Independent School District No. 277
Minnetrista, Minnesota

Financial Statements

June 30, 2016

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Independent School District No. 277
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Independent School District No. 277
Board of Education and Administration
June 30, 2016

Board of Education	Position	Term Expires
David Botts	Chairperson	January 1, 2020
Ann Bremer	Vice Chairperson	January 1, 2020
Ralph Harrison	Treasurer	January 1, 2020
Kelle Downey Bowe	Director	January 1, 2020
Loren Davis	Director	January 1, 2018
Gina Smith	Director	January 1, 2018
Gary Wollner	Director	January 1, 2018

Administration	
Kevin Borg	Superintendent
Mark Femrite	Assistant Superintendent for Teaching and Learning
Kathy Miller	Director of Finance
Joel Dahl	Director of Community Education
Cory Wolf	Technology Coordinator
Meredith Boo	Director of Special Services
Mark McIlmoyle	Principal - Mound Westonka High School
Christy Zachow	Principal - Grandview Middle School
Scott Eidsness	Principal - Shirley Hills Primary
Mike Moch	Principal - Hilltop Primary

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Independent Auditor's Report

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To the School Board
Independent School District No. 277
Minnetrista, 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. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Matters

Other Information

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

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Other Matters

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bergan KDV Ltd.

Minneapolis, Minnesota
October 3, 2016

Independent School District No. 277
Management's Discussion and Analysis

This section of Independent School District No. 277's (the "District") annual financial report presents the District's management discussion and analysis of the District's financial performance during the year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, Required Supplementary Information that includes the Management's Discussion and Analysis ([MD&A] this section), the Basic Financial Statements, and Supplemental Information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are the government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements.

- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide data with more detail.

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

District-Wide Statements (Continued)

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

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

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

Fund Financial Statements

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

- Some funds are required by law or by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (e.g. repaying its long-term debts) or to show that it is properly using certain revenues (e.g. fiduciary funds).

The District has three kinds of funds:

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

Proprietary Funds – These funds present short and long-term financial information about the activities the District operates like a business, such as retiree severance funds.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as scholarships. 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. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position – The District's combined net position was $2,930,031 on June 30, 2016.

Table 1
Statement of Net Position
Governmental Activities

	2015	2016	Percentage Change 2015-16
Assets			
Current and other assets	$ 20,474,430	$ 23,177,099	13.2%
Capital assets	37,196,886	37,619,885	1.1%
Total assets	57,671,316	60,796,984	5.4%
Deferred Outflow of Resources			
Deferred outflows	$ 2,579,046	$ 3,373,463	30.8%
Liabilities			
Long-term liabilities	$ 41,533,061	$ 44,734,629	7.7%
Other liabilities	4,058,366	4,013,321	-1.1%
Total liabilities	45,591,427	48,747,950	6.9%
Deferred Inflow Of Resources			
Deferred inflows	14,749,901	12,492,466	-15.3%
Net Position			
Net investment in capital assets	10,973,577	13,005,345	18.5%
Restricted	500,022	748,103	49.6%
Unrestricted	(11,564,565)	(10,823,417)	6.4%
Total net position	$ (90,966)	$ 2,930,031	3321.0%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

A summary of the revenue and expenses is presented in Table 2.

Table 2
Change in Net Position

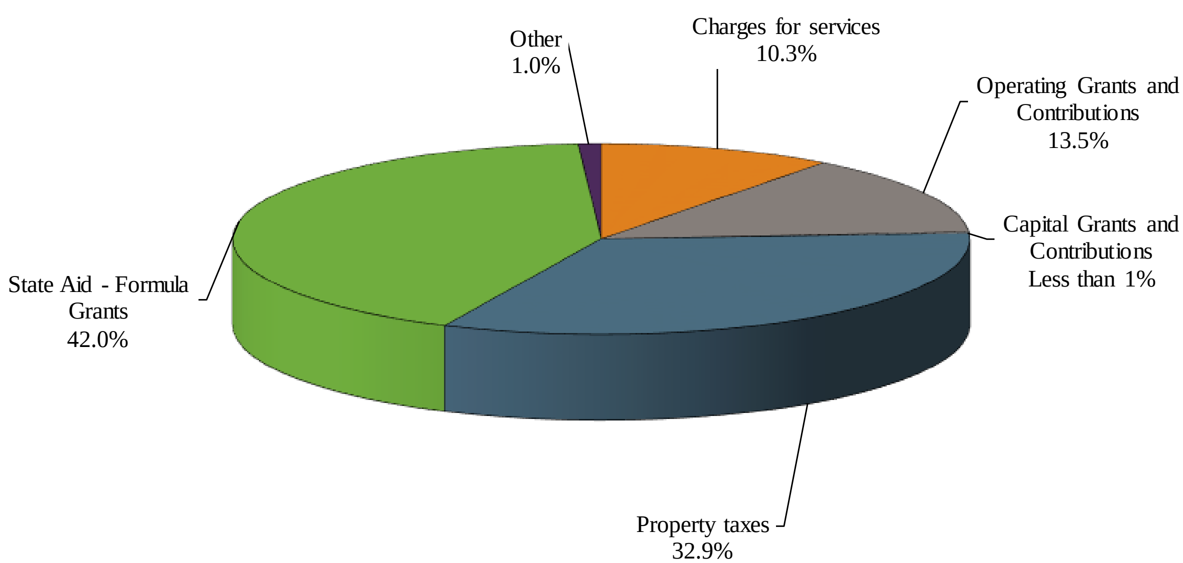
	2015	2016	Percentage Change 2015-16
Revenues			
Program revenues			
Charges for services	$ 3,372,524	$ 3,636,706	7.8%
Operating grants and contributions	4,731,943	4,781,411	1.0%
Capital grants and contributions	66,193	68,690	3.8%
General revenues			
Property taxes	10,492,381	11,633,063	10.9%
State aid - formula grants	13,951,104	14,824,163	6.3%
Other	353,181	365,935	3.6%
Total revenues	32,967,326	35,309,968	7.1%
Expenses			
Administration	1,011,924	1,017,103	0.5%
District support services	1,180,257	1,489,056	26.2%
Elementary and secondary regular instruction	12,559,115	13,222,629	5.3%
Vocational education instruction	168,648	348,550	106.7%
Special education instruction	4,482,444	4,910,562	9.6%
Community education and services	2,561,575	2,600,865	1.5%
Instructional support serivces	1,447,877	1,551,080	7.1%
Pupil support services	2,172,107	2,142,299	-1.4%
Sites, buildings, and equipment	3,108,250	2,984,433	-4.0%
Fiscal and other fixed cost programs	88,554	92,113	4.0%
Food service	1,223,391	1,319,277	7.8%
Interest on long-term debt	669,182	611,004	-8.7%
Total expenses	30,673,324	32,288,971	5.3%
Change in accounting principle	(17,570,428)	-	100.0%
Change in net position	2,294,002	3,020,997	31.7%
End of year net position	$ (90,966)	$ 2,930,031	3321.0%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position – The District's total revenues were $35,309,968 for the year ended June 30, 2016. Property taxes and state formula aid accounted for 74.9% of total revenue for the year (see Figure A). Another 1.0% came from other general revenues combined with interest earnings and the remainder from program revenues.

Total revenues surpassed expenses, increasing net position $3,020,997 over last year.

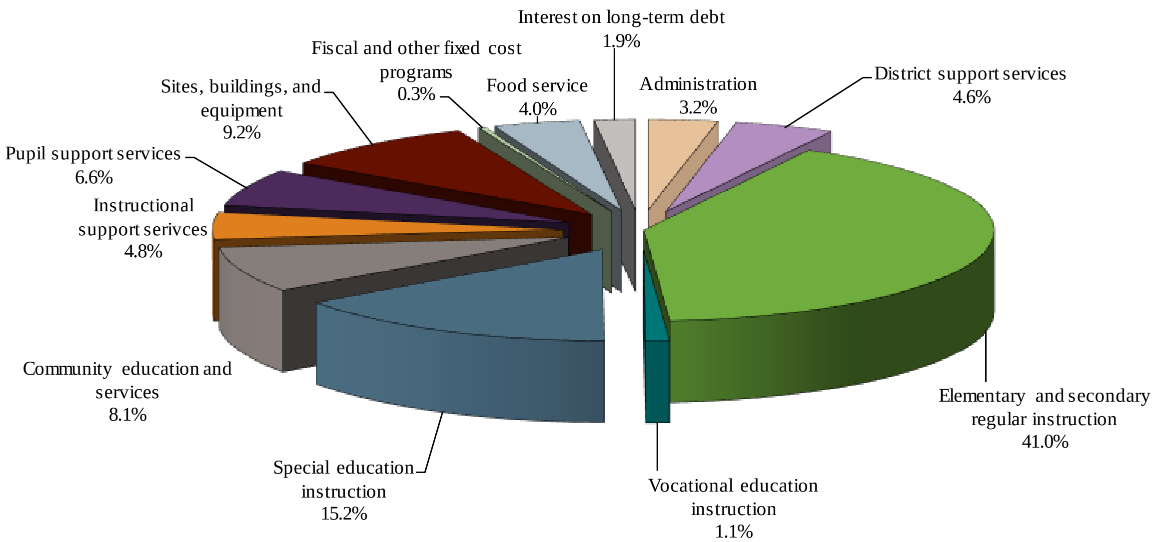
Figure A
Sources of the District's Revenues for Fiscal Year 2016



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was $32,288,971. The District's expenses predominately related to the educating and caring for students (regular instructional programs, vocational instruction, special education programs and instructional and pupil support) were 68.7% of expenses incurred; see Figure B. The purely administrative activities of the District accounted for just 3.2% of total costs.

Figure B
The District's Expenses for Fiscal Year 2016



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Table 3
Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2015	2016	2015-16	2015	2016	2015-16
Administration	$ 1,011,924	$ 1,017,103	0.5%	$ 1,011,924	$ 1,017,103	0.5%
District support services	1,180,257	1,489,056	26.2%	1,168,953	1,457,909	24.7%
Elementary and secondary regular instruction	12,559,115	13,222,629	5.3%	10,626,387	11,213,679	5.5%
Vocational education instruction	168,648	348,550	106.7%	158,606	337,230	112.6%
Special education instruction	4,482,444	4,910,562	9.6%	1,747,353	2,118,450	21.2%
Community education and services	2,561,575	2,600,865	1.5%	475,302	428,155	-9.9%
Instructional support serivces	1,447,877	1,551,080	7.1%	1,383,728	1,496,999	8.2%
Pupil support services	2,172,107	2,142,299	-1.4%	2,110,977	2,095,213	-0.7%
Sites, buildings, and equipment	3,108,250	2,984,433	-4.0%	3,042,057	2,915,743	-4.2%
Fiscal and other fixed cost programs	88,554	92,113	4.0%	88,554	92,113	4.0%
Food service	1,223,391	1,319,277	7.8%	19,641	18,566	-5.5%
Interest on long-term debt	669,182	611,004	-8.7%	669,182	611,004	-8.7%
Total	$ 30,673,324	$ 32,288,971	5.3%	$ 22,502,664	$ 23,802,164	5.8%

The cost of all governmental activities for 2015-16 was $32,288,971.

- Some of the cost was paid by the users of the District's programs was $3,636,706

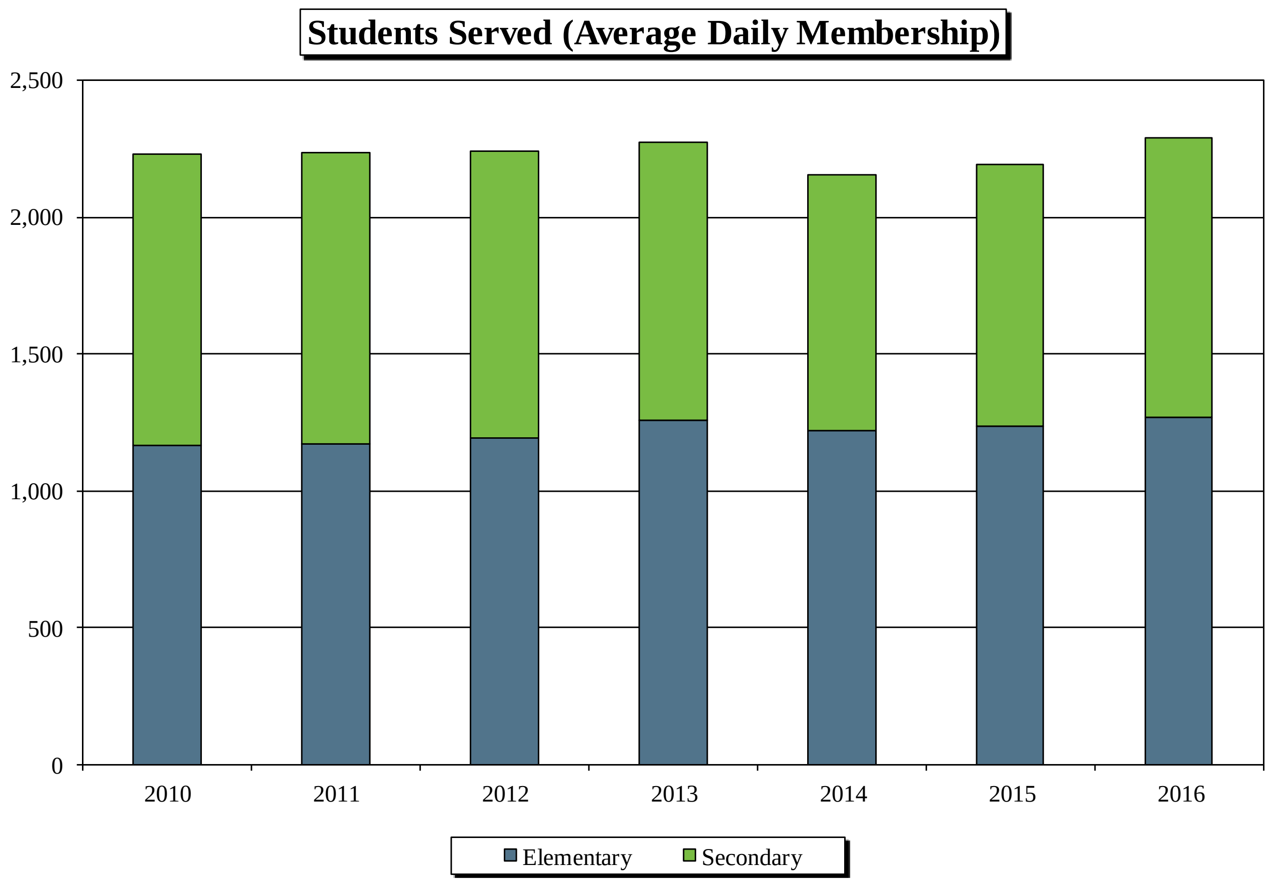
- The federal and state governments subsidized certain programs with grants and contributions was $4,781,411.

- Most of the District's costs – $26,153,018 – were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with $11,633,063 in property taxes and $14,824,163 of state aid based on the statewide education aid formula. In addition, $365,935 of investment earnings and other general revenues was recognized.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. When the District completed the year, the governmental funds reported a combined fund balance of $8,194,705, an increase of $3,361,825 from last year's ending fund balance of $4,832,880. This increase is primarily due to the capital lease for the early childhood addition.

Revenues for the District's governmental funds were $35,186,560 while total expenditures were $34,958,210, resulting in a $228,350 of revenues over expenditures. The following graph shows the number of students served by the District.



During 2015-16, the District's total enrollment increased from the previous fiscal year. Enrollment projections predict that a trend of stable to increasing enrollment will occur based on new housing construction occurring and planned in the District. During the year, the District served more students than projected in the budget.

GENERAL FUND

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

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30, 2015	Year Ended June 30, 2016	Percentage Change 2015-16
Local sources			
Property taxes	$ 6,903,559	$ 8,182,470	18.5%
Other	1,135,617	1,205,507	6.2%
State sources	17,121,022	18,038,488	5.4%
Federal sources	774,017	814,807	5.3%
Total	$ 25,934,215	$ 28,241,272	8.9%

Total General Fund revenue increased by $2,307,057 or 8.9%, from the previous year. This is primarily due to an increase in students versus prior year, as well as an increase in property taxes.

Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2015	Year Ended June 30, 2016	Percentage Change 2015-16
Salaries	$ 14,278,077	$ 14,851,815	4.0%
Benefits	4,805,506	5,077,642	5.7%
Purchased services	4,887,199	4,922,455	0.7%
Supplies, materials, and equipment	2,029,390	2,504,618	23.4%
Other expenses	57,624	66,238	14.9%
Total	$ 26,057,796	$ 27,422,768	5.2%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Total General Fund expenditures increased $1,364,972, or 5.2%, from the previous year primarily due to increases in wages and benefits and general inflation of purchased services, as well as technology initiatives including a one-to-one device for students.

In 2015-16, General Fund revenues and other financing sources were greater than expenditures and other financing uses by $581,579.

After deducting statutory reserves, the unassigned fund balance was $3,042,121 at June 30, 2015. The unassigned fund balance is $3,042,289 at June 30, 2016.

Statutory reserves/restrictions in the General Fund for health and safety had a deficit total of $224,909 at June 30, 2016, solely due to a deficit health and safety fund deficit balance.

General Fund Budget Highlights

Over the course of the year, the District revised the annual operating budget. Budget amendments fall into two categories

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale, and gifts.

- Increases in appropriations for significant unbudgeted costs.

While the District's final budget for the General Fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by $678,856; the actual results for the year show expenditures exceed revenues by
$581,579.

- Actual revenues were $57,358 greater than expected, about a 0.2% variance, before factoring in TRA in-kind revenue.

- The actual expenditures were $447,713 greater than budgeted, about a 1.7% variance, before factoring in TRA in-kind expenditures.

COMMUNITY SERVICE AND DEBT SERVICE FUNDS

The Community Service Fund experienced a current year fund balance increase of $61,019 due to increased revenues over the amount of program expenditures. The Community Service fund balance was $660,564 as of June 30, 2016. From the standpoint of maintaining current operating expenditures within the range of annual revenue, the Community Services Fund continues to operate on a sound financial basis.

The Debt Service Fund expenditures exceeded revenues by $69,709 in 2015-2016. The remaining fund balance of $526,332 at June 30, 2016, is available for meeting future debt service obligations.

NONMAJOR FUNDS

The Food Service Fund had positive operations of $8,337 due to changes in meal regulations and increased adult meal sales and upgrading computers. It has a restricted fund balance of $163,528 and nonspendable fund balance of $13,790 on June 30, 2016. This balance will be used to offset future operating losses and to fund equipment improvements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the District had invested $58,595,660 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table 4). Total depreciation expense for the year was $388,349. More detailed information can be found in Note 4 of the financial statements.

Table 4
Capital Assets - Governmental Activities

	2015	2016	Total Percent Change 2015-16
Land	$ 1,645,835	$ 1,645,835	0.0%
Land improvements	4,147,675	4,214,246	1.6%
Buildings	43,665,602	43,690,802	0.1%
Furniture and equipment	8,302,998	8,852,864	6.6%
Vehicles	108,413	191,913	77.0%
Less accumulated depreciation	(20,673,637)	(20,975,775)	1.5%
Total	$ 37,196,886	$ 37,619,885	1.1%

Long-Term Liabilities

At year-end, the District had $28,395,553 in G.O. bonds and capital leases payable outstanding, a decrease of 8.6% from last year, as shown in Table 5. The District also had $46,759 in compensated absences payable at June 30, 2016. Finally the District had $18,564,697 in long-term Pension/OPEB liability. Total long-term liability increased by 8.1%. More detailed information can be found in Note 6 of the financial statements.

Table 5
Outstanding Long-Term Liabilities

	2015	2016	Total Percent Change 2015-16
G.O. bonds payable	$ 27,720,000	$ 25,345,000	-8.6%
Capital leases payable	9,095	3,050,553	33441.0%
Compensated absences	59,734	46,759	-21.7%
Net pension liability	15,104,549	17,678,316	17.0%
Net OPEB obligation	597,352	886,381	48.4%
Total	$ 43,490,730	$ 47,007,009	8.1%

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendum and building bond referendum, the District is dependent on the State of Minnesota for 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 2015 legislative sessions provided a 2% increase in the basic education funding formula allowance for the next two years. There was also a lot of legislative discussion centered on early childhood learning. Due to this dialog, the district moved forward on the lease levy for early childhood space. The District will strive to maximize resources available through efficient and effective management of its operations.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunities for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have questions about this report or need additional financial information, contact: Business Services Office, Westonka Public Schools, Independent School District No. 277, Educational Service Center, 5901 Sunnyfield Road East, Minnetrista, Minnesota 55364, (952) 491-8021.

BASIC FINANCIAL STATEMENTS

Independent School District No. 277
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash and investments	$ 12,071,758
Cash with fiscal agent	2,698,658
Current property taxes receivable	5,652,152
Delinquent property taxes receivable	143,435
Accounts receivable	55,673
Interest receivable	44,190
Due from department of education	2,026,742
Due from federal government through department of education	302,905
Due from other minnesota school districts	50,275
Inventory	48,214
Prepaid items	83,097
Capital assets (net of accumulated depreciation)	
Land	1,645,835
Land improvements	2,776,581
Buildings	30,698,143
Equipment	2,386,792
Vehicles	112,534
Total assets	60,796,984
Deferred Outflows of Resources	
Deferred outflows related to pensions	3,373,463
Total assets and deferred outflows of resources	$ 64,170,447
Liabilities, Deferred Inflows of Resources, and Net Position	
Liabilities	
Accounts payable	$ 389,789
Salaries and benefits payable	281,042
Interest payable	252,652
Due to other minnesota school districts	209,253
Unearned revenue	173,509
Bond principal payable (net)	
Payable within one year	2,435,000
Payable after one year	23,344,696
Capital lease payable	
Payable within one year	234,668
Payable after one year	2,815,885
Compensated absences payable	
Payable within one year	37,408
Payable after one year	9,351
Net other post employment benefits (OPEB) payable	886,381
Net pension liability	17,678,316
Total liabilities	48,747,950
Deferred inflows of resources	
Property taxes levied for subsequent year's expenditures	9,744,124
Deferred inflows related to pensions	2,748,342
Total deferred inflows of resources	12,492,466
Net position	
Net investment in capital assets	13,005,345
Restricted	748,103
Unrestricted	(10,823,417)
Total net position	2,930,031
Total liabilities, deferred inflows of resources, and net position	$ 64,170,447

Independent School District No. 277
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 1,017,103	$ -	$ -	$ -	$ (1,017,103)
District support services	1,489,056	31,147	-	-	(1,457,909)
Elementary and secondary regular instruction	13,222,629	777,572	1,231,378	-	(11,213,679)
Vocational education instruction	348,550	-	11,320	-	(337,230)
Special education instruction	4,910,562	-	2,792,112	-	(2,118,450)
Instructional support services	1,551,080	23,001	31,080	-	(1,496,999)
Pupil support services	2,142,299	15,714	31,372	-	(2,095,213)
Sites and buildings	2,984,433	-	-	68,690	(2,915,743)
Fiscal and other fixed cost programs	92,113	-	-	-	(92,113)
Food service	1,319,277	840,993	459,718	-	(18,566)
Community education and services	2,600,865	1,948,279	224,431	-	(428,155)
Interest and fiscal charges on long-term debt	611,004	-	-	-	(611,004)
Total governmental activities	$ 32,288,971	$ 3,636,706	$ 4,781,411	$ 68,690	(23,802,164)

General revenues	
Taxes	
Property taxes, levied for general purposes	8,175,309
Property taxes, levied for community service	481,140
Property taxes, levied for debt service	2,976,614
State aid-formula grants	14,824,163
Other general revenues	217,247
Investment income	136,095
Gain of sale of assets	12,593
Total general revenues	26,823,161
Change in net position	3,020,997
Net position - beginning	(90,966)
Net position - ending	$ 2,930,031

See notes to financial statements.

Independent School District No. 277
Balance Sheet - Governmental Funds
June 30, 2016

	General	Debt Service
Assets		
Cash and investments	$ 4,298,149	$ 1,748,833
Cash with fiscal agent	-	-
Current property taxes receivable	3,859,303	1,245,356
Delinquent property taxes receivable	94,325	34,060
Accounts receivable	49,391	-
Interest receivable	6,384	-
Due from department of education	2,016,752	73
Due from federal government		
Through department of education	287,959	-
Due from other minnesota school districts	50,275	-
Inventory	34,874	-
Prepaid items	55,752	-
Total assets	$ 10,753,164	$ 3,028,322
Liabilities, Deferred Inflows of Resources, and Fund Balances		
Liabilities		
Accounts payable	$ 195,403	$ -
Salaries and benefits payable	210,530	-
Due to other minnesota school districts	209,253	-
Unearned revenue	3,000	-
Total liabilities	618,186	-
Deferred inflows of resources		
Unavailable revenue - delinquent property taxes	38,736	17,258
Property taxes levied for subsequent year's expenditures	6,167,035	2,484,732
Total deferred inflows of resources	6,205,771	2,501,990
Fund balances		
Nonspendable	90,626	-
Restricted	224,996	526,332
Committed	136,319	-
Assigned	659,886	-
Unassigned	2,817,380	-
Total fund balances	3,929,207	526,332
Total liabilities, deferred inflows of resources, and fund balances	$ 10,753,164	$ 3,028,322

See notes to financial statements.

Community Service	Building Construction	Nonmajor Funds	Total Governmental Funds
$ 1,144,551	$ 218,716	$ 600,502	$ 8,010,751
-	2,698,658	-	2,698,658
276,244	-	271,249	5,652,152
6,433	-	8,617	143,435
1,677	4,605	-	55,673
-	-	-	6,384
9,834	-	83	2,026,742
-	-	14,946	302,905
-	-	-	50,275
-	-	13,340	48,214
1,895	-	450	58,097
$ 1,440,634	$ 2,921,979	$ 909,187	$ 19,053,286
$ 41,897	$ 143,915	$ 5,926	$ 387,141
63,115	-	7,397	281,042
-	-	-	209,253
120,782	-	49,727	173,509
225,794	143,915	63,050	1,050,945
3,115	-	4,403	63,512
551,161	-	541,196	9,744,124
554,276	-	545,599	9,807,636
1,895	-	13,790	106,311
658,669	2,778,064	286,748	4,474,809
-	-	-	136,319
-	-	-	659,886
-	-	-	2,817,380
660,564	2,778,064	300,538	8,194,705
$ 1,440,634	$ 2,921,979	$ 909,187	$ 19,053,286

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Independent School District No. 277
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2016

Total fund balances - governmental funds	$ 8,194,705
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	58,595,660
Less accumulated depreciation	(20,975,775)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(25,345,000)
Capital lease payable	(3,050,553)
Compensated absences payable	(46,759)
Net pension liability	(17,678,316)
Net OPEB obligation	(886,381)
Bond premiums are reported as a liability within the Statement of Net Position and are reported as an other financing source in the year the debt is issued in governmental funds.	(434,696)
Deferred Outflows of Resources and Deferred Inflows of Resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	3,373,463
Deferred inflows of resources related to pensions	(2,748,342)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	63,512
The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	4,121,165
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(252,652)
Total net position - governmental activities	$ 2,930,031

See notes to financial statements.

Independent School District No. 277
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	General	Debt Service	Community Service
Revenues			
Local property taxes	$ 8,182,470	$ 2,423,946	$ 481,392
Other local and county revenues	1,130,490	4,602	1,967,402
Revenue from state sources	18,038,488	587	208,559
Revenue from federal sources	814,807	-	-
Sales and other conversion of assets	75,017	-	-
Total revenues	28,241,272	2,429,135	2,657,353
Expenditures			
Current			
Administration	1,014,988	-	-
District support services	1,132,695	-	-
Elementary and secondary regular instruction	12,757,507	-	-
Vocational education instruction	358,979	-	-
Special education instruction	4,763,690	-	-
Instructional support services	1,550,673	-	-
Pupil support services	2,094,104	-	-
Sites and buildings	2,338,901	-	-
Fiscal and other fixed cost programs	92,113	-	-
Food service	-	-	-
Community education and services	-	-	2,574,509
Capital outlay			
District support services	328,009	-	-
Elementary and secondary regular instruction	704,455	-	-
Special education instruction	150,532	-	-
Instructional support services	1,141	-	-
Sites and buildings	134,981	-	-
Food service	-	-	-
Community education and services	-	-	21,825
Debt service			
Principal	-	1,910,000	-
Interest and fiscal charges	-	588,844	-
Total expenditures	27,422,768	2,498,844	2,596,334
Excess of revenues over (under) expenditures	818,504	(69,709)	61,019
Other Financing Sources			
Proceeds from sale of capital assets	36,727	-	-
Issuance of capital lease	293,348	-	-
Issuance of lease purchase agreement	-	-	-
Transfers in	-	-	-
Transfers out	(567,000)	-	-
Total other financing sources	(236,925)	-	-
Net change in fund balances	581,579	(69,709)	61,019
Fund Balances			
Beginning of year	3,347,628	596,041	599,545
End of year	$ 3,929,207	$ 526,332	$ 660,564

See notes to financial statements.

Building Construction	Nonmajor Funds	Total Governmental Funds
$ -	$ 555,222	$ 11,643,030
214	2,588	3,105,296
-	59,199	18,306,833
-	400,584	1,215,391
-	840,993	916,010
214	1,858,586	35,186,560
-	-	1,014,988
-	-	1,132,695
-	-	12,757,507
-	-	358,979
-	-	4,763,690
-	-	1,550,673
-	-	2,094,104
-	-	2,338,901
-	-	92,113
-	1,294,489	1,294,489
-	-	2,574,509
-	-	328,009
-	-	704,455
-	-	150,532
-	-	1,141
595,733	-	730,714
-	473	473
-	-	21,825
-	465,000	2,375,000
-	84,569	673,413
595,733	1,844,531	34,958,210
(595,519)	14,055	228,350
-	-	36,727
-	-	293,348
2,803,400	-	2,803,400
567,000	-	567,000
-	-	(567,000)
3,370,400	-	3,133,475
2,774,881	14,055	3,361,825
3,183	286,483	4,832,880
$ 2,778,064	$ 300,538	$ 8,194,705

Independent School District No. 277
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2016

Net change in fund balances - total governmental funds	$ 3,361,825
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	835,482
Depreciation expense	(388,349)
Loss on disposal	(24,134)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	12,975
OPEB obligations are recognized as paid in the governmental funds, but the change in the unfunded opeb obligation is recognized in the Statement of Activities.	(289,029)
Governmental Funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
Pension expense	199,021
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no impact on net position in the Statement of Activities.	2,430,289
Interest on long-term debt in the Statement of Activities differs from the amount reported in the Governmental Funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	22,890
Governmental funds report bond premiums as an other financing source at the time of issuance. Premiums are reported as a liability in the government-wide financial statements and amortized over the life of the bond.	39,519
The issuance of long-term debt provides current financial resources to governmental funds and has No effect on net assets. These amounts are reported in the governmental funds as a source of Financing. These amounts are not shown as revenues in the Statement of Activities, but rather Constitute long-term liabilities in the statement of net assets.	
Capital lease	(3,096,748)
The post employment benefits revocable trust internal service fund is used to charge the benefits to the fund that incurs the cost. This amount represents the change in assets available to fund the liabilities	(72,777)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(9,967)
Change in net position - governmental activities	$ 3,020,997

See notes to financial statements.

Independent School District No. 277
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 7,951,550	$ 7,951,550	$ 8,182,470	$ 230,920
Other local and county revenues	1,099,460	1,153,846	1,130,490	(23,356)
Revenue from state sources	17,166,616	17,834,099	18,038,488	204,389
Revenue from federal sources	741,180	839,726	814,807	(24,919)
Sales and other conversion of assets	97,060	100,485	75,017	(25,468)
Total revenues	27,055,866	27,879,706	28,241,272	361,566
Expenditures				
Current				
Administration	1,039,846	1,054,352	1,014,988	(39,364)
District support services	1,001,077	1,041,004	1,132,695	91,691
Elementary and secondary regular instruction	12,225,187	12,574,284	12,757,507	183,223
Vocational education instruction	191,254	274,486	358,979	84,493
Special education instruction	4,641,440	4,605,163	4,763,690	158,527
Instructional support services	1,517,779	1,434,102	1,550,673	116,571
Pupil support services	2,257,405	2,153,701	2,094,104	(59,597)
Sites and buildings	2,355,837	2,313,007	2,338,901	25,894
Fiscal and other fixed cost programs	112,609	112,113	92,113	(20,000)
Capital outlay				
District support services	11,030	27,200	328,009	300,809
Elementary and secondary regular instruction	324,632	558,397	704,455	146,058
Special education instruction	144,270	129,857	150,532	20,675
Instructional support services	550	550	1,141	591
Sites and buildings	375,987	392,631	134,981	(257,650)
Total expenditures	26,198,903	26,670,847	27,422,768	751,921
Excess of revenues over (under) expenditures	856,963	1,208,859	818,504	(390,355)
Other financing sources (uses)				
Proceeds from sale of capital assets	-	36,727	36,727	-
Issuance of capital lease	-	-	293,348	293,348
Transfers out	(567,000)	(567,000)	(567,000)	-
Total other financing sources (uses)	(567,000)	(530,273)	(236,925)	293,348
Net change in fund balance	$ 289,963	$ 678,586	581,579	$ (97,007)
Fund Balance				
Beginning of year			3,347,628	
End of year			$ 3,929,207	

See notes to financial statements.

Independent School District No. 277
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 480,197	$ 480,197	$ 481,392	$ 1,195
Other local and county revenues	1,797,351	1,807,351	1,967,402	160,051
Revenue from state sources	123,157	153,157	208,559	55,402
Total revenues	2,400,705	2,440,705	2,657,353	216,648
Expenditures				
Current				
Community education and services	2,373,443	2,373,443	2,574,509	201,066
Capital outlay				
Community education and services	18,550	18,550	21,825	3,275
Total expenditures	2,391,993	2,391,993	2,596,334	204,341
Excess of revenues over expenditures	$ 8,712	$ 48,712	61,019	$ 12,307
Fund Balance				
Beginning of year			599,545	
End of year			$ 660,564	

See notes to financial statements.

Independent School District No. 277
Statement of Net Position - Proprietary Funds
June 30, 2016

		Governmental Activities - Internal Service Funds
Assets		
Cash and cash equivalents	$	91,060
Investments		3,969,947
Interest receivable		37,806
Prepaids		25,000
Total assets	$	4,123,813
Liabilities and Net Position		
Liabilities		
Accounts payable	$	2,648
Net position		
Unrestricted		4,121,165
Total liabilities and net position	$	4,123,813

See notes to financial statements.

Independent School District No. 277
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2016

	Governmental Activities - Internal Service Funds
Operating Revenue	
Charges for services	$ 153,944
Operating Expenses	
Employee benefits	347,253
Professional services	250
Total operating expenses	347,503
Operating income	(193,559)
Nonoperating Revenue	
Investment income	120,782
Change in net position	(72,777)
Net Position	
Beginning of year	4,193,942
End of year	$ 4,121,165

See notes to financial statements.

Independent School District No. 277
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2016

		Governmental Activities - Internal Service Funds
Cash Flows - Operating Activities		
Receipts from employee contributions	$	128,944
Payments to employees		(347,033)
Payments to vendors		(250)
Net cash flows - operating activities		(218,339)
Cash Flows - Noncapital Financing Activities		
Repayment of advances from other funds		(157,098)
Cash Flows - Investment Activities		
Investment sales		151,329
Interest received		16,859
Net cash flows - investment activities		168,188
Net change in cash and cash equivalents		(207,249)
Cash and Cash Equivalents		
Beginning of year		298,309
End of year	$	91,060
Reconciliation of Operating Income to Net Cash Flows - Operating Activities		
Operating income	$	(193,559)
Adjustments to reconcile operating income To net cash flows - operating activities		
Accounts payable		220
Net adjustments		(24,780)
Net cash flows - operating activities	$	(218,339)
Non-Cash Activities		
Change in fair value of investments	$	119,264

See notes to financial statements.

Independent School District No. 277
Statement of Fiduciary Net Position
June 30, 2016

		Private Purpose Trust Fund
Assets		
Cash and investments		
(including cash equivalents)	$	208,935
Interest receivable		968
Total assets	$	209,903
Net Position		
Held in trust for scholarships	$	209,903

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

		Private Purpose Trust Fund
Additions		
Contributions	$	33,158
Interest revenue		2,169
Total additions		35,327
Deductions		
Scholarships		32,000
Change in net position		3,327
Net Position		
Beginning of year		206,576
End of year	$	209,903

See notes to financial statements.

Independent School District No. 277
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

The student activity accounts of the District are under the School Board's control and are included within the General Fund activity. Separate audited financial statements have not been issued.

B. Basic Financial Statement Information

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated deprecation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

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

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

Description of Funds:

Major Funds:

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

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

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

Building Construction Fund – Capital Projects – This Fund is used to account for financial resources used for the maintenance projects authorized with the School Building Bonds.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this Fund to specifically support the food service program.

Post Employment Benefits Debt Service Fund – This Fund is used to account for levy proceeds and the payment of G.O. Taxable OPEB Bonds principal, interest and related costs.

Fiduciary Fund:

Private Purpose Trust Fund – This Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Proprietary Fund:

Post Employment Benefits Revocable Trust Internal Service Fund – This Fund is used to account for the accumulation of resources to fund post employment benefits.

Dental Internal Service Fund – This Fund is used to account for the activity of the self insured employee dental plan.

D. Deposits and Investments

All governmental and fiduciary funds of the District participate in a government-wide investment pool. Cash and investment balances from these funds are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Deposits and investments in the OPEB Internal Service Fund and the Building Construction Capital Projects Fund are not pooled with the rest of the District's deposits and investments.

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

Cash and investments at June 30, 2016, were comprised of deposits, brokered certificates of deposits and money market accounts, government securities, and a savings deposit account.

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventory

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

H. Prepaid Items

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

I. Property Taxes

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

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

J. Capital Assets

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

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

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 40 years for land improvements and buildings and 5 to 20 years for equipment.

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

K. Deferred 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(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. Deferred outflows related to pension activity reported in the government-wide statement of net position. A deferred outflow relating to pension activity results from the difference between actual and expected economic experience, changes in actuarial assumptions and employer contributions subsequent to the measurement date.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Unearned Revenue

Unearned revenue represents monies received prior to June, 30 2016, but earned subsequent to year end.

M. Long-Term Obligations

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

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

N. Compensated Absences

The District compensates administration, clerical and custodial employees upon termination of employment for unused vacation. Vacation accrual may be carried over up to five days for school service employees while ten days may be carried over for other employees.

Employees are not compensated for unused sick leave upon termination of employment. Sick leave pay is shown as an expenditure in the year paid.

O. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in TRA Note 8.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Risk Management

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

Q. Fund Equity

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

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balances – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.
- Assigned Fund Balances – The School Board delegates the Superintendent and Director of Finance the power to assign balances for specific purposes.
- Unassigned Fund Balances – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.
- Minimum Fund Balance Policy – The District's annual budget will be developed to maintain a minimum unassigned General Fund balance of 8% of the prior year's expenditures and a maximum of 15% of the prior year's expenditures.

R. Net Position

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Use of Estimates

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

T. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* 118A.03. As of June 30, 2016, the District's bank balances were not exposed to custodial credit risk as they were insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

At June 30, 2016, the District had the following deposits:

Certificates of Deposit	$ 2,155,900

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

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

Investment	Weighted Average Maturities In Years	Fair Value
Brokered Money Markets	N/A	$ 6,445,022
Brokered Money Markets - OPEB	N/A	68,725
Brokered Money Markets - Building Bonds	N/A	2,698,669
Negotiable Certificates of Deposit	0.18	496,171
Negotiable Certificates of Deposit - OPEB	1.57	1,056,749
Municipal Securities - OPEB	5.26	2,057,740
Total		$ 12,823,076

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments to the top two rating issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those specified in the above statutes. As of June 30, 2016, the District's investments in municipal securities were either rated AA+ by Standard and Poor's (S&P) or Aa2 by Moody's. The remaining investment types are unrated and, therefore, not subject to credit risk.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will diversify its investment to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy states the District's investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account cash flow requirements.

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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Following is a summary of deposits and investments at June 30, 2016:

Deposits (Note 3.A)	$ 2,155,900
Petty cash	375
Investments- pooled	6,941,193
Investments- non-pooled	5,881,883
Total deposits and investments	$ 14,979,351

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

Statement of Net Position	
Cash and investments	$ 12,071,758
Cash with fiscal agent	2,698,658
Statement of fiduciary net position	
Private purpose trust fund - cash and investments	208,935
Total deposits and investments	$ 14,979,351

NOTE 3 – INTERFUND ACTIVITY

A. Interfund Transfers

The General Fund transferred $567,000 to the Building Construction Fund for capital needs.

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 1,645,835	$ -	$ -	$ 1,645,835
Capital assets being depreciated				
Land improvements	4,147,675	92,645	(26,074)	4,214,246
Buildings	43,665,602	25,200	-	43,690,802
Equipment	8,302,998	634,137	(84,271)	8,852,864
Vehicles	108,413	83,500	-	191,913
Total capital assets being depreciated	56,224,688	835,482	(110,345)	56,949,825
Less accumulated				
Land improvements	1,368,532	72,030	(2,897)	1,437,665
Buildings	12,834,546	158,113		12,992,659
Equipment	6,395,428	153,958	(83,314)	6,466,072
Vehicles	75,131	4,248	-	79,379
Total accumulated depreciation	20,673,637	388,349	(86,211)	20,975,775
Total capital assets being depreciated, net	35,551,051	447,133	(24,134)	35,974,050
Governmental activities, capital assets, net	$ 37,196,886	$ 447,133	$ (24,134)	$ 37,619,885

Depreciation expense of $388,349 for the year ended June 30, 2016, was charged to the following governmental functions:

Administration	$ 583
District support services	7,576
Elementary and secondary regular instruction	92,616
Vocational education instruction	59
Special education instruction	926
Instructional support services	3,574
Pupil support services	3,493
Sites and buildings	263,256
Food service	11,469
Community education and services	4,797
Total depreciation expense	$ 388,349

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2009a taxable OPEB bonds	04/21/09	2.25%-4.55%	$ 4,095,000	02/01/19	$ 1,515,000	$ 485,000
G.O. School building bonds, Series 2012a	03/01/12	1.00%-3.00%	29,925,000	02/01/27	23,830,000	1,950,000
Total G.O. bonds					25,345,000	2,435,000
Unamortized bond premium					434,696	-
Capital leases					3,050,553	234,668
Compensated Absences payable					46,759	37,408
Total all long-term liabilities					$ 28,877,008	$ 2,707,076

The long-term bond and lease liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues and to finance OPEB obligations. Other long-term liabilities such as compensated absences payable are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire G.O. bonds are as follows:

Year Ending	G.O. Bonds		
June 30,	Principal	Interest	Total
2017	$ 2,435,000	$ 613,101	$ 3,048,101
2018	2,495,000	553,975	3,048,975
2019	2,550,000	492,207	3,042,207
2020	2,065,000	427,819	2,492,819
2021	2,110,000	386,519	2,496,519
2022-2026	11,260,000	1,244,406	12,504,406
2027-2031	2,430,000	72,900	2,502,900
Total	$ 25,345,000	$ 3,790,926	$ 29,135,926

NOTE 5 – LONG-TERM DEBT (CONTINUED)

C. Capital Lease Obligations

On August 31, 2015, the District entered into a capital lease agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled $41,374. The capital lease agreement includes annual principal and interest payments of $14,188. On May 19, 2016, the District entered into a lease purchase agreement for building improvements. The capital lease totaled $2,803,400. The capital lease agreement includes annual principal and interest payments of $224,996. On October 1, 2015, the District entered into a capital lease agreement for the acquisition of copier equipment. The capital lease obligation and corresponding equipment totaled $251,974. The capital lease agreement includes annual principal and interest payments of $45,578.

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

Year Ending June 30,	
2017	$ 300,162
2018	300,162
2019	285,975
2020	285,975
2021	239,820
2022-2026	1,124,978
2027-2031	1,124,978
Total minimum lease payments	3,662,050
Less amount representing interest	(611,497)
Present value of minimum lease payments	$ 3,050,553

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 27,720,000	$ -	$ 2,375,000	$ 25,345,000
Unamortized bond premium	474,214	-	39,518	434,696
Capital leases	9,095	3,096,748	55,290	3,050,553
Compensated Absences payable	59,734	105,772	118,747	46,759
Total long-term liabilities	$ 28,263,043	$ 3,202,520	$ 2,588,555	$ 28,877,008

NOTE 6 – FUND BALANCES/NET POSITION

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

A. Fund Balances

Fund balances are classified as listed on the following page to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service	Community Service	Building Construction	Nonmajor Funds	Total
Nonspendable						
Inventory	$ 34,874	$ -	$ -	$ -	$ 13,340	$ 48,214
Prepaid items	55,752	-	1,895	-	450	58,097
Total nonspendable	90,626	-	1,895	-	13,790	106,311
Restricted/reserved for						
Operating capital	224,996	-	-	-	-	224,996
Community education	-	-	550,098	-	-	550,098
Early childhood and family education	-	-	31,917	-	-	31,917
School readiness	-	-	66,792	-	-	66,792
Community service	-	-	9,862	-	-	9,862
Food service	-	-	-	-	163,528	163,528
Debt service	-	526,332	-	-	123,220	649,552
Building Projects Funded by COP/LP	-	-	-	2,698,714	-	2,698,714
Building projects	-	-	-	79,350	-	79,350
Total restricted/reserved	224,996	526,332	658,669	2,778,064	286,748	4,474,809
Committed for						
Separation/retirement benefits	136,319	-	-	-	-	136,319
Total committed	136,319	-	-	-	-	136,319
Assigned for						
Special education	200,000	-	-	-	-	200,000
Class size reduction	100,000	-	-	-	-	100,000
Technology repairs	16,533	-	-	-	-	16,533
Student activities	343,353	-	-	-	-	343,353
Total assigned	659,886	-	-	-	-	659,886
Unassigned	2,817,380	-	-	-	-	2,817,380
Total fund balance	$ 3,929,207	$ 526,332	$ 660,564	$ 2,778,064	$ 300,538	$ 8,194,705

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Nonspendable for Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the District on expenses for the next fiscal year.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the debt service funds.

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

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. This account has a UFARS balance of ($224,909), which is included in unassigned fund balance as generally accepted accounting principles do not permit negative restrictions.

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

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

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

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

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

Restricted/Reserved for Building Projects Funded by Certificates of Participation/Lease Purchase Agreement with Related Lease Levy Authority – This balance represents available resources in the Building Construction Fund for projects funded by certificates of participation/lease purchase agreements with related lease levy authority under *Minnesota Statues*, Section 126C.40

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Restricted/Reserved for Building Projects – This balance represents available resources from the issuance of the 2012A school building bonds.

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Assigned – This balance represents estimated amounts that are set aside for special education, technology repairs, class size reduction, as well as the balance of the student activity accounts that are under board control.

B. Net Position

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service, and Debt Service Funds and the effects of the conversion to the government-wide statements.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

A. Plan Description

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

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

B. Benefits Provided

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier 1 Benefits

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

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

With these provisions:

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

- 3% per year early retirement reduction factor for all years under normal retirement age.

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

Tier II Benefits

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

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

C. Contribution Rate

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

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

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

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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

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

E. Actuarial Assumptions

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

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

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

Teachers' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

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

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

F. Discount Rate

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

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability

On June 30, 2016, the District reported a liability of $14,029,823 for its proportionate share of the net pension liability. The net pension liability was measure as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2268% at the end of the measurement period and 0.2494% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 14,029,823
State's proportionate share of the net pension liability associated with the District	1,720,762

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

For the year ended June 30, 2016, the district recognized pension expense of $1,015,142. It also recognized $304,208 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 789,194	$ -
Net difference between projected and actual earnings on plan investments	-	1,318,583
Changes of actuarial assumptions	1,078,520	-
Changes in proportionate share	-	630,150
District's contributions to TRA subsequent to the measurement date	901,418	-
Total	$ 2,769,132	$ 1,318,583

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability (Continued)
$901,418 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a relation of the net pension liability in the year ended June 30, 2017.

Deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2017	$	(278,957)
2018		(278,957)
2019		(278,955)
2020		587,344
2021		168,506

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

District proportionate share of NPL		
1% decrease (7.0%)	Current (8.0%)	1% increase (9.0%)
$ 21,355,207	$ 14,029,823	$ 7,916,579

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

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

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

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Fund (GERF)

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

B. Benefits Provided

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

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

GERF Benefits

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

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

Public Employees' Retirement Association (Continued)

C. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar years 2015 and 2016. In calendar years 2015 and 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2016, were $319,177. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

GERF Pension Costs

At June 30, 2016, the District reported a liability of $3,648,493 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion share was 0.0704%, which was a decrease of 0.0065% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of $310,641 for its proportionate share of GERF's pension expense.

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

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 36,959	$ 183,946
Changes in actuarial assumptions	248,194	-
Difference between projected and actual investments earnings	-	386,660
Changes in proportion	-	229,003
District's contributions to GERF subsequent to the measurement date	319,177	-
Total	$ 604,330	$ 799,609

$319,177 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	$ (152,740)
2018	(152,741)
2019	(295,321)
2020	86,346

E. Actuarial Assumptions

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

GERF

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

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% effective every January 1st until 2034, then 2.5% for GERF.

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

There were no changes in actuarial assumptions in 2015.

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

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

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

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

Public Employees' Retirement Association (Continued)

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

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proportionate share of the GERF net pension liability	$ 5,736,728	$ 3,648,493	$ 1,923,932

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

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

The District provides retiree health insurance for substantially all teachers and other selected bargaining groups as well as certain employees under individual contracts for a specific period of time under contract provisions. The District recognized expenditures on a pay-as-you-go basis.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

A. Plan Description (Continued)

School service employees hired before July 1, 2000, have completed 15 years of service, and are at least 55 years old are eligible for severance. They shall receive an amount equal to 50% of 75 days of pay based on the employee's daily rate of pay at retirement paid into a health savings account (HSA).

All teachers who have concluded their fifteenth year of teaching prior to January 1, 1994, are eligible to participate in the Deferred Compensation Matching Program or the "old severance" provision as outlined in the Union Contract. Teachers who elect to participate in the Deferred Compensation Matching Program may receive a total maximum matching contribution of $18,500 or $26,000 from the District based on where they fall in the provisions as outlined in the Union Contract. Teachers who have not reached the maximum will receive the remainder of the $18,500 or $26,000 in a lump sum payment based on where they fall in the provisions as outlined in the Union Contract. These payments are paid into an HSA.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with HealthPartners. The required contributions are based on projected pay-as-you-go financing requirements. For 2016, the District contributed $181,571 to the plan.

As of June 30, 2016, there were approximately 8 retirees and spouses receiving health benefits from the District's health plan. The plan has a total of 207 active participants. Of that total, 161 are not yet eligible to receive benefits.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$ 480,580
Interest on net OPEB obligation	23,894
Adjustment to ARC	(33,874)
Annual OPEB cost (expense)	470,600
Employer contributions	(181,571)
Increase in net OPEB obligation	289,029
Net OPEB obligation - beginning of year	597,352
Net OPEB obligation - end of year	$ 886,381

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
06/30/16	$ 470,600	$ 181,571	39%	$ 886,381
06/30/15	475,706	186,286	39%	597,352
06/30/14	424,870	199,870	47%	307,932

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $3,725,792 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $3,725,792. The covered payroll (annual payroll of active employees covered by the plan) was $13,612,029, and the ratio of the UAAL to the covered payroll was 27.4%.

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

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

On April 21, 2009, the District issued $4,095,000 G.O. Taxable OPEB Bonds, Series 2009A to fund part of the OPEB liability. Since these proceeds were placed in a revocable trust, the funding of the obligation does not qualify as funding the liability under GASB Statement No. 45. The activity related to the OPEB revocable trust can be noted in the Post-Employment Benefits Revocable Trust Internal Service Fund. As of June 30, 2016, the ending market value of these assets was $3,969,947.

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, consistent with the long-term perspective of the calculations.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

At the July 1, 2014 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.0% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5% after ten years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2016 was 22 years.

NOTE 9 – RISK MANAGEMENT

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

On July 1, 2013, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of $2,000 for each dental care claim. The General, Food Service, and Community Service Funds of the District participate in the program and make payments to the dental insurance plan recorded in the General Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 277
Schedule of Funding Progress - Other Post Employment Benefits
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/10	$ -	$ 3,533,073	$ 3,533,073	0.0%	$ 12,649,005	27.9%
07/01/12	-	3,359,715	3,359,715	0.0%	13,007,901	25.8%
07/01/14	-	3,725,792	3,725,792	0.0%	13,612,029	27.4%

Independent School District No. 277
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Last Ten Years GERF Retirement Funds

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0769%	$ 3,612,377	$ 4,035,806	89.5%	78.7%
2016	0.0704%	3,648,493	4,068,400	89.7%	78.2%

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

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

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.2494%	$ 11,492,172	$ 808,323	$ 12,300,495	$ 11,385,303	100.9%	81.5%
2016	0.2268%	14,029,823	1,720,762	15,750,585	11,509,427	121.9%	76.8%

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

See notes to required supplementary information.

Independent School District No. 277
Schedule of District Contributions
GERF Retirement Funds
Last Ten Years

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 292,596	$ 292,596	$ -	$ 4,035,806	7.25%
2015	305,130	305,130	-	4,068,400	7.50%
2016	319,177	319,177	-	4,255,693	7.50%

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

Schedule of District Contributions
TRA Retirement Funds
Last Ten Years

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 796,971	$ 796,971	$ -	$ 11,385,303	7.00%
2015	863,207	863,207	-	11,509,427	7.50%
2016	901,418	901,418	-	12,018,907	7.50%

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

See notes to required supplementary information.

TRA Retirement Funds

Changes of benefit terms

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

Changes of assumptions

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

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SUPPLEMENTARY INFORMATION

Independent School District No. 277
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Fund	Debt Service Fund	
	Food Service	Post Employment Benefits Debt Service	Total Nonmajor Funds
Assets			
Cash and investments	$ 211,632	$ 388,870	$ 600,502
Current property taxes receivable	-	271,249	271,249
Delinquent property taxes receivable	-	8,617	8,617
Due from department of education	-	83	83
Due from federal government through department of education	14,946	-	14,946
Inventory	13,340	-	13,340
Prepaid items	450	-	450
Total assets	$ 240,368	$ 668,819	$ 909,187
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	$ 5,926	$ -	$ 5,926
Salaries and benefits payable	7,397	-	7,397
Unearned revenue	49,727	-	49,727
Total liabilities	63,050	-	63,050
Deferred Inflows of Resources			
Unavailable revenue - delinquent property taxes	-	4,403	4,403
Year's expenditures	-	541,196	541,196
Total deferred inflows of resources	-	545,599	545,599
Fund Balances			
Nonspendable	13,790	-	13,790
Restricted	163,528	123,220	286,748
Total fund balances	177,318	123,220	300,538
Total liabilities, deferred inflows of resources, and fund balances	$ 240,368	$ 668,819	$ 909,187

Independent School District No. 277
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2016

	Special Revenue Fund	Debt Service Fund	
	Food Service	Post Employment Benefits Debt Service	Total Nonmajor Funds
Revenues			
Local property taxes	$ -	$ 555,222	$ 555,222
Other local and county revenues	2,588	-	2,588
Revenue from state sources	59,134	65	59,199
Revenue from federal sources	400,584	-	400,584
Sales and other conversion of assets	840,993	-	840,993
Total revenues	1,303,299	555,287	1,858,586
Expenditures			
Current			
Food service	1,294,489	-	1,294,489
Capital outlay			
Food service	473	-	473
Debt service			
Principal	-	465,000	465,000
Interest and fiscal charges	-	84,569	84,569
Total expenditures	1,294,962	549,569	1,844,531
Excess of revenues over (under) expenditures	8,337	5,718	14,055
Fund Balances			
Beginning of year	168,981	117,502	286,483
End of year	$ 177,318	$ 123,220	$ 300,538

Independent School District No. 277
Combining Statement of
Net Position - Internal Service Funds
June 30, 2016

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Dental	Total
Assets			
Cash and cash equivalents	$ -	$ 91,060	$ 91,060
Investments	3,969,947	-	3,969,947
Interest receivable	37,806	-	37,806
Prepaid items	-	25,000	25,000
Total assets	$ 4,007,753	$ 116,060	$ 4,123,813
Liabilities			
Accounts payable	$ -	$ 2,648	$ 2,648
Net Position			
Unrestricted	4,007,753	113,412	4,121,165
Total liabilities and net position	$ 4,007,753	$ 116,060	$ 4,123,813

Independent School District No. 277
Combining Statement of Revenues, Expenses, and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2016

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Dental	Total
Operating Revenues			
Charges for services	$ -	$ 153,944	$ 153,944
Operating Expenses			
Employee benefits	163,846	183,407	347,253
Professional services	250	-	250
Total operating expenses	164,096	183,407	347,503
Operating loss	(164,096)	(29,463)	(193,559)
Nonoperating Revenues			
Investment income	120,782	-	120,782
Change in net position	(43,314)	(29,463)	(72,777)
Net Position			
Beginning of year	4,051,067	142,875	4,193,942
End of year	$ 4,007,753	$ 113,412	$ 4,121,165

Independent School District No. 277
Combining Statement of Cash Flows -
Internal Service Funds
Year Ended June 30, 2016

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Dental	Total
Cash Flows - Operating Activities			
Receipts from employee contributions	$ -	$ 128,944	$ 128,944
Payments to employees	(163,846)	(183,187)	(347,033)
Payments to vendors	(250)	-	(250)
Net cash flows - operating activities	(164,096)	(54,243)	(218,339)
Cash Flows - Non-capital Financing Activities			
Payment of due to other funds	(157,098)	-	(157,098)
Cash Flows - Investment Activities			
(Purchase)/sale of investments	151,329	-	151,329
Interest received	16,859	-	16,859
Net cash flows - investment activities	168,188	-	168,188
Net change in cash and cash equivalents	(153,006)	(54,243)	(207,249)
Cash and Cash Equivalents			
Beginning of year	153,006	145,303	298,309
End of year	$ -	$ 91,060	$ 91,060
Reconciliation of Operating Income to Net Cash Flows - Operating Activities			
Operating income (loss)	$ (164,096)	$ (29,463)	$ (193,559)
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Accounts payable	-	220	220
Net adjustments	-	(24,780)	(24,780)
Net cash flows - operating activities	$ (164,096)	$ (54,243)	$ (218,339)
Non-Cash Activity			
Changes in fair value of investments	$ 119,264	$ -	$ (31,518)

Independent School District No. 277
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2016

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 28,241,272	$ 28,241,272	$ -
Total expenditures		27,422,768	27,422,768	-
Nonspendable				
460	Nonspendable fund balance	90,626	90,626	-
Restricted/reserved				
403	Staff Development	-	-	-
405	Deferred Maintenance	-	-	-
406	Health and Safety	(224,909)	(224,909)	-
407	Capital Projects Levy	-	-	-
409	Alternative Facility Program	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
414	Operating Debt	-	-	-
416	Levy Reduction	-	-	-
417	Taconite Building Maintenance	-	-	-
423	Certain Teacher Programs	-	-	-
424	Operating Capital	224,996	224,996	-
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 Technical Programs	-	-	-
448	Achievement and Integration	-	-	-
449	Safe School Crime	-	-	-
450	Transition for Pre-kindergarten	-	-	-
451	QZAB and QSCB Payments	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
453	Unfunded Severance and Retirement Levy	-	-	-
Restricted				
464	Restricted fund balance	-	-	-
Committed				
418	Committed for separation/ Retirement benefits	136,319	136,319	-
461	Committed	-	-	-
Assigned				
462	Assigned fund balance	659,886	659,886	-
Unassigned				
422	Unassigned fund balance	3,042,289	3,042,291	(2)
02 Food Service Fund				
Total revenue		$ 1,303,299	$ 1,303,299	$ -
Total expenditures		1,294,962	1,294,960	2
Nonspendable				
460	Nonspendable fund balance	13,790	13,790	-
Restricted/reserved				
452	Opeb liabilities not held in trust	-	-	-
Restricted				
464	Restricted fund balance	163,528	163,528	-
Unassigned				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 2,657,353	$ 2,657,356	$ (3)
Total expenditures		2,596,334	2,596,336	(2)
Nonspendable				
460	Nonspendable fund balance	1,895	1,895	-
Restricted/reserved				
426	$25 Taconite	-	-	-
431	Community Education	550,098	550,098	-
432	ECFE	31,917	31,917	-
440	Teacher Development and Evaluation			
444	School Readiness	66,792	66,792	-
447	Adult Basic Education	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
Restricted				
464	Restricted fund balance	9,862	9,863	(1)
Unassigned				
463	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ 214	$ 214	$ -
Total expenditures		595,733	595,732	1
Nonspendable				
460	Nonspendable fund balance	-	-	-
Restricted/reserved				
407	Capital Projects Levy	-	-	-
409	Alternative Facility Program	-	-	-
413	Building Projects Funded by COP/LP	2,698,714	2,698,714	-
Restricted				
464	Restricted fund balance	79,350	79,351	(1)
Unassigned				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 2,429,135	$ 2,429,136	$ (1)
Total expenditures		2,498,844	2,498,844	-
Nonspendable				
460	Nonspendable fund balance	-	-	-
Restricted/reserved				
425	Bond refunding	-	-	-
451	QZAB and QSCB payments	-	-	-
Restricted				
464	Restricted fund balance	526,332	526,333	(1)
Unassigned				
463	Unassigned fund balance	-	-	-
08 Trust Fund				
Total revenue		$ 35,327	$ 35,327	$ -
Total expenditures		32,000	32,000	-
Unassigned				
422	Unassigned fund balance (net position)	209,903	209,903	-
20 Internal Service Fund				
Total revenue		$ 153,944	$ 153,944	$ -
Total expenditures		183,407	183,406	1
Unassigned				
422	Unassigned fund balance (net position)	113,412	113,413	(1)
25 OPEB Revocable Trust				
Total revenue		$ 120,782	$ 120,783	$ (1)
Total expenditures		164,096	164,095	1
Unassigned				
422	Unassigned fund balance (net position)	4,007,753	4,007,754	(1)
45 OPEB Irrevocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned				
422	Unassigned fund balance (net position)	-	-	-
47 OPEB debt service				
Total revenue		$ 555,287	$ 555,286	$ 1
Total expenditures		549,569	549,568	1
Nonspendable				
460	Nonspendable fund balance	-	-	-
Restricted				
464	Restricted fund balance	123,220	123,220	-
Unassigned				
463	Unassigned fund balance	-	-	-

Independent School District No. 277
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
Through Minnesota Department of Education			
USDOA	10.555	Commodities programs (cluster)	$ 98,409
USDOA	10.553	School breakfast program (cluster)	31,096
USDOA	10.555	Child nutrition type a lunch (cluster)	235,431
USDOA	10.556	Special milk program (cluster)	155
USDOA	10.559	Summer food service program (cluster)	35,493
Total Child Nutrition Cluster			400,584
USDOED	84.010	Title I, Part A	215,201
USDOED	84.027	Special education (cluster)	461,294
USDOED	84.173	Special education early childhood (cluster)	34,157
Total Federal Special Education Cluster			495,451
USDOED	84.367	Title II, Part A - improving teacher quality	80,690
Through Independent School District No. 284			
USDOED	84.181	Infants and toddlers	14,970
Through Intermediate District No. 287			
USDOED	84.048A	Carl Perkins	11,321
Total Federal Expenditures			$ 1,218,217

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

Independent School District No. 277
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ending June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 3, 2016.

Internal Control over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as audit finding 2016-01 to be a material weakness.

Internal Control over Financial Reporting
A significant deficiency or a combination of deficiencies in internal control that is less serve then a material weakness, yet important enough to merit attention by those charted with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance as audit finding 2002-01 to be a significant deficiency.

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

District's Response to the Findings
The District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 communication is not suitable for any other purpose.

Bergan KDV Ltd.

Minneapolis, Minnesota
October 3, 2016

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Report on Compliance for each Major Federal Program and on Internal Control over Compliance Required By the Uniform Guidance

Independent Auditor's Report

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To the School Board
Independent School District No. 277
Minnetrista, Minnesota

Report on Compliance for each Major Federal Program

We have audited Independent School District No. 277's, Minnetrista, Minnesota compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program
In our opinion, Independent School District No. 277 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 3, 2016

Independent School District No. 277
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2016-01
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 2002-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	84.010
Name of Federal Program or Cluster:	Title I
CFDA No.:	10.553, 10.555, 10.556, and 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	No

Independent School District No. 277
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2002-01

Criteria or Specific Requirement:
Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:
During the year ended June 30, 2016, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Finance has access to all areas of the accounting system.
- Deposits are made through the Activities Office without proper review or approval.
- The District Accountant inputs employees' hours, generates direct deposit checks, and sends the transfer amount to the bank.
- The Director of Finance records and maintains all capital asset records.
- The District Accountant records the deposits and prepares the bank reconciliation.
- The Director of Finance records and maintains state, federal, and tax revenues and receivables.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Because of this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Questioned Costs:
None

Context:
This finding impacts the internal control for all significant accounting functions.

Effect:
The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:
There are a limited number of office employees.

Recommendation:
Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2002-01 (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.

3. Official Responsible for Ensuring CAP
   Kathy Miller, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2017.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

Audit Finding 2016-01

Criteria or Specific Requirement:
Internal control that supports the District's ability to initiate, record, process and report financial data requires adequate processes to ensure all required adjustments to the financial statements are identified and properly recorded by District personnel.

Condition:
During the course of our audit, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements. In order to ensure financial statements were free from material misstatement, audit adjustments were required to state investment balances at market value and to correct an error in the recording of delinquent property taxes.

Questioned Costs:
None

Context:
This finding impacts the internal control over financial reporting.

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2016-01 (Continued)

Cause:
There are a limited number of office employees to catch all necessary adjustments.

Recommendation:
Thoroughly review activity for the District throughout the year and ensure all necessary adjustments to the financial data are recorded.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District will review all areas before auditors arrive for fieldwork and will contact the auditors when questions arise.

3. Official Responsible for Ensuring CAP
   Kathy Miller, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2017.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

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Report on Legal Compliance

Independent Auditor's Report

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To the School Board
Independent School District No. 277
Minnetrista, 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. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, and have issued our report thereon dated October 3, 2016.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 3, 2016