29,408	(920,882)	(837,823)
Special education instruction	12,558,342	491,849	8,820,032	(3,246,461)	(3,039,527)
Instructional support services	4,610,217	–	104,602	(4,505,615)	(5,089,706)
Pupil support services	11,046,015	–	184,381	(10,861,634)	(10,102,923)
Sites and buildings	8,776,019	34,564	–	(8,741,455)	(7,408,740)
Fiscal and other fixed cost programs	526,412	–	–	(526,412)	(379,529)
Food service	4,276,582	2,249,807	1,559,415	(467,360)	(360,178)
Community service	4,531,548	2,917,877	653,440	(960,231)	(986,995)
Depreciation not allocated to other functions	2,545,922	–	–	(2,545,922)	(2,488,510)
Interest and fiscal charges	2,243,227	–	–	(2,243,227)	(1,019,716)
Total governmental activities	$ 87,197,170	$ 6,847,529	$ 12,672,382	(67,677,259)	(65,451,642)
General revenues					
Taxes					
Property taxes for general purposes				10,108,487	10,532,274
Property taxes for community service				911,107	923,886
Property taxes for building construction				1,400,000	1,495,189
Property taxes for debt service				4,637,920	4,620,515
General grants and aids				49,382,999	49,259,872
Other general revenues				566,358	1,159,570
Investment earnings				63,343	34,112
Total general revenues				67,070,214	68,025,418
Change in net position				(607,045)	2,573,776
Net position – beginning				(16,329,177)	(18,902,953)
Net position – ending				$ (16,936,222)	$ (16,329,177)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 11,510,150	$ 68,006,838	$ 3,966,515
Receivables			
Current taxes	6,657,437	–	3,578,960
Delinquent taxes	277,279	–	116,746
Accounts and interest	81,863	65,715	–
Due from other governmental units	7,038,190	–	1,269
Due from other funds	1,323,500	–	–
Inventory	–	–	–
Prepaid items	173,920	24,941	–
Total assets	$ 27,062,339	$ 68,097,494	$ 7,663,490
Liabilities			
Aid anticipation certificates	$ 2,947,355	$ –	$ –
Salaries payable	2,788,807	–	–
Accounts and contracts payable	7,081,895	2,841,357	–
Accrued interest payable	46,673	–	–
Due to other governmental units	219,414	–	–
Due to other funds	–	–	–
Unearned revenue	10,080	–	–
Total liabilities	13,094,224	2,841,357	–
Deferred inflows of resources			
Property taxes levied for subsequent year	11,309,372	–	6,482,348
Unavailable revenue	214,475	–	90,817
Total deferred inflows of resources	11,523,847	–	6,573,165
Fund balances (deficits)			
Nonspendable	173,920	24,941	–
Restricted	97,159	66,235,212	1,090,325
Assigned	416,348	–	–
Unassigned	1,756,841	(1,004,016)	–
Total fund balances	2,444,268	65,256,137	1,090,325
Total liabilities, deferred inflows of resources, and fund balances	$ 27,062,339	$ 68,097,494	$ 7,663,490

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2016	Total Governmental Funds 2015
$ 1,199,597	$ 84,683,100	$ 9,387,754
544,610	10,781,007	9,448,163
22,541	416,566	506,757
39,126	186,704	111,765
259,701	7,299,160	8,810,236
–	1,323,500	893,918
75,907	75,907	97,684
3,649	202,510	185,298
$ 2,145,131	$ 104,968,454	$ 29,441,575
$ –	$ 2,947,355	$ –
409,763	3,198,570	1,991,837
125,366	10,048,618	7,333,731
–	46,673	–
3,943	223,357	158,639
325,307	325,307	893,918
97,605	107,685	100,099
961,984	16,897,565	10,478,224
986,419	18,778,139	16,184,226
17,453	322,745	373,235
1,003,872	19,100,884	16,557,461
79,556	278,417	282,982
547,589	67,970,285	1,533,267
–	416,348	1,355,685
(447,870)	304,955	(766,044)
179,275	68,970,005	2,405,890
$ 2,145,131	$ 104,968,454	$ 29,441,575

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INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016	2015
Total fund balances – governmental funds	$ 68,970,005	$ 2,405,890
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	133,662,692	124,659,892
Accumulated depreciation	(76,875,533)	(74,442,965)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(90,530,000)	(20,040,000)
Certificates of participation payable	(2,770,000)	(2,880,000)
Unamortized premium/discount	(3,404,370)	(899,539)
Capital lease payable	(216,759)	(285,136)
Net pension liability – PERA	(12,168,555)	(11,762,537)
Net pension liability – TRA	(37,437,605)	(30,481,444)
Severance benefits payable	(2,305,655)	(2,499,798)
Compensated absences payable	(879,164)	(723,810)
Net other post-employment benefit assets (obligations) reported in the Statement of Net Position do not require the use of current financial resources and are not reported as assets (liabilities) in the governmental funds until actually due.	1,632,890	2,185,473
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(718,675)	(471,405)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	2,476,645	2,487,332
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	10,353,130	8,806,920
Deferred inflows – PERA and TRA pension plans	(7,048,013)	(12,761,285)
Deferred inflows – delinquent property taxes	322,745	373,235
Total net position – governmental activities	$ (16,936,222)	$ (16,329,177)

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 10,143,433	$ 1,400,000	$ 4,650,755
Investment earnings	9,598	44,435	4,635
Other	2,246,203	–	–
State sources	57,995,977	–	12,690
Federal sources	1,833,859	–	–
Total revenue	72,229,070	1,444,435	4,668,080
Expenditures			
Current			
Administration	3,654,157	–	–
District support services	2,299,936	–	–
Elementary and secondary regular instruction	28,929,355	–	–
Vocational education instruction	942,709	–	–
Special education instruction	12,427,639	–	–
Instructional support services	4,571,268	–	–
Pupil support services	11,113,359	–	–
Sites and buildings	7,306,746	–	–
Fiscal and other fixed cost programs	526,412	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	10,462,596	–
Debt service			
Principal	178,377	–	3,615,000
Interest and fiscal charges	138,174	–	2,329,477
Total expenditures	72,088,132	10,462,596	5,944,477
Excess (deficiency) of revenue over expenditures	140,938	(9,018,161)	(1,276,397)
Other financing sources (uses)			
Refunding bond debt issued	–	–	10,285,000
Building bond debt issued	–	75,000,000	–
Premium on debt issued	–	690,442	2,286,083
Capital lease issued	–	–	–
Payment on refunded bonds	–	–	(11,180,000)
Sale of capital assets	16,200	–	–
Total other financing sources (uses)	16,200	75,690,442	1,391,083
Net change in fund balances	157,138	66,672,281	114,686
Fund balances (deficits)			
Beginning of year	2,287,130	(1,416,144)	975,639
End of year	$ 2,444,268	$ 65,256,137	$ 1,090,325

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2016	Total Governmental Funds 2015
$ 913,816	$ 17,108,004	$ 17,625,095
1,306	59,974	22,540
5,167,684	7,413,887	7,582,924
891,110	58,899,777	57,770,517
1,321,745	3,155,604	3,364,459
8,295,661	86,637,246	86,365,535
–	3,654,157	3,298,590
–	2,299,936	3,085,780
–	28,929,355	29,877,813
–	942,709	872,825
–	12,427,639	12,139,538
–	4,571,268	5,312,438
–	11,113,359	10,214,856
–	7,306,746	8,657,555
–	526,412	379,529
4,151,453	4,151,453	4,114,103
4,487,966	4,487,966	4,376,672
36,232	10,498,828	1,031,047
–	3,793,377	3,605,121
–	2,467,651	1,328,386
8,675,651	97,170,856	88,294,253
(379,990)	(10,533,610)	(1,928,718)
–	10,285,000	–
–	75,000,000	–
–	2,976,525	–
–	–	355,257
–	(11,180,000)	–
–	16,200	10,560
–	77,097,725	365,817
(379,990)	66,564,115	(1,562,901)
559,265	2,405,890	3,968,791
$ 179,275	$ 68,970,005	$ 2,405,890

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016	2015
Total net change in fund balances – governmental funds	$ 66,564,115	$ (1,562,901)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	9,502,780	2,311,203
Depreciation expense	(2,835,938)	(2,778,195)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(96,610)	–
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.		
Refunding bonds payable	(10,285,000)	–
Building bonds payable	(75,000,000)	–
Capital lease payable	–	(355,257)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	14,795,000	3,415,000
Certificates of participation payable	110,000	120,000
Capital lease payable	68,377	70,121
Net other post-employment benefit assets/obligations reported in the Statement of Activities do not require the use of current financial resources and are not reported until actually due.	(552,583)	(717,929)
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	(247,270)	61,669
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	(2,504,831)	247,001
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability – PERA	(406,018)	1,869,424
Net pension liability – TRA	(6,956,161)	5,665,024
Severance benefits payable	194,143	256,047
Compensated absences payable	(155,354)	27,413
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.	(10,687)	1,019,676
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	1,546,210	5,739,996
Deferred inflows – PERA and TRA pension plans	5,713,272	(12,761,285)
Deferred inflows – delinquent property taxes	(50,490)	(53,231)
Change in net position – governmental activities	$ (607,045)	$ 2,573,776

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 10,231,784	$ 10,131,784	$ 10,143,433	$ 11,649
Investment earnings	40,000	40,000	9,598	(30,402)
Other	2,159,900	2,159,900	2,246,203	86,303
State sources	56,886,152	56,486,152	57,995,977	1,509,825
Federal sources	2,000,000	2,000,000	1,833,859	(166,141)
Total revenue	71,317,836	70,817,836	72,229,070	1,411,234
Expenditures				
Current				
Administration	3,439,371	3,440,025	3,654,157	214,132
District support services	2,786,272	2,037,614	2,299,936	262,322
Elementary and secondary regular instruction	28,992,572	29,231,530	28,929,355	(302,175)
Vocational education instruction	891,838	898,668	942,709	44,041
Special education instruction	12,479,032	12,499,032	12,427,639	(71,393)
Instructional support services	4,058,791	4,089,951	4,571,268	481,317
Pupil support services	11,121,722	10,726,438	11,113,359	386,921
Sites and buildings	6,880,818	7,227,158	7,306,746	79,588
Fiscal and other fixed cost programs	370,000	370,000	526,412	156,412
Debt service				
Principal	110,000	110,000	178,377	68,377
Interest and fiscal charges	143,200	143,200	138,174	(5,026)
Total expenditures	71,273,616	70,773,616	72,088,132	1,314,516
Excess of revenue over expenditures	44,220	44,220	140,938	96,718
Other financing sources				
Sale of capital assets	–	–	16,200	16,200
Net change in fund balances	$ 44,220	$ 44,220	157,138	$ 112,918
Fund balances				
Beginning of year			2,287,130	
End of year			$ 2,444,268	

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016	2015
Assets		
Current assets		
Cash and temporary investments	$ 5,118,001	$ 4,692,870
Receivables		
Accounts and interest	34,161	28,352
Total current assets	5,152,162	4,721,222
Liabilities		
Current liabilities		
Accounts and contracts payable	273,822	133,759
Unearned revenue	1,775,506	1,557,568
Claims incurred, but not reported	626,189	542,563
Total current liabilities	2,675,517	2,233,890
Net position		
Unrestricted	$ 2,476,645	$ 2,487,332

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenses, and Changes in Net Position
Internal Service Funds
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	2016	2015
Operating revenue		
Charges for services		
Contributions from governmental funds	$ 9,872,629	$ 9,878,811
Operating expenses		
Health benefit claims	9,349,731	8,342,626
Dental benefit claims	536,954	528,081
Total operating expenses	9,886,685	8,870,707
Operating income (loss)	(14,056)	1,008,104
Nonoperating revenue		
Investment earnings	3,369	11,572
Change in net position	(10,687)	1,019,676
Net position		
Beginning of year	2,487,332	1,467,656
End of year	$ 2,476,645	$ 2,487,332

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016	2015
Cash flows from operating activities		
Contributions from governmental funds	$ 10,084,758	$ 9,699,410
Payment for health claims	(9,124,320)	(8,376,853)
Payment for dental claims	(538,676)	(527,680)
Net cash flows from operating activities	421,762	794,877
Cash flows from investing activities		
Investment income received	3,369	11,572
Net change in cash and cash equivalents	425,131	806,449
Cash and cash equivalents		
Beginning of year	4,692,870	3,886,421
End of year	$ 5,118,001	$ 4,692,870
Reconciliation of operating income (loss) to net cash flows from operating activities		
Operating income (loss)	$ (14,056)	$ 1,008,104
Adjustments to reconcile operating income (loss) to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts and interest receivable	(5,809)	(3,060)
Accounts and contracts payable	140,063	64,813
Unearned revenue	217,938	(176,341)
Claims incurred, but not reported	83,626	(98,639)
Net cash flows from operating activities	$ 421,762	$ 794,877

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Fiduciary Net Position
as of June 30, 2016

		Post-Employment Benefits
Assets		
Cash and temporary investments	$	1,277,050
Investments, at fair value		
State and local bonds		281,674
Negotiable certificates of deposit		1,507,631
MNTrust Investment Shares Portfolio		609,559
Accounts and interest receivable		36,253
Total assets		3,712,167
Liabilities		
Due to other funds		998,193
Net position		
Held in trust for employee benefits	$	2,713,974

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

		Post-Employment Benefits
Additions		
Investment earnings	$	49,400
Deductions		
Benefits paid to plan members and administrative fees		998,443
Change in net position		(949,043)
Net position		
Beginning of year		3,663,017
End of year	$	2,713,974

See notes to basic financial statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 831 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

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

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

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2016, the District paid TIES $402,228 for services provided.

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

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met.

For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as "depreciation not allocated to other functions." Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

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

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

Internal service funds are presented in the Proprietary Fund financial statements. Because the principal users of the internal services are the District's governmental activities, the internal service funds are consolidated into the governmental activities column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Fiduciary funds are presented in the fiduciary fund financial statements by type, for which the District has one benefit trust fund. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

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

Description of Funds

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

Major Governmental Funds

General Fund – The General Fund is the government's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities and as authorized by the District's MDE-approved alternative facilities levy.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the 2009 taxable OPEB bond issue.

Nonmajor Governmental Funds

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

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

Proprietary Funds

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's internal service funds are used to account for dental and health insurance benefits offered by the District to its employees as a self-insured plan.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund

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

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. Expenditures in the General, Food Service Special Revenue, Community Service Special Revenue, and Debt Service Funds exceeded budgeted appropriations by $1,314,516, $367,540, $156,269, and $1,366,885, respectively, during the year ended June 30, 2016. Revenues and other financing sources in excess of budget, along with available fund balance, financed these variances.

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to the fund.

In the Post-Employment Benefits Trust Fund, assets were contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Earnings from the investments of this trust are allocated directly to this fund.

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

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

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

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

H. Inventories

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

I. Prepaid Items

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

J. Property Taxes

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $686,701 of the property tax levy collectible in 2016 as revenue to the District in fiscal year 2015–2016. The remaining portion of the taxes collectible in 2016 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District in the current year.

K. Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets are recorded in the government-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and building and land improvements, 5 to 15 years for furniture and equipment, and 10 to 20 years for intangible assets. Land and construction in progress are not depreciated.

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

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

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

M. Compensated Absences

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end due to employee termination or similar circumstances.

N. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year’s salary. Members of certain employee groups may also elect to receive district matching contributions paid into a tax-deferred matching contribution plan. The amount of any severance or retirement benefit due to an individual is reduced by the total matching contributions made by the District to such a plan over the course of that individual’s employment.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. State-Wide Pension Plans

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

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

P. Deferred Outflows/Inflows of Resources

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

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

The first item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Net Position

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

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

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

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

R. Fund Balance Classifications

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

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

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

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

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Deficit Fund Equity

As of June 30, 2016, the District has an accumulated fund balance deficit of $369,918 in its Food Service Special Revenue Fund. If this deficit is not eliminated by operations during the following year, it must then be eliminated by a fund transfer from the General Fund.

T. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

U. Risk Management and Self-Insurance

1. **General Insurance** – The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2016.

2. **Self-Insurance** – The District has established two internal service funds to account for and finance its self-insured risk of loss for respective employee dental and health insurance plans. Under these plans, the internal service funds provide coverage to participating employees and their dependents for various dental and healthcare costs as described in the plans.

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

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

   Changes in the balance of dental claim liabilities for the past two years were as follows:

	Balance – Beginning of Year	Charges and Changes in Estimates	Claim Payments	Balance – End of Year
2015	$ 9,671	$ 528,081	$ 528,987	$ 8,765
2016	$ 8,765	$ 536,954	$ 537,174	$ 8,545

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the balance of health insurance claim liabilities for the past two years were as follows:

	Balance – Beginning of Year		Charges and Changes in Estimates		Claim Payments		Balance – End of Year	
2015	$	631,531	$	8,342,626	$	8,440,359	$	533,798
2016	$	533,798	$	9,349,731	$	9,265,885	$	617,644

V. Prior Period Comparative Financial Information/Reclassification

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$	52,830,640
Investments		40,646,375
Total deposits and investments	$	93,477,015

Cash and investments are included on the basic financial statements as follows:

Statement of Net Position		
Cash and temporary investments	$	89,801,101
Statement of Fiduciary Net Position		
Cash and temporary investments		1,277,050
Investments, at fair value		2,398,864
Total deposits and investments	$	93,477,015

B. Deposits

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

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

At year-end, the carrying amount of the District's deposits was $52,830,640, while the balance on the bank records was $52,978,141. At June 30, 2016, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

C. Investments

The District has the following investments at year-end:

	Credit Risk		Fair Value Measurements	Interest Risk – Maturity Duration in Years		
Deposits/Investments	Rating	Agency	Using	Less Than 1	1 to 5	Total
U.S. agency securities	AAA	Moody's	Level 1	$ –	$ 1,554,270	$ 1,554,270
State and local bonds	Aa	Moody's	Level 1	$ 293,492	$ 737,028	1,030,520
State and local bonds	A	Moody's	Level 1	$ –	$ 722,061	722,061
State and local bonds	Ba	Moody's	Level 1	$ 281,674	$ –	281,674
Negotiable certificates of deposit	N/R	N/A	Level 1	$ 944,526	$ 1,803,335	2,747,861
Investment pools/mutual funds						
Minnesota School District Liquid Asset Fund	AAA	S&P	NAV	N/A	N/A	103,184
MNTrust Investment Shares Portfolio	AAA	S&P	Level 1	N/A	N/A	4,948,931
MNTrust Term Series	AAA	S&P	Level 1	$ 16,000,000	$ –	16,000,000
Wells Fargo Advantage Government	AAA	S&P	Level 1	N/A	N/A	13,257,874
Total investments						$ 40,646,375

N/R – Not Rated
N/A – Not Applicable
NAV – Investments measured at the net asset value

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statute § 356A.06, Subd. 7. The District's investment policies do not further restrict investing in specific financial instruments.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Completed Construction	Ending Balance
Capital assets, not depreciated					
Land	$ 1,885,726	$ –	$ –	$ –	$ 1,885,726
Construction in progress	578,045	6,746,300	–	(1,415,315)	5,909,030
Total capital assets, not depreciated	2,463,771	6,746,300	–	(1,415,315)	7,794,756
Capital assets, depreciated					
Buildings	85,463,104	–	–	–	85,463,104
Building and land improvements	15,715,486	229,332	–	1,415,315	17,360,133
Furniture and equipment	21,017,531	632,148	(499,980)	–	21,149,699
Intangibles	–	1,895,000	–	–	1,895,000
Total capital assets, depreciated	122,196,121	2,756,480	(499,980)	1,415,315	125,867,936
Less accumulated depreciation for					
Buildings	(49,199,202)	(1,745,128)	–	–	(50,944,330)
Building and land improvements	(5,704,046)	(664,450)	–	–	(6,368,496)
Furniture and equipment	(19,539,717)	(392,437)	403,370	–	(19,528,784)
Intangibles	–	(33,923)	–	–	(33,923)
Total accumulated depreciation	(74,442,965)	(2,835,938)	403,370	–	(76,875,533)
Net capital assets, depreciated	47,753,156	(79,458)	(96,610)	1,415,315	48,992,403
Total capital assets, net	$ 50,216,927	$ 6,666,842	$ (96,610)	$ –	$ 56,787,159

Depreciation expense was charged to the following governmental functions:

Administration	$ 352
District support services	1,765
Elementary and secondary regular instruction	11,006
Special education instruction	2,453
Instructional support services	4,516
Pupil support services	176,575
Community service	2,586
Food service	90,763
Depreciation not allocated to other functions	2,545,922
Total depreciation expense	$ 2,835,938

NOTE 4 – AID ANTICIPATION CERTIFICATES

Short-term borrowing for cash flow purposes is summarized as follows:

Issue Date	Maturity Date	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
09/03/2015	09/15/2016	2.00%	$ –	$ 2,947,355	$ –	$ 2,947,355

Interest and fiscal charges of $7,064 were charged to the General Fund during the year, net of reoffering premiums.

NOTE 5 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Taxable OPEB bonds	03/01/2009	3.50–6.00%	$ 6,450,000	02/01/2030	$ 5,245,000
Refunding bonds	10/08/2015	5.00%	$ 10,285,000	02/01/2019	10,285,000
School building bonds	05/05/2016	2.00–5.00%	$ 75,000,000	02/01/2046	75,000,000
Total general obligation bonds payable					$ 90,530,000

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

In October 2015, the District issued $10,285,000 of General Obligation Refunding Bonds, Series 2015A. The proceeds of this issue were used to refund, in advance of their stated maturities, the 2016 through 2019 maturities of the District's Refunding Bonds, Series 2005A, on the November 15, 2015 call date of the refunded issue. This current refunding will reduce the District's total future debt service payments by $936,047 and will result in present value savings of $917,888.

B. Certificates of Participation Payable

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Certificate of participation	02/25/2014	1.20–5.35%	$ 3,000,000	02/01/2034	$ 2,770,000

On February 25, 2014, the District issued $3,000,000 of Certificates of Participation, Series 2014A. The proceeds were used to purchase the Forest Lake Area Athletic Association (FLAAA) Sports Center and Ice Arena. The District has a nominal ground lease agreement with the City of Forest Lake for the land where the FLAAA Sports Center and Ice Arena are located.

C. Capital Leases Payable

The District entered into a $355,257 capital lease agreement to finance the acquisition of telephone and communications technology equipment on December 15, 2014. This lease has an effective interest rate of 2.735 percent and calls for annual principal and interest payments of $76,288 through August 2019. The lease is being paid through the General Fund. The leased assets were recorded at $410,064, which includes the cost of the asset and labor costs (the present value of future minimum lease payments as of the inception dates of the lease). Total accumulated depreciation on these assets at June 30, 2016 was $82,013.

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

D. Other Long-Term Liabilities

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

E. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds, certificates of participation, and capital leases are as follows:

Year Ending	General Obligation Bonds		Certificates of Participation		Capital Leases	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 3,400,000	$ 4,000,730	$ 115,000	$ 121,605	$ 70,290	$ 5,998
2018	3,735,000	3,084,278	115,000	119,650	72,235	4,053
2019	3,935,000	2,898,828	115,000	117,178	74,234	2,054
2020	1,750,000	2,665,703	120,000	114,360	–	–
2021	1,840,000	2,576,453	125,000	110,760	–	–
2022–2026	10,570,000	11,518,278	690,000	479,948	–	–
2027–2031	12,755,000	9,347,770	860,000	305,493	–	–
2032–2036	14,945,000	7,089,981	630,000	68,480	–	–
2037–2041	17,350,000	4,638,422	–	–	–	–
2042–2046	20,250,000	1,678,970	–	–	–	–
	$ 90,530,000	$ 49,499,413	$ 2,770,000	$ 1,437,474	$ 216,759	$ 12,105

F. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Retirements	Balance – End of Year	Due Within One Year
General obligation bonds payable	$ 20,040,000	$ 85,285,000	$ 14,795,000	$ 90,530,000	$ 3,400,000
Certificate of participation payable	2,880,000	–	110,000	2,770,000	115,000
Unamortized premium/discount	899,539	2,976,525	471,694	3,404,370	–
Total bonds and certificates payable	23,819,539	88,261,525	15,376,694	96,704,370	3,515,000
Capital lease payable	285,136	–	68,377	216,759	70,290
Net pension liability – PERA	11,762,537	2,978,481	2,572,463	12,168,555	–
Net pension liability – TRA	30,481,444	10,813,887	3,857,726	37,437,605	–
Severance benefits payable	2,499,798	418,686	612,829	2,305,655	416,348
Compensated absences payable	723,810	647,003	491,649	879,164	491,649
	$ 69,572,264	$ 103,119,582	$ 22,979,738	$ 149,712,108	$ 4,493,287

NOTE 6 – FUND BALANCES

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

Classifications

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

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	$ –	$ –	$ –	$ 75,907	$ 75,907
Prepaid items	173,920	24,941	–	3,649	202,510
Total nonspendable	173,920	24,941	–	79,556	278,417
Restricted					
Operating capital	80,523	–	–	–	80,523
Achievement and integration	16,636	–	–	–	16,636
Capital projects	–	66,235,212	–	–	66,235,212
Debt service	–	–	1,090,325	–	1,090,325
Community education programs	–	–	–	204,184	204,184
Early childhood family education	–	–	–	141,064	141,064
School readiness	–	–	–	163,122	163,122
Community service	–	–	–	39,219	39,219
Total restricted	97,159	66,235,212	1,090,325	547,589	67,970,285
Assigned					
Severance	416,348	–	–	–	416,348
Unassigned					
Deferred maintenance restricted account deficit	(354,554)	–	–	–	(354,554)
Health and safety restricted account deficit	(1,279,168)	–	–	–	(1,279,168)
Alternative facilities restricted account deficit	–	(1,004,016)	–	–	(1,004,016)
Unassigned – food service restricted account deficit	–	–	–	(447,870)	(447,870)
Unassigned	3,390,563	–	–	–	3,390,563
Total unassigned	1,756,841	(1,004,016)	–	(447,870)	304,955
Total	$ 2,444,268	$ 65,256,137	$ 1,090,325	$ 179,275	$ 68,970,005

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

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

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

2. Teachers Retirement Association (TRA)

The TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. The TRA is a separate statutory entity and administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

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

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- **PERA** – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.

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

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

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

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

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

Tier I Benefits

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

With these provisions:

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

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

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

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

Tier II Benefits

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

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

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

C. Contributions

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2016 were $1,060,550. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

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

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

The District's contributions to the TRA for the year ended June 30, 2016, were $2,271,426. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

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

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

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

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

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

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

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

E. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of $12,168,555 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of the PERA's participating employers. At June 30, 2015, the District's proportion was 0.2348 percent, which was a decrease of 0.0156 percent from its proportion measured as of June 30, 2014.

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

The discount rate used to calculate liabilities for the June 30, 2015, measurement date was 7.9 percent. The Legislature has since set the discount rate in statute at 8.0 percent. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB Statement No. 68 accounting requirements will be increased to 8.0 percent to be consistent with the rate set in statute used for funding purposes.

For the year ended June 30, 2016, the District recognized pension expense of $1,098,389 for its proportionate share of the GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 112,848	$ 613,502
Changes in actuarial assumptions	757,815	–
Differences between projected and actual investment earnings	–	1,083,226
Changes in proportion	–	633,033
District's contributions to the GERF subsequent to the measurement date	1,060,550	–
Total	$ 1,931,213	$ 2,329,761

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

A total of $1,060,550 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2017	$ (437,251)
2018	$ (437,251)
2019	$ (872,582)
2020	$ 287,986

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of $37,437,605 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.6052 percent at the end of the measurement period and 0.6615 percent for the beginning of the period.

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

District's proportionate share of net pension liability	$ 37,437,605
State's proportionate share of the net pension liability associated with the District	$ 4,591,853

For the year ended June 30, 2016, the District recognized pension expense of $2,335,672. It also recognized $811,820 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 2,093,445	$ –
Changes in actuarial assumptions	2,877,956	–
Difference between projected and actual investment earnings	–	3,475,014
Changes in proportion	1,179,090	1,243,238
District's contributions to the TRA subsequent to the measurement date	2,271,426	–
Total	$ 8,421,917	$ 4,718,252

A total of $2,271,426 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2017	$ (196,042)
2018	$ (196,042)
2019	$ (196,042)
2020	$ 2,020,365

F. Actuarial Assumptions

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

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

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

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

The actuarial assumptions used in the June 30, 2015, valuation for the TRA were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB Statement No. 67 valuation.

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

The long-term expected rate of return on pension plan investments is 7.90 percent for the GERF and 8.00 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

G. Discount Rate

The discount rate used to measure the total pension liability was 7.90 percent for the GERF and 8.00 percent for the TRA. This is a decrease from the discount rate at the prior measurement date of 8.25 percent for the TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2016 contribution rates, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, each of the pension plan's fiduciary net positions were projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.90%	7.90%	8.90%
District's proportionate share of the GERF net pension liability	$ 19,133,293	$ 12,168,555	$ 6,416,751
TRA discount rate	7.00%	8.00%	9.00%
District's proportionate share of the TRA net pension liability	$ 56,984,882	$ 37,437,605	$ 21,124,839

I. Pension Plan Fiduciary Net Position

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

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

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

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

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

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

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District. The District has established an Employee Benefits Trust Fund to fund these obligations.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$ 508,282
Interest on net OPEB obligation	(65,564)
Adjustment to ARC	109,865
Annual OPEB cost (expense)	552,583
Contributions made	–
Increase in net OPEB obligation	552,583
Net OPEB obligation (asset) – beginning of year	(2,185,473)
Net OPEB obligation (asset) – end of year	$ (1,632,890)

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

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
June 30, 2014	$ 600,540	$ –	– %	$ (2,903,402)
June 30, 2015	$ 717,929	$ –	– %	$ (2,185,473)
June 30, 2016	$ 552,583	$ –	– %	$ (1,632,890)

NOTE 8 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the plan was 45.6 percent funded. The actuarial accrued liability for benefits was $7,940,430 and the actuarial value of assets was $3,621,231, resulting in an unfunded actuarial accrued liability (UAAL) of $4,319,199. The covered payroll (annual payroll of active employees covered by the plan) was $37,333,250, and the ratio of the UAAL to the covered payroll was 11.6 percent.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.0 percent investment rate of return (net of investment expenses) based on the District's own investments; a 3.0 percent rate of projected salary increases; an annual dental cost trend rate of 4.0 percent; and an annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 10 years. All rates include a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2014 for the various amortization layers ranged from 24 to 30 years.

F. Post-Employment Benefits Trust Fund

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

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

G. Membership

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

Retirees and beneficiaries receiving benefits	104
Active plan members	794
Total members	898

NOTE 9 – FLEXIBLE BENEFIT PLAN

The District has a cafeteria plan (the Plan) established under § 125 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the Plan, whether or not such contributions have been made.

The Plan is administered by the District for child care, medical expense reimbursements, and health insurance premiums. The District withholds amounts from employee payroll checks equal to the amount of the health insurance premiums owing and makes the premium payments when due. These payments are recorded in the General Fund. The medical reimbursement and dependent care activity in the financial statements is accounted for in the General Fund.

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

NOTE 10 – HEALTHCARE REIMBURSEMENT PLAN

The District also maintains a healthcare reimbursement plan (the Healthcare Plan) under § 105 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Participants may use the funds contributed by the District to be reimbursed for uninsured health expenses paid, additional costs associated with health insurance coverage, or insurance premiums paid under a spouse or dependent plan.

All assets of the Healthcare Plan are held by the District. The Healthcare Plan is administered by an independent contract administrator and is included in the financial statements in the various district funds.

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

NOTE 11 – INTERFUND BALANCES AND TRANSACTIONS

The District had the following interfund receivables and payables at year-end:

	Due From Other Funds	Due to Other Funds
General Fund	$ 1,323,500	$ –
Nonmajor funds		
Food Service Special Revenue Fund	–	325,307
Fiduciary funds		
Post-Employment Benefits Fund	–	998,193
	$ 1,323,500	$ 1,323,500

The District's General Fund has an interfund receivable from the nonmajor Food Service Special Revenue Fund to eliminate a temporary cash deficit. Additionally, the District's General Fund has an interfund receivable from the fiduciary Post-Employment Benefits Fund relating to post-employment benefit costs to be reimbursed as of June 30, 2016. Such interfund balances are reported in the fund financial statements, but are eliminated as necessary in the government-wide financial statements.

NOTE 12 – OPERATING LEASES

The District has operating bus leases for student transportation. The leases have monthly payments ranging from $2,651 to $34,088 and expire at various times through August 2020. Operating lease expenditures for the year ended June 30, 2016 were approximately $1,006,384.

The District is currently utilizing space under an operating lease agreement for the Step Program. The lease has monthly payments ranging from $10,667 to $13,931 and will expire in November 2024. Operating lease expenditures for the year ended June 30, 2016 were approximately $146,604.

Future commitments on these leases are as follows:

Year Ending June 30,	Bus Leases	Space Lease
2017	$ 1,453,606	$ 149,703
2018	2,945,819	151,948
2019	2,650,137	154,227
2020	415,788	156,536
2021	219,085	158,889
2022–2025	–	560,765
	$ 7,684,435	$ 1,332,068

NOTE 13 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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

B. Legal Claims

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

C. Construction Contracts

At June 30, 2016, the District had commitments totaling $4,283,040 under various construction contracts for which the work was not yet completed.

D. Guaranteed Energy Savings Commitment

During fiscal year 2016, the District entered into a guaranteed energy savings agreement with APEX under Minnesota Statutes, Section 471.345, Subd. 13, not to exceed 20 years. This agreement is for the purpose of implementing comprehensive utility cost-savings measures to improve the energy efficiency of the school district facilities. As of June 30, 2016, the District has recorded $1,895,000 as an intangible asset related to this energy savings contract. Total accumulated amortization on these intangible assets at year-end was $33,923. The District is also required to purchase the energy generated by the solar panels owned by the provider that are installed on various buildings of the District.

NOTE 14 – SUBSEQUENT EVENTS

In November 2016, the District issued $67,070,000 of General Obligation Building Bonds, Series 2016B. The bonds bear an interest rate of 3.00–5.00 percent, and mature in February 2046.

In November 2016, the District issued $5,365,000 of General Obligation Taxable OPEB Bonds, Series 2016C. The bonds bear an interest rate of 1.25–3.35 percent and mature in February 2030.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 831

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

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.2504%	$ 11,762,537	$ 13,148,109	89.46%	78.70%
06/30/2016	06/30/2015	0.2348%	$ 12,168,555	$ 13,777,131	88.32%	78.20%

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

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	06/30/2015	$ 1,018,736	$ 1,018,736	$ –	$ 13,777,131	7.39%
06/30/2016	06/30/2016	$ 1,060,550	$ 1,060,550	$ –	$ 14,132,795	7.50%

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

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

INDEPENDENT SCHOOL DISTRICT NO. 831

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

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.6615%	$ 30,481,444	$ 2,144,221	$ 32,625,665	$ 30,196,677	100.94%	81.50%
06/30/2016	06/30/2015	0.6052%	$ 37,437,605	$ 4,591,853	$ 42,029,458	$ 30,724,443	121.85%	76.80%

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

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	06/30/2015	$ 2,304,333	$ 2,304,333	$ –	$ 30,724,443	7.50%
06/30/2016	06/30/2016	$ 2,271,426	$ 2,271,426	$ –	$ 30,285,682	7.50%

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 831

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

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2010	$ 6,302,912	$ 5,286,971	$ 1,015,941	83.9 %	$ 34,140,189	3.0 %
July 1, 2012	$ 6,896,291	$ 4,658,761	$ 2,237,530	67.6 %	$ 34,492,925	6.5 %
July 1, 2014	$ 7,940,430	$ 3,621,231	$ 4,319,199	45.6 %	$ 37,333,250	11.6 %

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

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Negative Net OPEB Obligation (Asset)
2011	$ 357,513	– %	$ (4,575,041)
2012	$ 381,261	– %	$ (4,095,577)
2013	$ 491,798	– %	$ (3,503,942)
2014	$ 507,510	– %	$ (2,903,402)
2015	$ 659,075	– %	$ (2,185,473)
2016	$ 508,282	– %	$ (1,632,890)

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ –	$ 1,199,597	$ 1,199,597
Receivables			
Current taxes	–	544,610	544,610
Delinquent taxes	–	22,541	22,541
Accounts and interest	1,931	37,195	39,126
Due from other governmental units	61,271	198,430	259,701
Inventory	75,907	–	75,907
Prepaid items	2,045	1,604	3,649
Total assets	$ 141,154	$ 2,003,977	$ 2,145,131
Liabilities			
Salaries payable	$ 50,017	$ 359,746	$ 409,763
Accounts and contracts payable	42,538	82,828	125,366
Due to other governmental units	–	3,943	3,943
Due to other funds	325,307	–	325,307
Unearned revenue	93,210	4,395	97,605
Total liabilities	511,072	450,912	961,984
Deferred inflows of resources			
Property taxes levied for subsequent year	–	986,419	986,419
Unavailable revenue	–	17,453	17,453
Total deferred inflows of resources	–	1,003,872	1,003,872
Fund balances (deficits)			
Nonspendable for inventory	75,907	–	75,907
Nonspendable for prepaid items	2,045	1,604	3,649
Restricted	–	547,589	547,589
Unassigned	(447,870)	–	(447,870)
Total fund balances (deficits)	(369,918)	549,193	179,275
Total liabilities, deferred inflows of resources, and fund balances	$ 141,154	$ 2,003,977	$ 2,145,131

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 913,816	$ 913,816
Investment earnings	82	1,224	1,306
Other	2,249,807	2,917,877	5,167,684
State sources	237,670	653,440	891,110
Federal sources	1,321,745	–	1,321,745
Total revenue	3,809,304	4,486,357	8,295,661
Expenditures			
Current			
Food service	4,151,453	–	4,151,453
Community service	–	4,487,966	4,487,966
Capital outlay	28,969	7,263	36,232
Total expenditures	4,180,422	4,495,229	8,675,651
Net change in fund balances	(371,118)	(8,872)	(379,990)
Fund balances (deficits)			
Beginning of year	1,200	558,065	559,265
End of year	$ (369,918)	$ 549,193	$ 179,275

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016	2015
Assets		
Cash and temporary investments	$ 11,510,150	$ 5,415,128
Receivables		
Current taxes	6,657,437	6,332,176
Delinquent taxes	277,279	338,945
Accounts and interest	81,863	76,045
Due from other governmental units	7,038,190	8,551,855
Due from other funds	1,323,500	893,918
Prepaid items	173,920	182,737
Total assets	$ 27,062,339	$ 21,790,804
Liabilities		
Aid anticipation certificates	$ 2,947,355	$ –
Salaries payable	2,788,807	1,808,724
Accounts and contracts payable	7,081,895	6,682,681
Accrued interest payable	46,673	–
Due to other governmental units	219,414	150,868
Unearned revenue	10,080	1,560
Total liabilities	13,094,224	8,643,833
Deferred inflows of resources		
Property taxes levied for subsequent year	11,309,372	10,610,420
Unavailable revenue – delinquent taxes	214,475	249,421
Total deferred inflows of resources	11,523,847	10,859,841
Fund balances (deficits)		
Nonspendable for prepaid items	173,920	182,737
Restricted for operating capital	80,523	–
Restricted for achievement and integration	16,636	–
Assigned for severance	416,348	1,355,685
Unassigned – deferred maintenance restricted account deficit	(354,554)	(405,113)
Unassigned – health and safety restricted account deficit	(1,279,168)	(1,010,549)
Unassigned	3,390,563	2,164,370
Total fund balances	2,444,268	2,287,130
Total liabilities, deferred inflows of resources, and fund balances	$ 27,062,339	$ 21,790,804

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 10,131,784	$ 10,143,433	$ 11,649	$ 10,566,174
Investment earnings	40,000	9,598	(30,402)	13,145
Other	2,159,900	2,246,203	86,303	2,626,396
State sources	56,486,152	57,995,977	1,509,825	56,971,250
Federal sources	2,000,000	1,833,859	(166,141)	2,000,562
Total revenue	70,817,836	72,229,070	1,411,234	72,177,527
Expenditures				
Current				
Administration				
Salaries	2,336,915	2,427,910	90,995	2,228,481
Employee benefits	961,699	1,046,004	84,305	960,535
Purchased services	85,050	111,909	26,859	63,750
Supplies and materials	11,011	13,078	2,067	5,536
Other expenditures	45,350	55,256	9,906	40,288
Total administration	3,440,025	3,654,157	214,132	3,298,590
District support services				
Salaries	1,056,587	944,975	(111,612)	1,085,705
Employee benefits	520,007	536,252	16,245	689,326
Purchased services	509,800	742,688	232,888	1,137,033
Supplies and materials	(55,580)	70,445	126,025	144,746
Other expenditures	6,800	5,576	(1,224)	28,970
Total district support services	2,037,614	2,299,936	262,322	3,085,780
Elementary and secondary regular instruction				
Salaries	20,116,410	19,425,764	(690,646)	20,020,489
Employee benefits	7,092,702	7,616,917	524,215	7,797,344
Purchased services	902,786	1,028,099	125,313	1,046,064
Supplies and materials	1,103,232	825,901	(277,331)	976,445
Capital expenditures	4,900	20,566	15,666	24,350
Other expenditures	11,500	12,108	608	13,121
Total elementary and secondary regular instruction	29,231,530	28,929,355	(302,175)	29,877,813

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	611,473	612,173	700	571,048
Employee benefits	247,790	284,517	36,727	236,999
Purchased services	6,500	22,420	15,920	27,494
Supplies and materials	32,905	22,999	(9,906)	34,149
Capital expenditures	–	600	600	3,000
Other expenditures	–	–	–	135
Total vocational education instruction	898,668	942,709	44,041	872,825
Special education instruction				
Salaries	8,652,413	8,517,784	(134,629)	8,512,449
Employee benefits	3,131,771	3,278,469	146,698	2,998,477
Purchased services	543,194	547,047	3,853	533,650
Supplies and materials	114,154	52,539	(61,615)	70,244
Capital expenditures	36,500	28,077	(8,423)	21,322
Other expenditures	21,000	3,723	(17,277)	3,396
Total special education instruction	12,499,032	12,427,639	(71,393)	12,139,538
Instructional support services				
Salaries	3,014,200	3,326,306	312,106	3,938,858
Employee benefits	837,112	979,109	141,997	1,039,515
Purchased services	83,200	120,262	37,062	158,624
Supplies and materials	117,189	113,160	(4,029)	150,010
Capital expenditures	25,000	21,227	(3,773)	828
Other expenditures	13,250	11,204	(2,046)	24,603
Total instructional support services	4,089,951	4,571,268	481,317	5,312,438
Pupil support services				
Salaries	5,036,495	5,015,253	(21,242)	4,549,851
Employee benefits	2,020,004	2,170,257	150,253	1,914,141
Purchased services	2,521,228	2,652,301	131,073	2,460,683
Supplies and materials	1,131,971	868,410	(263,561)	1,254,499
Capital expenditures	16,000	407,138	391,138	35,237
Other expenditures	740	–	(740)	445
Total pupil support services	10,726,438	11,113,359	386,921	10,214,856

(continued)

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	2,030,675	1,871,873	(158,802)	1,852,217
Employee benefits	1,102,444	1,085,543	(16,901)	1,079,678
Purchased services	3,023,199	3,449,455	426,256	2,860,684
Supplies and materials	412,161	299,737	(112,424)	501,317
Capital expenditures	656,179	598,909	(57,270)	2,363,243
Other expenditures	2,500	1,229	(1,271)	416
Total sites and buildings	7,227,158	7,306,746	79,588	8,657,555
Fiscal and other fixed cost programs				
Purchased services	370,000	526,412	156,412	379,529
Debt service				
Principal	110,000	178,377	68,377	190,121
Interest and fiscal charges	143,200	138,174	(5,026)	122,498
Total debt service	253,200	316,551	63,351	312,619
Total expenditures	70,773,616	72,088,132	1,314,516	74,151,543
Excess (deficiency) of revenue over expenditures	44,220	140,938	96,718	(1,974,016)
Other financing sources				
Capital lease issued	–	–	–	355,257
Sale of capital assets	–	16,200	16,200	–
Total other financing sources	–	16,200	16,200	355,257
Net change in fund balances	$ 44,220	157,138	$ 112,918	(1,618,759)
Fund balances				
Beginning of year		2,287,130		3,905,889
End of year		$ 2,444,268		$ 2,287,130

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016	2015
Assets		
Cash and temporary investments	$ –	$ 9,161
Receivables		
Accounts and interest	1,931	4,215
Due from other governmental units	61,271	56,233
Inventory	75,907	97,684
Prepaid items	2,045	2,124
Total assets	$ 141,154	$ 169,417
Liabilities		
Salaries payable	$ 50,017	$ 17,460
Accounts and contracts payable	42,538	56,572
Due to other funds	325,307	–
Unearned revenue	93,210	94,185
Total liabilities	511,072	168,217
Fund balances (deficit)		
Nonspendable for inventory	75,907	97,684
Nonspendable for prepaid items	2,045	2,124
Unassigned	(447,870)	(98,608)
Total fund balances (deficit)	(369,918)	1,200
Total liabilities and fund balances	$ 141,154	$ 169,417

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ –	$ 82	$ 82	$ 1,270
Other – primarily meal sales	2,083,276	2,249,807	166,531	2,181,277
State sources	219,815	237,670	17,855	233,446
Federal sources	1,323,331	1,321,745	(1,586)	1,363,897
Total revenue	3,626,422	3,809,304	182,882	3,779,890
Expenditures				
Current				
Salaries	1,539,538	1,683,012	143,474	1,578,753
Employee benefits	416,197	460,806	44,609	499,413
Purchased services	150,627	165,061	14,434	153,191
Supplies and materials	1,630,869	1,841,085	210,216	1,881,118
Other expenditures	2,651	1,489	(1,162)	1,628
Capital outlay	73,000	28,969	(44,031)	70,239
Total expenditures	3,812,882	4,180,422	367,540	4,184,342
Excess (deficiency) of revenue over expenditures	(186,460)	(371,118)	(184,658)	(404,452)
Other financing sources				
Sale of capital assets	–	–	–	10,560
Net change in fund balances	$ (186,460)	(371,118)	$ (184,658)	(393,892)
Fund balances (deficit)				
Beginning of year		1,200		395,092
End of year		$ (369,918)		$ 1,200

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016	2015
Assets		
Cash and temporary investments	$ 1,199,597	$ 971,193
Receivables		
Current taxes	544,610	511,608
Delinquent taxes	22,541	27,414
Accounts and interest	37,195	31,505
Due from other governmental units	198,430	201,254
Prepaid items	1,604	437
Total assets	$ 2,003,977	$ 1,743,411
Liabilities		
Salaries payable	$ 359,746	$ 165,653
Accounts and contracts payable	82,828	72,252
Due to other governmental units	3,943	7,771
Unearned revenue	4,395	4,354
Total liabilities	450,912	250,030
Deferred inflows of resources		
Property taxes levied for subsequent year	986,419	915,154
Unavailable revenue – delinquent taxes	17,453	20,162
Total deferred inflows of resources	1,003,872	935,316
Fund balances		
Nonspendable for prepaid items	1,604	437
Restricted for community education programs	204,184	327,673
Restricted for early childhood family education programs	141,064	117,207
Restricted for school readiness	163,122	75,106
Restricted for community service	39,219	37,642
Total fund balances	549,193	558,065
Total liabilities, deferred inflows of resources, and fund balances	$ 2,003,977	$ 1,743,411

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 921,492	$ 913,816	$ (7,676)	$ 926,351
Investment earnings	900	1,224	324	2,194
Other – primarily tuition and fees	2,770,136	2,917,877	147,741	2,775,251
State sources	509,600	653,440	143,840	556,890
Total revenue	4,202,128	4,486,357	284,229	4,260,686
Expenditures				
Current				
Salaries	2,826,818	2,966,845	140,027	2,820,356
Employee benefits	903,817	923,100	19,283	863,508
Purchased services	427,812	381,945	(45,867)	430,272
Supplies and materials	155,213	212,706	57,493	260,756
Other expenditures	3,650	3,370	(280)	1,780
Capital outlay	21,650	7,263	(14,387)	35,120
Total expenditures	4,338,960	4,495,229	156,269	4,411,792
Net change in fund balances	$ (136,832)	(8,872)	$ 127,960	(151,106)
Fund balances				
Beginning of year		558,065		709,171
End of year		$ 549,193		$ 558,065

INDEPENDENT SCHOOL DISTRICT NO. 831

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2016 and 2015

	2016	2015
Assets		
Cash and temporary investments	$ 68,006,838	$ –
Receivables		
Accounts and interest	65,715	–
Prepaid items	24,941	–
Total assets	$ 68,097,494	$ –
Liabilities		
Accounts and contracts payable	$ 2,841,357	$ 522,226
Due to other funds	–	893,918
Total liabilities	2,841,357	1,416,144
Fund balances (deficit)		
Nonspendable for prepaid items	24,941	–
Restricted for capital projects	66,235,212	–
Unassigned – alternative facilities restricted account deficit	(1,004,016)	(1,416,144)
Total fund balances (deficit)	65,256,137	(1,416,144)
Total liabilities and fund balances	$ 68,097,494	$ –

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016			2015
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,400,000	$ 1,400,000	$ –	$ 1,495,189
Investment earnings	–	44,435	44,435	–
Total revenue	1,400,000	1,444,435	44,435	1,495,189
Expenditures				
Capital outlay				
Salaries	–	112,140	112,140	–
Employee benefits	–	1,650	1,650	–
Purchased services	9,065,000	6,460,132	(2,604,868)	203,091
Capital expenditures	6,030,000	3,888,674	(2,141,326)	722,597
Total expenditures	15,095,000	10,462,596	(4,632,404)	925,688
Excess (deficiency) of revenue over expenditures	(13,695,000)	(9,018,161)	4,676,839	569,501
Other financing sources				
Building bond debt issued	71,000,000	75,000,000	4,000,000	–
Premium on debt issued	–	690,442	690,442	–
Total other financing sources	71,000,000	75,690,442	4,690,442	–
Net change in fund balances	$ 57,305,000	66,672,281	$ 9,367,281	569,501
Fund balances (deficits)				
Beginning of year		(1,416,144)		(1,985,645)
End of year		$ 65,256,137		$ (1,416,144)

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INDEPENDENT SCHOOL DISTRICT NO. 831

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

	Regular Debt Service Account	OPEB Debt Service Account	Totals 2016	Totals 2015
Assets				
Cash and temporary investments	$ 3,624,967	$ 341,548	$ 3,966,515	$ 2,992,272
Receivables				
Current taxes	3,288,685	290,275	3,578,960	2,604,379
Delinquent taxes	103,291	13,455	116,746	140,398
Due from other governmental units	1,123	146	1,269	894
Total assets	$ 7,018,066	$ 645,424	$ 7,663,490	$ 5,737,943
Deferred inflows of resources				
Property taxes levied for subsequent year	$ 5,956,591	$ 525,757	$ 6,482,348	$ 4,658,652
Unavailable revenue – delinquent taxes	80,317	10,500	90,817	103,652
Total deferred inflows of resources	6,036,908	536,257	6,573,165	4,762,304
Fund balances				
Restricted for debt service	981,158	109,167	1,090,325	975,639
Total deferred inflows of resources and fund balances	$ 7,018,066	$ 645,424	$ 7,663,490	$ 5,737,943

INDEPENDENT SCHOOL DISTRICT NO. 831

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

	2016		
		Actual	
	Budget	Regular Debt Service Account	OPEB Debt Service Account
Revenue			
Local sources			
Property taxes	$ 4,628,000	$ 4,118,645	$ 532,110
Investment earnings	–	4,635	–
State sources	2,000	11,235	1,455
Total revenue	4,630,000	4,134,515	533,565
Expenditures			
Debt service			
Principal	3,615,000	3,380,000	235,000
Interest	937,592	609,989	294,091
Fiscal charges and other	25,000	1,419,817	5,580
Total expenditures	4,577,592	5,409,806	534,671
Excess (deficiency) of revenue over expenditures	52,408	(1,275,291)	(1,106)
Other financing sources (uses)			
Refunding bond debt issued	–	10,285,000	–
Premium on debt issued	–	2,286,083	–
Payment on refunded bonds	–	(11,180,000)	–
Total other financing sources (uses)	–	1,391,083	–
Net change in fund balances	$ 52,408	115,792	(1,106)
Fund balances			
Beginning of year		865,366	110,273
End of year		$ 981,158	$ 109,167

		2015
Total	Over (Under) Budget	Actual
$ 4,650,755	$ 22,755	$ 4,637,381
4,635	4,635	5,931
12,690	10,690	8,931
4,668,080	38,080	4,652,243
3,615,000	–	3,415,000
904,080	(33,512)	1,190,642
1,425,397	1,400,397	15,246
5,944,477	1,366,885	4,620,888
(1,276,397)	(1,328,805)	31,355
10,285,000	10,285,000	–
2,286,083	2,286,083	–
(11,180,000)	(11,180,000)	–
1,391,083	1,391,083	–
114,686	$ 62,278	31,355
975,639		944,284
$ 1,090,325		$ 975,639

INDEPENDENT SCHOOL DISTRICT NO. 831

Internal Service Funds
Combining Statement of Net Position
as of June 30, 2016
(With Comparative Totals as of June 30, 2015)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2016	Totals 2015
Assets				
Current assets				
Cash and temporary investments	$ 4,752,113	$ 365,888	$ 5,118,001	$ 4,692,870
Receivables				
Accounts and interest	31,981	2,180	34,161	28,352
Total assets	4,784,094	368,068	5,152,162	4,721,222
Liabilities				
Current liabilities				
Accounts and contracts payable	260,105	13,717	273,822	133,759
Unearned revenue	1,679,498	96,008	1,775,506	1,557,568
Claims incurred, but not reported	617,644	8,545	626,189	542,563
Total current liabilities	2,557,247	118,270	2,675,517	2,233,890
Net position				
Unrestricted	$ 2,226,847	$ 249,798	$ 2,476,645	$ 2,487,332

Internal Service Funds
Combining Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2016	Totals 2015
Operating revenue				
Charges for services				
Contributions from governmental funds	$ 9,330,347	$ 542,282	$ 9,872,629	$ 9,878,811
Operating expenses				
Health benefit claims	9,349,731	–	9,349,731	8,342,626
Dental benefit claims	–	536,954	536,954	528,081
Total operating expenses	9,349,731	536,954	9,886,685	8,870,707
Operating income (loss)	(19,384)	5,328	(14,056)	1,008,104
Nonoperating revenue				
Investment earnings	3,052	317	3,369	11,572
Change in net position	(16,332)	5,645	(10,687)	1,019,676
Net position				
Beginning of year	2,243,179	244,153	2,487,332	1,467,656
End of year	$ 2,226,847	$ 249,798	$ 2,476,645	$ 2,487,332

INDEPENDENT SCHOOL DISTRICT NO. 831

Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2016
(With Comparative Totals for the Year Ended June 30, 2015)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2016	Totals 2015
Cash flows from operating activities				
Contributions from governmental funds	$ 9,530,417	$ 554,341	$ 10,084,758	$ 9,699,410
Payment for health claims	(9,124,320)	–	(9,124,320)	(8,376,853)
Payment for dental claims	–	(538,676)	(538,676)	(527,680)
Net cash flows from operating activities	406,097	15,665	421,762	794,877
Cash flows from investing activities				
Investment income received	3,052	317	3,369	11,572
Net change in cash and cash equivalents	409,149	15,982	425,131	806,449
Cash and cash equivalents				
Beginning of year	4,342,964	349,906	4,692,870	3,886,421
End of year	$ 4,752,113	$ 365,888	$ 5,118,001	$ 4,692,870
Reconciliation of operating income (loss) to net cash flows from operating activities				
Operating income (loss)	$ (19,384)	$ 5,328	$ (14,056)	$ 1,008,104
Adjustments to reconcile operating income (loss) to net cash flows from operating activities				
Changes in assets and liabilities				
Accounts and interest receivable	(5,373)	(436)	(5,809)	(3,060)
Accounts and contracts payable	141,565	(1,502)	140,063	64,813
Unearned revenue	205,443	12,495	217,938	(176,341)
Claims incurred, but not reported	83,846	(220)	83,626	(98,639)
Net cash flows from operating activities	$ 406,097	$ 15,665	$ 421,762	$ 794,877

OTHER DISTRICT INFORMATION

(UNAUDITED)

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INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Revenue by Type
Last Ten Fiscal Years

	Program Revenues		General Revenues			
Year Ended June 30,	Charges for Services	Operating Grants and Contributions	Property Taxes	General Grants and Aids	Investment Earnings and Other	Total
2007	$ 6,016,801	$ 8,063,764	$ 13,094,867	$ 45,730,983	$ 2,339,937	$ 75,246,352
	8%	11%	17%	61%	3%	100%
2008	6,485,734	9,185,900	14,823,882	46,666,381	1,866,334	79,028,231
	8%	12%	19%	59%	2%	100%
2009	6,317,834	8,948,473	15,746,200	46,440,215	809,674	78,262,396
	8%	12%	20%	59%	1%	100%
2010	6,157,018	9,452,410	14,997,282	43,413,186	622,628	74,642,524
	8%	13%	20%	58%	1%	100%
2011	6,370,292	10,511,839	20,845,675	38,446,379	645,610	76,819,795
	8%	14%	27%	50%	1%	100%
2012	6,148,601	11,485,954	15,230,036	44,173,101	591,559	77,629,251
	8%	14%	20%	57%	1%	100%
2013	6,115,186	11,490,994	16,176,424	43,429,388	553,293	77,765,285
	8%	14%	21%	56%	1%	100%
2014	5,954,935	12,220,938	11,742,462	50,084,696	855,420	80,858,451
	7%	15%	15%	62%	1%	100%
2015	6,423,354	11,968,641	17,571,864	49,259,872	1,193,682	86,417,413
	7%	14%	21%	57%	1%	100%
2016	6,847,529	12,672,382	17,057,514	49,382,999	629,701	86,590,125
	8%	14%	20%	57%	1%	100%

Note: The change in “tax shift” as approved in legislation impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. Changes in the amount of revenue recognized due to the tax shift are offset by an adjustment to state aid payments by an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Expenses by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services
2007	$ 2,967,850	$ 2,047,037	$ 26,655,680	$ 1,041,434	$ 9,496,252	$ 3,209,324
	4%	3%	38%	1%	13%	4%
2008	3,051,613	2,245,112	27,717,976	1,094,090	9,695,917	5,448,310
	4%	3%	37%	1%	13%	7%
2009	3,225,772	1,739,222	26,371,372	965,967	9,693,826	5,610,049
	4%	2%	35%	1%	13%	8%
2010	3,147,946	1,702,804	28,492,182	956,606	9,584,548	2,331,929
	4%	2%	39%	1%	13%	3%
2011	3,111,531	2,164,587	30,673,422	920,206	10,368,127	1,598,026
	4%	3%	40%	1%	14%	2%
2012	3,100,536	2,197,394	25,576,188	810,798	10,620,873	2,077,860
	4%	3%	35%	1%	15%	3%
2013	3,201,925	2,254,471	27,594,183	781,880	10,918,573	2,369,743
	4%	3%	36%	1%	14%	3%
2014	3,323,552	2,417,192	29,596,211	758,648	11,736,976	3,541,782
	4%	3%	37%	1%	15%	4%
2015	3,226,706	3,072,069	29,472,957	863,577	12,018,150	5,120,151
	4%	4%	36%	1%	14%	6%
2016	3,796,645	2,322,473	29,008,857	954,911	12,558,342	4,610,217
	4%	3%	33%	1%	14%	5%

Pupil Support Services	Sites and Buildings	Fiscal and Other Fixed Cost Programs	Food Service	Community Service	Depreciation Not Allocated to Other Functions	Interest and Fiscal Charges	Total
$ 7,040,995	$ 6,562,584	$ 260,642	$ 3,599,104	$ 3,608,328	$ 2,182,321	$ 3,470,489	$ 72,142,040
10%	9%	–	5%	5%	3%	5%	100%
8,055,470	7,000,987	270,631	3,843,780	3,846,748	2,201,117	2,643,884	77,115,635
10%	9%	–	5%	5%	3%	3%	100%
7,868,603	7,633,246	273,996	3,961,742	4,152,305	2,208,316	1,598,247	75,302,663
11%	10%	–	5%	6%	3%	2%	100%
7,668,210	7,705,210	264,920	3,932,226	3,965,024	2,178,622	1,659,947	73,590,174
11%	11%	–	5%	6%	3%	2%	100%
8,948,191	7,157,893	281,925	3,888,660	4,073,291	2,194,397	1,565,753	76,946,009
12%	9%	–	5%	5%	3%	2%	100%
9,731,943	6,538,037	296,349	4,037,265	4,085,559	2,126,662	1,428,442	72,627,906
13%	9%	–	6%	6%	3%	2%	100%
9,928,802	7,684,483	317,174	3,891,749	4,113,757	2,098,391	1,275,898	76,431,029
13%	10%	1%	5%	5%	3%	2%	100%
10,017,084	7,639,633	351,205	3,959,013	4,007,281	2,535,075	1,158,034	81,041,686
12%	9%	1%	5%	5%	3%	1%	100%
10,278,319	7,444,141	379,529	4,138,798	4,321,014	2,488,510	1,019,716	83,843,637
12%	9%	–	5%	5%	3%	1%	100%
11,046,015	8,776,019	526,412	4,276,582	4,531,548	2,545,922	2,243,227	87,197,170
13%	10%	1%	5%	5%	3%	3%	100%

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INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	State Revenue	Federal Revenue	Other Local and Miscellaneous	Total
2007	$ 8,457,227	$ 49,617,283	$ 2,463,213	$ 1,858,222	$ 62,395,945
	14%	79%	4%	3%	100%
2008	10,066,599	51,412,562	2,657,533	1,951,422	66,088,116
	15%	78%	4%	3%	100%
2009	10,914,411	51,121,188	2,347,273	1,487,289	65,870,161
	17%	78%	3%	2%	100%
2010	10,431,320	43,539,037	7,374,372	1,668,808	63,013,537
	17%	69%	12%	2%	100%
2011	15,333,557	44,072,843	3,300,695	1,734,346	64,441,441
	24%	68%	5%	3%	100%
2012	10,361,414	50,606,450	2,975,539	1,531,090	65,474,493
	16%	77%	5%	2%	100%
2013	10,599,904	50,759,534	2,183,794	1,616,894	65,160,126
	16%	78%	4%	2%	100%
2014	5,017,095	57,937,865	1,944,413	2,032,995	66,932,368
	7%	87%	3%	3%	100%
2015	10,566,174	56,971,250	2,000,562	2,639,541	72,177,527
	14%	79%	3%	4%	100%
2016	10,143,433	57,995,977	1,833,859	2,255,801	72,229,070
	14%	80%	3%	3%	100%

Note: The change in “tax shift” as approved in legislation impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. Changes in the amount of revenue recognized due to the tax shift are offset by an adjustment to state aid payments by an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Expenditures by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction
2007	$ 2,953,560	$ 2,043,448	$ 28,207,427	$ 1,039,064	$ 9,522,655
	5%	3%	45%	2%	15%
2008	2,966,614	2,243,347	28,931,023	1,091,720	9,691,275
	4%	3%	43%	2%	14%
2009	3,613,965	1,949,761	31,798,935	1,077,914	9,691,245
	5%	3%	44%	2%	14%
2010	3,042,912	1,691,524	29,049,049	954,236	9,503,795
	5%	3%	46%	2%	15%
2011	3,051,637	2,147,647	29,779,750	917,836	10,293,896
	5%	3%	46%	1%	16%
2012	3,112,219	2,178,896	26,302,525	808,428	10,542,937
	5%	4%	42%	1%	17%
2013	3,159,778	2,232,860	27,755,921	779,510	10,809,283
	5%	3%	43%	1%	17%
2014	3,364,983	2,434,106	30,818,312	764,300	11,842,041
	5%	3%	43%	1%	16%
2015	3,298,590	3,085,780	29,877,813	872,825	12,139,538
	5%	4%	40%	1%	16%
2016	3,654,157	2,299,936	28,929,355	942,709	12,427,639
	5%	3%	41%	1%	18%

Instructional Support Services	Pupil Support Services	Sites and Buildings	Other Programs	Total
$ 3,204,444	$ 7,321,452	$ 7,417,758	$ 366,580	$ 62,076,388
5%	12%	12%	1%	100%
5,443,794	8,422,890	7,923,051	336,721	67,050,435
8%	13%	12%	1%	100%
5,877,717	8,454,240	8,937,592	340,086	71,741,455
8%	12%	12%	–	100%
2,300,442	7,410,014	8,335,957	334,789	62,622,718
4%	12%	13%	–	100%
1,581,361	8,661,991	8,023,299	342,586	64,800,003
2%	14%	12%	1%	100%
2,058,433	9,481,775	7,526,899	355,588	62,367,700
3%	15%	12%	1%	100%
2,345,242	9,699,810	8,058,856	394,099	65,235,359
3%	15%	12%	1%	100%
3,560,499	9,949,597	8,718,984	412,317	71,865,139
5%	14%	12%	1%	100%
5,312,438	10,214,856	8,657,555	692,148	74,151,543
7%	14%	12%	1%	100%
4,571,268	11,113,359	7,306,746	842,963	72,088,132
6%	15%	10%	1%	100%

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INDEPENDENT SCHOOL DISTRICT NO. 831

School Tax Levies and Tax Rates by Fund
Last Ten Fiscal Years

	Year Collectible	General Fund	Community Service Special Revenue Fund	Debt Service Fund	Total All Funds
Levies					
	2007	$ 9,457,159	$ 672,044	$ 4,278,001	$ 14,407,204
	2008	11,427,166	646,625	4,300,748	16,374,539
	2009	11,003,562	811,642	3,863,851	15,679,055
	2010	9,614,370	786,219	4,535,664	14,936,253
	2011	10,432,345	877,092	4,315,521	15,624,958
	2012	9,886,190	903,832	4,750,683	15,540,705
	2013	11,377,392	882,776	4,755,527	17,015,695
	2014	11,573,258	927,114	4,637,561	17,137,933
	2015	11,337,029	915,154	4,658,652	16,910,835
	2016	11,996,073	986,419	6,482,348	19,464,840
Tax rates					
Tax capacity rates					
	2007	3.291	1.223	7.785	12.299
	2008	6.560	1.121	7.456	15.137
	2009	5.730	1.341	6.384	13.455
	2010	3.745	1.352	7.798	12.895
	2011	5.497	1.676	8.238	15.411
	2012	5.458	1.901	9.972	17.331
	2013	8.949	2.050	11.020	22.019
	2014	11.328	2.097	10.471	23.896
	2015	9.898	1.849	9.398	21.145
	2016	10.145	1.952	12.806	24.903
Market value rates					
	2007	0.14980	–	–	0.14980
	2008	0.13758	–	–	0.13758
	2009	0.13385	–	–	0.13385
	2010	0.13710	–	–	0.13710
	2011	0.15293	–	–	0.15293
	2012	0.15390	–	–	0.15390
	2013	0.17389	–	–	0.17389
	2014	0.14626	–	–	0.14626
	2015	0.13351	–	–	0.13351
	2016	0.13979	–	–	0.13979

Note: A tax rate based on market value is used primarily for the District’s referendum, equity, and transition levies.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Tax Capacities and Market Values
Last Ten Fiscal Years

For Taxes Collectible	Net Tax Capacities				
				Fiscal Disparities	
	Agricultural	Non-Agricultural	Tax Increment	Contribution	Distribution
2007	$ 2,709,315	$ 52,086,704	$ (1,411,751)	$ (2,644,014)	$ 3,683,949
2008	2,874,655	56,154,555	(1,469,991)	(3,228,204)	4,124,028
2009	2,922,594	57,485,174	(1,680,233)	(3,385,987)	4,606,475
2010	1,925,510	56,734,951	(1,567,241)	(3,907,347)	4,960,891
2011	1,892,928	51,378,555	(1,383,497)	(3,871,485)	4,938,071
2012	1,739,170	46,408,764	(1,294,513)	(3,580,022)	4,830,499
2013	1,741,624	42,273,461	(1,232,190)	(3,176,279)	4,443,326
2014	1,798,181	42,261,513	(858,721)	(3,136,170)	4,528,567
2015	1,947,446	46,296,615	(828,748)	(3,089,582)	4,621,327
2016	1,958,007	48,029,784	(197,609)	(3,149,763)	4,689,654

Note: Market value is used primarily for extension of the District’s referendum levy.

Source: State of Minnesota School Tax Report

Total Taxable	Market Value
$ 54,424,203	$ 4,768,571,475
58,455,043	5,127,128,875
59,948,023	5,186,459,175
58,146,764	4,988,746,100
52,954,572	4,505,366,200
48,103,898	4,290,135,700
44,049,942	3,939,600,600
44,593,370	3,956,177,800
48,947,058	4,328,284,000
51,330,073	4,484,223,100

INDEPENDENT SCHOOL DISTRICT NO. 831

Property Tax Levies and Receivables
Last Ten Fiscal Years

For Taxes Collectible	Original Levy			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2007	$ 13,065,100	$ 1,018,059	$ 324,045	$ 14,407,204
2008	14,935,081	1,087,795	351,663	16,374,539
2009	14,061,436	1,295,342	322,277	15,679,055
2010	13,330,800	1,289,782	315,671	14,936,253
2011	13,968,510	1,265,177	391,271	15,624,958
2012	14,095,828	1,444,877	–	15,540,705
2013	15,567,747	1,447,948	–	17,015,695
2014	15,357,515	1,780,418	–	17,137,933
2015	15,139,104	1,771,731	–	16,910,835
2016	17,861,854	1,602,986	–	19,464,840

Note 1: A portion of the total spread levy is paid through various property tax credits, which are paid through state aids. Legislative changes beginning with taxes collectible in 2012 significantly changed the calculation of tax credits applied and paid through state aids.

Note 2: Delinquent taxes are written off after seven years.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2016			
Delinquent		Current	
Amount	Percent	Amount	Percent
$ –	– %	$ –	– %
–	–	–	–
–	–	–	–
42,320	0.28	–	–
35,560	0.23	–	–
41,743	0.27	–	–
57,795	0.34	–	–
65,074	0.38	–	–
174,074	1.03	–	–
–	–	10,781,007	55.39
$ 416,566		$ 10,781,007	

INDEPENDENT SCHOOL DISTRICT NO. 831

Student Enrollment
Last Ten Fiscal Years

	Adjusted Average Daily Membership (ADM)					
Year Ended June 30,	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	Total Pupil Units
2007	88.27	441.24	3,117.69	3,608.74	7,255.94	8,425.83
2008	98.84	419.61	3,043.15	3,551.31	7,112.91	8,292.99
2009	96.13	461.43	3,035.87	3,405.05	6,998.48	8,118.90
2010	94.90	417.96	2,981.31	3,279.96	6,774.13	7,870.97
2011	94.25	467.22	2,980.06	3,209.66	6,751.19	7,808.82
2012	95.96	401.75	2,980.94	3,214.68	6,693.33	7,779.21
2013	102.14	394.47	2,962.30	3,202.66	6,661.57	7,741.35
2014	107.06	429.29	2,969.74	3,102.01	6,608.10	7,642.50
2015	116.37	384.90	2,960.46	3,164.73	6,626.46	7,259.42
2016	113.00	351.77	2,814.94	3,167.11	6,446.82	7,080.25

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: ADM is weighted as follows in computing pupil units:

	Pre-Kindergarten	Handicapped Kindergarten	Half-Day Kindergarten	Full-Day Kindergarten	Elementary 1–3	Elementary 4–6	Secondary
Fiscal 2007	1.250	1.000	0.557	0.557	1.115	1.060	1.300
Fiscal 2008 through 2014	1.250	1.000	0.612	0.612	1.115	1.060	1.300
Fiscal 2015 through 2016	1.000	1.000	0.550	1.000	1.000	1.000	1.200

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 831

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

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures		Passed Through to Subrecipients	Noncash Assistance
U.S. Department of Agriculture					
Passed through Minnesota Department of Education					
Child nutrition cluster					
School Breakfast Program	10.553	$ 177,250			
National School Lunch Program	10.555	1,144,495			$ 152,795
Total child nutrition cluster			$ 1,321,745		
U.S. Department of Education					
Direct					
Indian Education – Grants to Local Educational Agencies	84.060		19,776		
Passed through Minnesota Department of Education					
Special education cluster					
Special Education – Grants to States	84.027	1,130,267			
Special Education – Preschool Grants	84.173	34,709			
Total special education cluster			1,164,976		
Title I Grants to Local Educational Agencies	84.010		435,274	$ 11,700	
Special Education – Grants for Infants and Families	84.181		31,813		
Supporting Effective Instruction State Grant	84.367		170,500	5,884	
Passed through Northeast Metropolitan Intermediate School District No. 916					
Career and Technical Education – Basic Grants to States	84.048		15,778		
Total federal awards			$ 3,159,862		

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

Note 2: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The District did not elect to use the 10 percent de minimis indirect cost rate.

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

To the School Board and Management of
Independent School District No. 831
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2016.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

(continued)

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COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota
December 14, 2016

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

To the School Board and Management of
Independent School District No. 831
Forest Lake, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 831's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

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OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a significant deficiency.

DISTRICT'S RESPONSE TO FINDING

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota
December 14, 2016

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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 831
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2016.

MINNESOTA LEGAL COMPLIANCE

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. 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.

PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota
December 14, 2016

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A. SUMMARY OF AUDIT RESULTS

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

Financial Statements

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

Federal Awards

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

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Agriculture – child nutrition cluster consisting of:	
– School Breakfast Program	10.553
– National School Lunch Program	10.555

Threshold for distinguishing between type A and B programs. $ 750,000

Does the auditee qualify as a low-risk auditee?	___ Yes	**X** No

B. FINANCIAL STATEMENT FINDINGS

None.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – ALL FEDERAL PROGRAMS AWARDED UNDER UNIFORM GUIDANCE

2016-001 Internal Controls Over Compliance With Cash Management, Allowable Costs, Subrecipient Monitoring, and Standards for Financial Management

Criteria – Title 2 U.S. Code of Federal Regulations (CFR) § 200.302(b)(5), (6), and (7) require Independent School District No. 831 (the District) to have written cash management procedures, which includes procedures for determining the allowability of costs in accordance with 2 CFR 200 Subpart E – Cost Principles, as well as a required written budget to actual comparison of expenditures for each federal award. In instances where the District grants subawards, 2 CFR § 200.331 requires the District, as a pass-through entity, to have written subrecipient monitoring policies and procedures that include a written risk assessment of each subrecipient and documentation of the District's monitoring of the subrecipient.

Condition – During our audit, we noted that the District did not have documented written controls to ensure compliance with the U.S. Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) cash management, allowable costs, subrecipient monitoring, and financial management standards.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance.

Context – The lack of written controls pertains to all federal grants, except those grants that remained under OMB A-133 guidance, if any. This was not a statistically valid sample.

Repeat Finding – This is a current year finding only.

Cause – This is the first year of implementation of the new Uniform Guidance requirements for federal awards, and some internal control policies, including cash management, allowable costs, subrecipient monitoring, and financial management, were not updated to reflect the necessary changes.

Effect – This could be viewed as a violation of the award agreement.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – ALL FEDERAL PROGRAMS AWARDED UNDER UNIFORM GUIDANCE (CONTINUED)

2016-001 Internal Controls Over Compliance With Cash Management, Allowable Costs, Subrecipient Monitoring, and Standards for Financial Management (continued)

Recommendation – We recommend that the District review its internal control procedures relating to cash management, allowable costs, subrecipient monitoring, and financial management for all federal programs. The District should review the new Uniform Guidance to obtain a better understanding of the new requirements and identify any needed policy and procedure changes, in addition to those already referenced above. We also recommend the District adopt written policies pertaining to cash management, allowable costs, subrecipient monitoring, and financial management for all federal programs. The District should also document and perform regular budget to actual comparison of expenditures for each federal award. Finally, we recommend the District identify subrecipients and perform written risk assessments as well as documenting ongoing monitoring of each subrecipient.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District is in the process of reviewing and updating its written policies and procedures relating to cash management, allowable costs, subrecipient monitoring, and financial management standards for its federal programs to ensure compliance with Uniform Guidance in the future. The District has separately issued a Corrective Action Plan related to this finding.

D. MINNESOTA LEGAL COMPLIANCE FINDING

None.

INDEPENDENT SCHOOL DISTRICT NO. 831

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

		Audit		UFARS		Audit – UFARS	
General Fund							
Total revenue		$	72,229,070	$	72,229,070	$	–
Total expenditures		$	72,088,132	$	72,088,131	$	1
Nonspendable							
460	Nonspendable fund balance	$	173,920	$	173,920	$	–
Restricted							
403	Staff development	$	–	$	–	$	–
405	Deferred maintenance	$	(354,554)	$	(354,554)	$	–
406	Health and safety	$	(1,279,168)	$	(1,279,168)	$	–
407	Capital projects levy	$	–	$	–	$	–
408	Cooperative revenue	$	–	$	–	$	–
409	Alternative facility program	$	–	$	–	$	–
413	Project funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
424	Operating capital	$	80,523	$	80,523	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
440	Teacher development and evaluation	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
445	Career and technical programs	$	–	$	–	$	–
448	Achievement and integration	$	16,636	$	16,636	$	–
449	Safe schools levy	$	–	$	–	$	–
450	Pre-kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
467	Long-term facilities maintenance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	416,348	$	416,348	$	–
Unassigned							
422	Unassigned fund balance	$	3,390,563	$	3,390,563	$	–
Food Service							
Total revenue		$	3,809,304	$	3,809,305	$	(1)
Total expenditures		$	4,180,422	$	4,180,422	$	–
Nonspendable							
460	Nonspendable fund balance	$	77,952	$	77,952	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	(447,870)	$	(447,870)	$	–
Community Service							
Total revenue		$	4,486,357	$	4,486,357	$	–
Total expenditures		$	4,495,229	$	4,495,229	$	–
Nonspendable							
460	Nonspendable fund balance	$	1,604	$	1,604	$	–
Restricted							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	204,184	$	204,184	$	–
432	ECFE	$	141,064	$	141,064	$	–
440	Teacher development and evaluation	$	–	$	–	$	–
444	School readiness	$	163,122	$	163,122	$	–
447	Adult basic education	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	39,219	$	39,219	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

INDEPENDENT SCHOOL DISTRICT NO. 831

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

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ 1,444,435	$ 1,444,435	$ –
Total expenditures		$ 10,462,596	$ 10,462,596	$ –
Nonspendable				
460	Nonspendable fund balance	$ 24,941	$ 24,941	$ –
Restricted				
407	Capital projects levy	$ –	$ –	$ –
409	Alternative facility program	$ (1,004,016)	$ (1,004,016)	$ –
413	Project funded by COP	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ 66,235,212	$ 66,235,212	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ 4,134,515	$ 4,134,515	$ –
Total expenditures		$ 5,409,806	$ 5,409,806	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
464	Restricted fund balance	$ 981,158	$ 981,158	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Internal Service				
Total revenue		$ 9,875,998	$ 9,875,998	$ –
Total expenditures		$ 9,886,685	$ 9,886,686	$ (1)
422	Net position	$ 2,476,645	$ 2,476,645	$ –
OPEB Revocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ 49,400	$ 49,400	$ –
Total expenditures		$ 998,443	$ 998,443	$ –
422	Net position	$ 2,713,974	$ 2,713,974	$ –
OPEB Debt Service Fund				
Total revenue		$ 533,565	$ 533,565	$ –
Total expenditures		$ 534,671	$ 534,671	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ 109,167	$ 109,167	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

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

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