Independent School District No. 14
Fridley, Minnesota

Financial Statements

June 30, 2016

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Independent School District No. 14
Board of Education and Administration
June 30, 2016

Board of Education	Position	Term Expires
Chris Riddle	Chair	January 1, 2020
Marcia Lindblad	Vice Chair	January 1, 2018
Kim Sampson	Clerk	January 1, 2020
Joseph Sturdevant	Treasurer	January 1, 2018
Donna Prewedo	Director	January 1, 2020
Mary Kay Delvo	Director	January 1, 2018

Ex Officio Member	
Peggy Flathmann	Superintendent

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Coralville, IA
52241-0267
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Johnston, IA
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St. Cloud, MN
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Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, 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. 14, Fridley, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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. 14, Fridley, Minnesota, as of June 30, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information 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 O.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 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 6, 2016

Independent School District No. 14
Management's Discussion and Analysis

This section of Independent School District No. 14's (the "District") annual financial report presents its Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ending June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

KEY POINTS OF INTEREST

- The District's Governmental Funds Balance Sheet reflects an Unassigned General Fund balance of $2,449,326. This is an increase from the prior year of $396,498.

- The total General Fund balance of $4,913,449 is an increase of $1,429,257 from the prior year.

- The government-wide Statement of Activities shows an increase in net position of $3,416,946.

- The net position value on the government-wide Statement of Net Position is a deficit of $21,333,028. Net position value is similar to the Balance Sheet's Equity for Private Sector businesses.

- Total government wide long term liabilities is $88,107,214 and is comprised of $81,544,134 in General Obligation (G.O.) Bonds, $5,199,583 in capital leases and $1,363,497 of severance and compensated absences payable.

- The District's investment in capital assets, net of depreciation, is $36,658,419. The increase from the prior year of $5,497,857 is primarily due to construction taking place with the funds from the passage of the November 2015 referendum. The G.O. bonds plus the capital leases (the debt related to investment in capital assets) exceeds the investment in capital assets by $1,080,881.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: MD&A (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

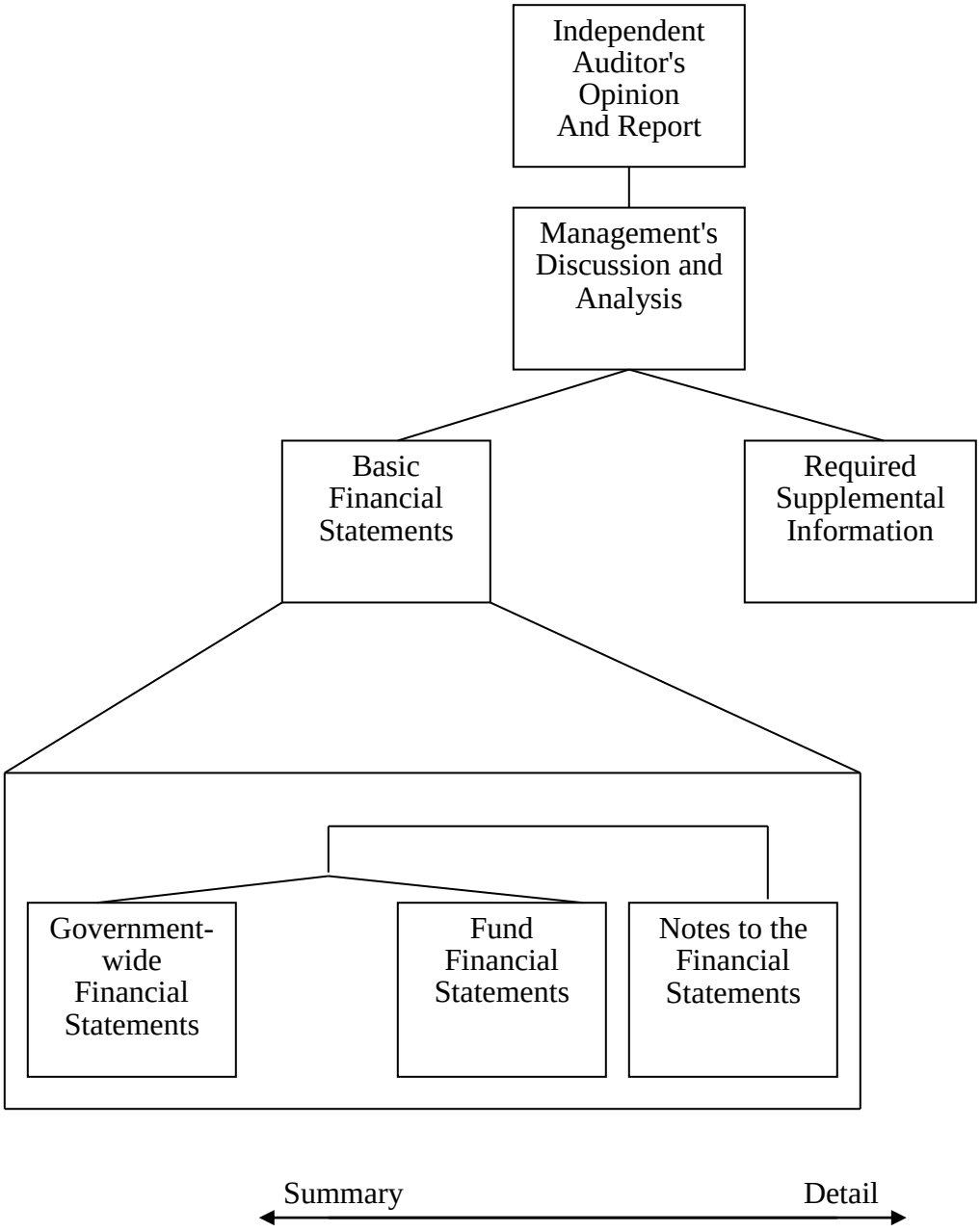
The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The governmental fund statements tell how basic services such as regular and special education are financed in the short term as well as what remains for future spending. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 on the next page shows how the various parts of this annual report are arranged and related to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1
Organization of Independent School District No. 14's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not fiduciary, such as special education and building maintenance	Activities of the District operates similar to private business - Internal Service Fund
Required Financial Statements	- Statement of Net Position - Statement of Activiteis	- Balance Sheet - Statement of Revenues, Expenditures, and Changes in Fund Balances	- Statement of Net Position - Statement of Revenues, Expenses and Changes in Fund Net Position - Statement of cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accural accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All Assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when good or services have been received and related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

Government-Wide Statements

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

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

Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the District's overall health, one should consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

Fund Financial Statements

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

The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets 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 indicates whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs and obligations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The Statement of Net Position identifies current assets and liabilities from noncurrent assets and long-term debt respectively. The ratio of these current assets of $70.6 million to current liabilities of $31.6 million is 2.2. A "current ratio" greater than 1.0 indicates that sufficient assets are available that can be converted to cash to meet District obligations payable over the next 12-month period.

The Statement of Net Position includes noncurrent assets not reported on the governmental funds balance sheet. These noncurrent assets include the total acquisition cost of the District's capital assets less accumulated depreciation. During the year, the District acquired $7,943,054 of additional capital assets. The majority of this increase is comprised of work in progress related to the remodel and renovation of the High School and the building additions to Stevenson Elementary and Hayes Elementary. The remaining capital asset additions consist of purchases associated with the District's deferred maintenance program funded by the Capital Facility Levy, and other capital investment programs such as Health and Safety. Depreciation expense for the year equaled $2,416,578. The current year depreciation expense was less than the increase in new investment in capital equipment resulting in an increase in the net capital asset total to $36,658,419 compared to $31,160,562 for the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Related to the noncurrent assets are the general obligation bonds. In February of 2016 the District issued $16,740,000 Alternative Facilities Refunding Bonds, Series 2016B, for the advanced refunding of a portion of the G.O. Alternative Facilities Bonds, Series 2007A. The principal balance of both the refunded and refunding bonds are reported as long-term debt of the District until the call date of the refunded bonds, at which time the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call date for the 2007A bond is February 1, 2017. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of $2,689,773. The District issued $25,890,000 G.O. School Building bonds, Series 2016A in the February of 2016. The voters of the District authorized the school building issue in November of 2015. The proceeds will fund safety and security upgrades, deferred maintenance, building renovations, technology improvements, and building additions. Other general obligations include an OPEB bond issued in 2009 with a 15-year maturity to fund the districts obligation for retiree insurance benefits. The remaining liability on these bonds, net of unamortized premiums, as of June 30, 2016 is $81.5 million. The capital asset additions and the amortization of the general obligation resulted in an increase of $5,155,931 in the net investment in capital assets total compared to the prior year.

Additional long-term debt for severance pay (employee separation pay based on unused sick time) is $1.0 million. This includes $0.2 million owed to employees who have retired prior to June 30 and an estimate of $0.8 million for employees who qualify or will qualify for retirement at a future date.

Overall, the District's net position increased $3,416,946 during the year from current year operations but total net position decreased to a deficit of $21.3 million.

Figure A-3
Condensed Statement of Net Position (in Thousands of Dollars)

	2016	2015	Percent Change
Current and OPEB assets	$ 70,566	$ 21,058	235.1%
Capital assets	36,658	31,161	17.6%
Total assets	107,224	52,219	105.3%
Deferred outflows of resources	4,589	3,520	30.4%
Current liabilities	31,612	5,817	443.4%
Long-term liabilities	89,143	59,495	49.8%
Total liabilities	120,755	65,312	84.9%
Deferred inflows of resources	12,391	15,177	(18.4%)
Net investment in capital assets	(1,081)	(6,237)	82.7%
Restricted for cap projects	-	724	(100.0%)
Restricted for other purposes	1,048	611	71.5%
Unrestricted net position	(21,300)	(19,848)	7.3%
Total net position	$ (21,333)	$ (24,750)	13.8%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-4
Changes in Net Position from Operating Results (in Thousands of Dollars)

	2016	2015	Percent Change
Revenues			
Program revenues			
Charges for services	$ 2,922.3	$ 2,354.8	24.1%
Operating grants and contributions	18,531.8	16,746.4	10.7%
Capital grants and contributions	591.8	588.7	0.5%
General revenues			
Property taxes	8,431.3	7,606.2	10.8%
State formula aid	19,302.8	18,769.2	2.8%
Other	221.7	116.0	91.1%
Total revenues	50,001.7	46,181.3	8.3%
Expenses			
Administration and district support	3,576.7	3,314.4	7.9%
Instruction, pupil support, student food, and transportation services	32,712.6	30,731.2	6.4%
Sites and buildings	3,012.6	2,748.2	9.6%
Community services	2,643.3	2,697.2	(2.0%)
Interest and fiscal charges on long-term debt	2,169.3	1,602.8	35.3%
Fiscal and other fixed cost programs	166.6	168.8	(1.3%)
Unallocated depreciation (buildings)	2,303.7	2,271.8	1.4%
Total expenses	46,584.8	43,534.4	7.0%
Increase (decrease) in net position	$ 3,416.9	$ 2,646.9	29.1%

The Statement of Activities is government-wide and, like the Statement of Net Position, the first year it was prepared was 2003. Figure A-4 illustrates that an increase in net position of $3,416,946 is attributable to activity during the year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The pie chart in Figure A-5 on the following page shows the sources of District revenues. Program revenues include operating grants and contributions which totals 37% of total revenue. Operating grants and contributions consists mostly of state and federal funding of special education and other state and federal categorical spending. Charges for services, comprised of mostly special education tuition billings, food service and kids key club receipts make up 6% of revenue. Capital Grants consisting of state aid for operating capital is 1% of revenue.

General revenues include the state aid formula which accounts for 39% of the District's total funding. Property taxes make up 17% of the total funding.

Revenues for the year increased by $3,820,400 or 8.3%. State categorical aids increased compared to the prior year by 2.8%, or $533,600. Property tax levy revenues increased 10.8%, or $825,100. Both of the changes in state aid and tax levy are mainly due to increases in District enrollment. Operating grants and contributions increased by $1,785,400 or 10.7%, and is mainly due to increased special education revenue, nutritional service grants, and an increase in reimbursement of free and reduced priced meals.

Expenses for the year were $3,050,400, or 7.0%, higher than the previous year. Increases in building construction costs, food prices, employee contracts and interest and fiscal charges on long-term debt were the drivers of the increase.

The pie chart illustrated in Figure A-6 on the following page indicates the costs of the District's programs and services. The District's expenses predominantly related to instructing students and pupil support (including food service and student transportation) accounted for 70% of the government-wide expenditures, which is consistent with the percentage of government-wide expenditures in prior years. Sites and buildings were 6%, administration and district support services accounted for 7%, community services expenditures were 6% and less than 1% was spent on fiscal and other fixed programs. Interest expense on the District's outstanding long-term debt was 5% and 5% of expense was attributable to unallocated depreciation (buildings).

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-5
Sources of Revenue for Fiscal Year 2016

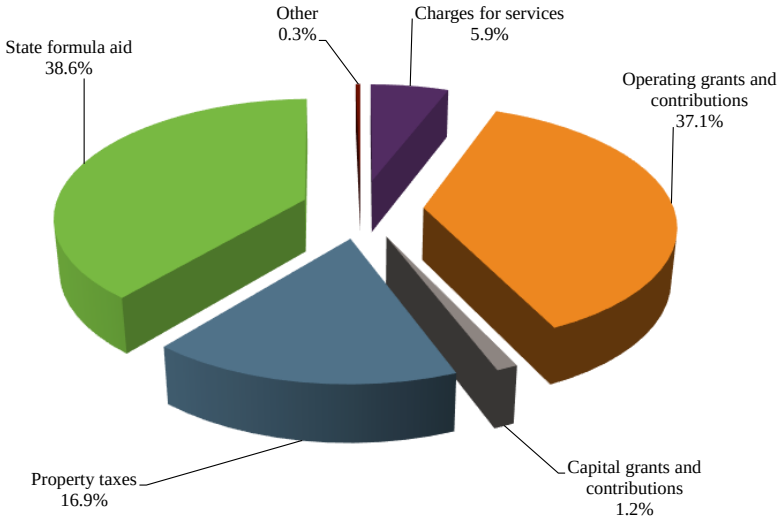
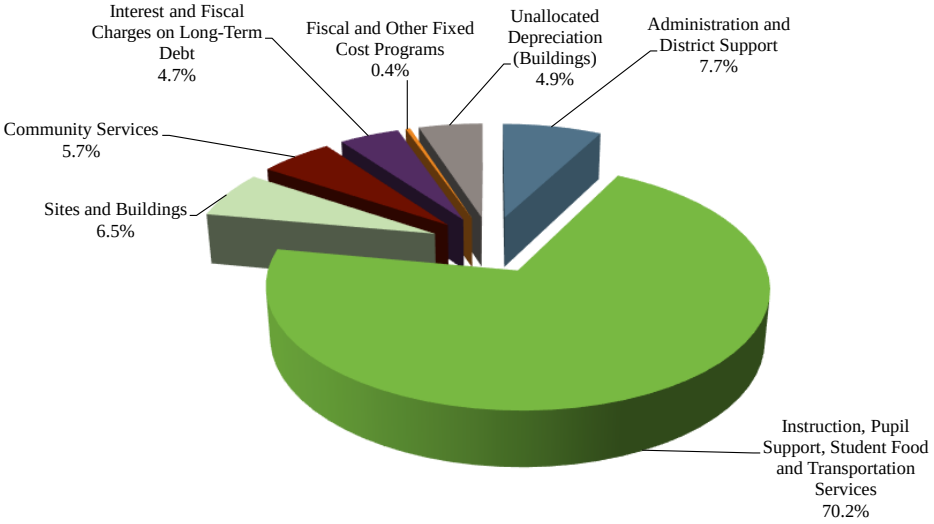


Figure A-6
Expenses for Fiscal Year 2016



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

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

Figure A-7
Net Cost of Activities (in thousands of dollars)

	Total Cost of Services			Net Cost of Services		
	2016	2015	Percent Change	2016	2015	Percent Change
Administration/District Support	$ 3,577	$ 3,314	7.9%	$ 3,558	$ 3,306	7.6%
Regular Instruction	15,328	14,617	4.9%	6,576	7,170	(8.3%)
Vocational Instruction	267	190	40.5%	232	145	60.0%
Special Instruction	8,596	7,626	12.7%	2,329	1,975	17.9%
Instructional Support	2,758	2,786	(1.0%)	1,918	1,957	(2.0%)
Pupil Support Services	4,039	3,782	6.8%	3,072	2,996	2.5%
Sites and Buildings	3,012	2,748	9.6%	2,341	2,067	13.3%
Fiscal and Other Fixed Programs	167	169	(1.2%)	167	169	(1.2%)
Food Service	1,726	1,730	(0.2%)	(297)	(156)	90.4%
Community Services	2,643	2,697	(2.0%)	170	340	(50.0%)
Unallocated Depreciation	2,303	2,272	1.4%	2,304	2,272	1.4%
Interest on Long-Term Debt	2,169	1,603	35.3%	2,169	1,603	35.3%
Total	$ 46,585	$ 43,534	7.0%	$ 24,539	$ 23,844	2.9%

- The cost of all District activities this year was $46.5 million.
- Users of the District's programs financed some of the costs ($2.9 million).
- The federal and state governments subsidized certain programs with operating and capital grants and contributions ($19.1 million).
- District and state taxpayers financed most of the District's activity, $19.3 million from unrestricted state aid and $8.4 million from property taxes.
- Investment and other income for the year was higher than the previous year at $222,000.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of $47,804,448. This is an increase of $42,823,696 from last year. This increase largely resides in the debt service and capital projects funds.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

The General Fund unassigned fund balance at June 30, 2016 has a surplus balance of $2,449,326 due to increased state aid and taxes revenues and steady expenditures. A transfer to the Community Service Fund of $100,445 and to the Capital Projects Fund of $395,592 for property tax levied through the general fund is included in this change. Restricted fund balance decreased $149,779 from the prior year due to the spend down of deferred maintenance and health and safety funds. General Fund assigned fund balance increased $2,311,463 from the prior year with the District setting aside funds for future separation and retirement funds, future capital projects, the start-up of the District's self-funded health insurance, and the new assignment of Third-Party Medical Assistance revenue.

The Other Nonmajor Governmental Special Revenue Funds (Food Service and Community Service Funds) reported a $513,705 increase in fund balances from the previous year. The Food Service fund balance increased $241,316 with an ending fund balance of $ 558,014 resulting from increased state and federal aid.

The Community Service Fund ended the year with a fund balance of $208,174, an increase of $272,389 due to rate increases and increased participation as well as management of variable costs. It is anticipated the community service programs will generate sufficient revenue to offset operating costs in future years and rebuild a healthy fund balance.

General Fund Budgetary Points of Interest

Revenue of $41,272,589 was more than budget by $2,148,854. Items impacting the revenue variance were underestimated enrollment and underestimated special education participation, which resulted in more state aid and special education program revenue. The District received more Medical Assistance funding revenue than anticipated, resulting in other local and county revenues ending higher than budget by $314,153.

General Fund expenditures of $39,627,507 were over budget, with actual expenditures varying from budgeted expenditures by $820,895. The biggest component of the difference was related the recognition of $403,859 of pension expense that was supported by direct state aid. The additional pension expense was unbudgeted. Special Education instruction expenditures were over budget $780,023 as the special education participation was greater than anticipated.

The original budget was amended one time during the course of the year. The original revenue budget of $38,408,914 was amended to include additional anticipated revenues of $714,821. This adjustment reflected additional state aids based on higher enrollment estimates. The expenditure budget was amended $756,085, to a final budget of $38,806,612. This adjustment was made to reflect additional staffing and resources needed to accommodate the enrollment increases in elementary and secondary regular education and transportation.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Figure A-8 illustrates a comparison of capital assets between this year and last year. The summer of 2016 was the first year of the work being funded by the voter approved bond issue approved in November of 2015. Project will take place over the next three summers.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

During the year, the District acquired $7,943,054 of capital assets. The buildings category increased $888,591 during the year due to the completion of an exterior restoration and window project at Stevenson Elementary, the gym restroom at the High School, a pavement rehabilitation project, and a middle school reroofing project, all of which were projects in progress at the end of the prior fiscal year. Work in progress is up over fiscal year 2015 as a result of the large amount of work that was in progress as of June 30, 2016 as result of the phase 1 of projects being funded by the voter approved bond issue.

Depreciation expense for the year was $2,416,578.

Figure A-8
Capital Assets

	2016	2015	Percent Change
Land	$ 657,500	$ 657,500	- %
Work in Progress	6,770,267	165,798	3,983.4%
Improvements	2,042,433	1,989,025	2.7%
Buildings	58,809,739	57,920,788	1.5%
Equipment	3,940,321	4,055,032	(2.8%)
Total Before Depreciation	72,220,260	64,788,143	11.5%
Accumulated Depreciation	(35,561,841)	(33,627,581)	5.8%
Capital Assets (Net of Accumulated Depreciation)	$ 36,658,419	$ 31,160,562	17.6%

Long-Term Debt

At year-end, the District had $88,107,214 in total long-term debt as shown in Figure A-9. More detailed information about the District's long-term liabilities is presented in the notes to financial statements.

Figure A-9
Outstanding Long-Term Debt and Separation and Severance Payable

	2016	2015	Percent Change
General Obligation Bonds, Leases and Notes	$ 86,743,717	$ 41,428,152	109.4%
Separation & Severance and Vacation Payable	1,363,497	1,627,597	(16.2%)
Total	$ 88,107,214	$ 43,055,749	104.6%

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt (Continued)

Included in the general obligation bonds are proceeds from $16,740,000 Alternative Facilities Refunding Bonds, Series 2016B, for the advanced refunding of a portion of $20,365,000 G.O. Alternative Facilities Bonds, Series 2007A. The principal balance of both the refunded and refunding bonds are reported as long-term debt of the District until the call date of the refunded bonds, at which time the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call date for the 2007A bond is February 1, 2017. The District issued $25,890,000 G.O. School Building bonds, Series 2016A in the February of 2016. The voters of the District authorized the bond issue in November of 2015. The last component is an issue of General Obligation Taxable OPEB Bonds, Series 2009A of $3,585,000 to fund the District's Other Post Employment Benefits.

FACTOR'S BEARING ON THE DISTRICT'S FUTURE

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

- The Minnesota legislature determines education funding for each biennium. The legislature increased the basic state education funding formula by 2% for 2016-2017. The legislative session in the spring of 2017 will likely set the direction for E-12 funding for 2017-2018 and 2018-2019.

- The district's student enrollment grew to 3,022 students in FY 2015-16. This is up 56 students or 2% from FY 2014-15. The District's student enrollment trend has been stable in recent years. The majority of school district funding has a direct relationship with enrollment. For example, state formula aid will increase or decrease with these changes. The direction of the District's enrollment will be a key factor for the District going forward.

- The District has a potential liability of several million dollars in post-retirement benefits (health insurance) to be paid to current and future retirees of the District. Because the District expects new retirements over the course of the next few years, payments for these benefits will continue for several years to come. Funding for these expenses will come from an OPEB trust established in 2010. The unfunded portion of this liability is reported in the District statements beginning with the fiscal year ended June 30, 2009 as required by GASB 43 and 45.

- At the time of this writing, the District is currently in contract negotiations with one of District's bargaining groups. All of the other groups have contracts in place through June 30, 2017.

- Historically, Fridley has had a relatively high number of open-enrolled and non-resident students. While our District is able to receive state aid for these students, it would put the District in a difficult financial position if these students chose not to attend our schools in future years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Manager, Independent School District 14, 6000 West Moore Lake Drive, Fridley, Minnesota 55432.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 14
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash and investments	$ 38,368,174
Cash with fiscal agent	19,826,734
Current property taxes receivable	5,255,335
Delinquent property taxes receivable	107,337
Accounts receivable, net of allowance	225,390
Interest receivable	342,338
Due from department of education	4,904,750
Due from Federal Government through Department of Education	756,663
Due from other Minnesota school districts	31,762
Due from other governmental units	172,503
Inventory	8,141
Prepaid items	85,608
Net other post employment benefits (OPEB) asset	481,117
Capital assets not being depreciated	
Land	657,500
Construction in progress	6,770,267
Capital assets net of accumulated depreciation	
Buildings	28,224,844
Land improvements	336,475
Furniture and equipment	669,333
Total assets	107,224,271
Deferred Outflows of Resources	
Deferred charges on refunding	82,334
Deferred outflows of resources related to pensions	4,506,981
Total deferred outflows of resources	4,589,315
Total assets and deferred outflows of resources	$ 111,813,586
Liabilities	
Accounts and contracts payable	$ 4,410,234
Salaries and benefits payable	2,411,592
Interest payable	1,300,762
Due to other Minnesota school districts	628,510
Due to other governmental units	3,204
Unearned revenue	157,568
Bond principal payable (net unamortized premium)	
Payable within one year	21,495,000
Payable after one year	60,049,134
Capital lease payable	
Payable within one year	658,382
Payable after one year	4,541,201
Vacation payable	
Payable within one year	346,530
Severance payable	
Payable within one year	200,000
Payable after one year	816,967
Net pension liability	23,735,976
Total liabilities	120,755,060
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	8,580,323
Deferred inflows of resources related to pensions	3,811,231
Total deferred inflows of resources	12,391,554
Net Position	
Net investment in capital assets	(5,312,318)
Restricted for	
Other purposes	1,047,824
Unrestricted	(17,068,534)
Total net position	(21,333,028)
Total liabilities, deferred inflows of resources, and net position	$ 111,813,586

See notes to financial statements.

Independent School District No. 14
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	$ 1,537,854	$ -	$ -	$ -	$ (1,537,854)
District support services	2,038,940	-	18,845	-	(2,020,095)
Elementary and secondary regular instruction	15,327,838	755,571	7,996,102	-	(6,576,165)
Vocational education instruction	266,815	226	34,648	-	(231,941)
Special education instruction	8,595,542	-	6,266,723	-	(2,328,819)
Instructional support services	2,758,129	-	839,865	-	(1,918,264)
Pupil support services	4,038,506	-	966,318	-	(3,072,188)
Sites and buildings	3,012,552	-	79,442	591,753	(2,341,357)
Fiscal and other fixed cost programs	166,582	-	-	-	(166,582)
Food service	1,725,679	373,672	1,649,881	-	297,874
Community education and services	2,643,349	1,792,857	680,015	-	(170,477)
Unallocated depreciation	2,303,686	-	-	-	(2,303,686)
Interest and fiscal charges on long-term debt	2,169,335	-	-	-	(2,169,335)
Total governmental activities	$ 46,584,807	$ 2,922,326	$ 18,531,839	$ 591,753	(24,538,889)

General revenues	
Taxes	
Property taxes, levied for general purposes	4,371,992
Property taxes, levied for community service	372,958
Property taxes, levied for debt service	3,686,307
State aid-formula grants	19,302,805
Other general revenues	15,733
Investment income	206,040
Total general revenues	27,955,835
Change in net position	3,416,946
Net position - beginning	(24,749,974)
Net position - ending	$ (21,333,028)

See notes to financial statements.

Independent School District No. 14
Balance Sheet - Governmental Funds
June 30, 2016

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 4,298,813	$ 2,119,886	$ 24,945,350	$ 1,277,336	$ 32,641,385
Cash with fiscal agent	-	19,826,734	-	-	19,826,734
Current property taxes receivable	2,319,356	2,282,160	-	653,819	5,255,335
Delinquent property taxes receivable	59,230	35,903	-	12,204	107,337
Accounts receivable, net of allowance	192,991	-	-	32,399	225,390
Interest receivable	5,301	226,146	51,539	-	282,986
Due from Department of Education	4,898,971	-	-	5,779	4,904,750
Due from Federal Government through Department of Education	756,663	-	-	-	756,663
Due from other Minnesota school districts	31,712	-	-	50	31,762
Due from other governmental units	137,025	-	-	35,478	172,503
Inventory	-	-	-	8,141	8,141
Prepaid items	80,134	-	-	5,474	85,608
Total assets	$ 12,780,196	$ 24,490,829	$ 24,996,889	$ 2,030,680	$ 64,298,594
Liabilities					
Accounts and contracts payable	$ 407,184	$ -	$ 3,717,977	$ 63,415	$ 4,188,576
Salaries and benefits payable	2,318,089	-	-	93,503	2,411,592
Due to other Minnesota school districts	628,510	-	-	-	628,510
Due to other governmental units	2,246	-	-	958	3,204
Unearned revenue	139,040	-	-	18,528	157,568
Severance payable	471,204	-	-	-	471,204
Total liabilities	3,966,273	-	3,717,977	176,404	7,860,654
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	27,412	19,503	-	6,214	53,129
Property taxes levied for subsequent year's expenditures	3,873,062	3,761,317	-	945,944	8,580,323
Total deferred inflows of resources	3,900,474	3,780,820	-	952,158	8,633,452
Fund Balances					
Nonspendable	80,134	-	-	13,615	93,749
Restricted	72,526	20,710,009	21,278,912	888,503	42,949,950
Assigned	2,311,463	-	-	-	2,311,463
Unassigned	2,449,326	-	-	-	2,449,326
Total fund balances	4,913,449	20,710,009	21,278,912	902,118	47,804,488
Total liabilities, deferred inflows of resources, and fund balances	$ 12,780,196	$ 24,490,829	$ 24,996,889	$ 2,030,680	$ 64,298,594

See notes to financial statements.

Independent School District No. 14
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2016

Total fund balances - governmental funds	$ 47,804,488
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	72,220,260
Less accumulated depreciation	(35,561,841)
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	(75,795,000)
Capital lease payable	(5,199,583)
Compensated absences payable	(346,530)
Severance payable	(545,763)
Net discounts/premiums	(5,749,134)
Deferred refundings	82,334
Net pension liability	(23,735,976)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences between actual and expected contributions and earnings on plan investments as well as changes in proportion and are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	4,506,981
Deferred inflows of resources related to pensions	(3,811,231)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	53,129
Net OPEB asset created through employer contributions reducing the actuarial accrued liability is not recognized in governmental funds.	481,117
The Internal Service Fund is used by management to charge the cost of the retiree benefit plan. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position.	1,026,375
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.	4,538,108
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(1,300,762)
Total net position - governmental activities	$ (21,333,028)

See notes to financial statements.

Independent School District No. 14
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 4,390,702	$ 3,090,229	$ -	$ 984,986	$ 8,465,917
Other local and county revenues	1,342,310	65,705	53,296	1,954,783	3,416,094
Revenue from state sources	34,177,979	-	-	656,860	34,834,839
Revenue from federal sources	1,338,422	-	-	1,511,110	2,849,532
Sales and other conversion of assets	23,176	-	-	373,672	396,848
Total revenues	41,272,589	3,155,934	53,296	5,481,411	49,963,230
Expenditures					
Current					
Administration	1,651,308	-	-	-	1,651,308
District support services	2,016,374	-	-	-	2,016,374
Elementary and secondary regular					
Instruction	15,624,786	-	-	-	15,624,786
Vocational education instruction	273,435	-	-	-	273,435
Special education instruction	8,820,769	-	-	-	8,820,769
Instructional support services	2,544,114	-	-	-	2,544,114
Pupil support services	4,054,595	-	-	-	4,054,595
Sites and buildings	2,557,429	-	2,188,287	-	4,745,716
Fiscal and other fixed cost programs	166,582	-	-	-	166,582
Food service	-	-	-	1,725,283	1,725,283
Community education and services	-	-	-	2,669,891	2,669,891
Capital outlay					
District support services	55,359	-	-	-	55,359
Elementary and secondary regular					
Instruction	91,261	-	-	-	91,261
Vocational education instruction	1,989	-	-	-	1,989
Special education instruction	556	-	-	-	556
Instructional support services	465,044	-	-	-	465,044
Sites and buildings	511,119	-	5,442,451	-	5,953,570
Food service	-	-	-	65,266	65,266
Community education and services	-	-	-	5,228	5,228
Debt service					
Principal	614,872	1,635,000	-	355,000	2,604,872
Interest and fiscal charges	177,915	1,377,194	-	207,577	1,762,686
Total expenditures	39,627,507	3,012,194	7,630,738	5,028,245	55,298,684
Excess of revenues over (under) expenditures	1,645,082	143,740	(7,577,442)	453,166	(5,335,454)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	-	-	8,312	8,312
Bond issuance	-	16,740,000	25,890,000	-	42,630,000
Bond premium	-	3,391,405	1,849,221	-	5,240,626
Proceeds from capital leases	280,212	-	-	-	280,212
Transfers in	-	2,441	395,592	100,445	498,478
Transfers out	(496,037)	-	(2,441)	-	(498,478)
Total other financing sources (uses)	(215,825)	20,133,846	28,132,372	108,757	48,159,150
Net change in fund balances	1,429,257	20,277,586	20,554,930	561,923	42,823,696
Fund Balances					
Beginning of year	3,484,192	432,423	723,982	340,195	4,980,792
End of year	$ 4,913,449	$ 20,710,009	$ 21,278,912	$ 902,118	$ 47,804,488

See notes to the financial statements.

Independent School District No. 14
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	$ 42,823,696
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	7,943,054
Depreciation expense	(2,416,578)
Loss on disposal	(28,619)
Compensated absences and severance are recognized as they are paid in the governmental funds but are recognized as the expense is incurred in the Statement of Activities.	180,316
Net post employment benefit obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. However, since the District's contribution exceeded its obligation, net position has increased.	(250,437)
Governmental Funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in differences between actual and expected contributions and earnings on plan investments as well as changes in proportion.	
Pension expense	328,188
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	2,604,872
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.	(628,606)
Governmental funds report the effect of bond discounts, premiums and deferred refundings when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	221,957
Proceeds from the sale of bonds and issuance of capital leases are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	
Bonds payable	(42,630,000)
Capital lease payable	(280,212)
Bond premium	(5,240,626)
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.	(17,536)
The Internal Service Fund is used by management to charge the costs of the retiree health insurance plan. The net gain is reported within the governmental activities in the Statement of Activities.	842,137
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.	(34,660)
Change in net position - governmental activities	$ 3,416,946

See notes to financial statements.

Independent School District No. 14
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	$ 4,243,691	$ 4,252,714	$ 4,390,702	$ 137,988
Other local and county revenues	1,108,515	1,028,157	1,342,310	314,153
Revenue from state sources	31,808,333	32,541,521	34,177,979	1,636,458
Revenue from federal sources	1,236,775	1,289,743	1,338,422	48,679
Sales and other conversion of assets	11,600	11,600	23,176	11,576
Total revenues	38,408,914	39,123,735	41,272,589	2,148,854
Expenditures				
Current				
Administration	1,612,946	1,600,134	1,651,308	51,174
District support services	1,827,605	1,895,062	2,016,374	121,312
Elementary and secondary regular instruction	15,502,772	15,815,556	15,624,786	(190,770)
Vocational education instruction	160,459	168,529	273,435	104,906
Special education instruction	8,046,234	8,040,746	8,820,769	780,023
Instructional support services	2,480,222	2,561,097	2,544,114	(16,983)
Pupil support services	4,000,177	4,171,042	4,054,595	(116,447)
Sites and buildings	2,565,657	2,617,273	2,557,429	(59,844)
Fiscal and other fixed cost programs	168,033	168,033	166,582	(1,451)
Capital outlay				
District support services	209,705	52,325	55,359	3,034
Elementary and secondary regular Instruction	100,456	105,456	91,261	(14,195)
Vocational education instruction	6,000	1,700	1,989	289
Special education instruction	-	-	556	556
Instructional support services	315,293	308,681	465,044	156,363
Sites and buildings	460,214	531,830	511,119	(20,711)
Debt service				
Principal	415,194	576,233	614,872	38,639
Interest and fiscal charges	179,560	192,915	177,915	(15,000)
Total expenditures	38,050,527	38,806,612	39,627,507	820,895
Excess of revenues over expenditures	358,387	317,123	1,645,082	1,327,959
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	2,000	2,000	-	(2,000)
Proceeds from capital leases	-	61,140	280,212	219,072
Transfers out	(506,763)	(500,794)	(496,037)	4,757
Total other financing sources (uses)	(504,763)	(437,654)	(215,825)	221,829
Net change in fund balances	$ (146,376)	$ (120,531)	1,429,257	$ 1,549,788
Fund Balance				
Beginning of year			3,484,192	
End of year			$ 4,913,449	

See notes to financial statements.

Independent School District No. 14
Statement of Net Position - Proprietary Funds
June 30, 2016

	Total Internal Service Funds
Assets	
Cash and cash equivalents	$ 1,480,655
Investments	4,246,134
Interest receivable	59,352
Total assets	$ 5,786,141
Liabilities	
Accounts payable	$ 1,408
Incurred but not reported claims	220,250
Total liabilities	221,658
Net Position	
Unrestricted	5,564,483
Total liabilities and net position	$ 5,786,141

See notes to financial statements.

Independent School District No. 14
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2016

	Total Internal Service Funds
Operating Revenues	
Charges for services	$ 5,421,065
Operating Expense	
Insurance	4,154,464
Administrative	515,183
Total operating expenses	4,669,647
Operating income	751,418
Nonoperating Revenues	
Investment income	73,183
Change in net position	824,601
Net Position	
Beginning of year	4,739,882
End of year	$ 5,564,483

See notes to financial statements.

Independent School District No. 14
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2016

	Total Internal Service Funds
Cash Flows - Operating Activities	
Receipts from district contribution	$ 107,907
Receipts from employees	5,313,158
Payments to vendors	(4,447,989)
Net cash flows - operating activities	973,076
Cash Flows - Investing Activities	
Net sale/(purchase) of investments	12,495
Interest received	57,115
Net cash flows - investing activities	69,610
Net change in cash and cash equivalents	1,042,686
Cash and Cash Equivalents	
Beginning of year	437,969
End of year	$ 1,480,655
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	$ 751,418
Adjustments to reconcile operating income to net cash flows - operating activities	
Change in assets and liabilities	
Accounts Payable	221,658
Net cash flows - operating activities	$ 973,076

See notes to financial statements.

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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 six member board elected by the voters of the District to serve four-year terms.

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

A. Reporting Entity

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

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

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

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

B. Basic Financial Statement Information

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level. The District currently has no fiduciary funds.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

Separate fund financial statements are provided for governmental funds and the proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund 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.

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.

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 are employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting this definition are reposted as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

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

Nonmajor Funds:

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

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

Post Employment 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.

Proprietary Funds:

Self Insurance Internal Service Fund – This Fund is used to account for operations of the District's self – insured insurance plans. Premiums collected from employees are collected from other governmental funds and insurance claims are paid by this 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments

Cash and investments balances from all funds (except the Post Employment Benefits Revocable Trust Internal Service Fund) that are combined and invested to the extent available in various securities as authorized by state law. *Minnesota Statutes* authorizes 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.

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 cash equivalents in the proprietary funds are considered to be the funds' share of the pooled cash and investments in the Retiree Benefits Internal Service Fund. In the Post Employment Benefits Revocable Trust Internal Service Fund, they are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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

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

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

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 represent 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the fiscal year 2016. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

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

H. Prepaid Items

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

I. Property Taxes

The District is located in Anoka County.

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. Anoka 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.

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment.

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of 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 two items that qualify for reporting in this category. Deferred charge on refunding and a deferred outflow relating to pension activity, both reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the statement of 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 a deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations

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

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

M. Compensated Absences

1. Vacation

Teachers are eligible for vacation of two days per year which can be accumulated to seven days. Other employees qualify for vacation ranging from 5 to 45 days per year which are generally accumulated at year-end and payable during the ensuing year. Vacation is accrued for these employees in the Statement of Net Position since it is deemed to be payable at year-end.

2. Sick Leave

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

N. Severance Payable

The District maintains severance payment plans for certain employee groups. Each employee group plan contains requirements for lump sum payments based on employment date, years of service and/or minimum age requirements. Benefits are calculated based on various formulas converting accrued sick leave into a lump sum payment. No employee can receive payments exceeding one year's salary. For employees retiring on or before June 30, 2016, who are entitled to receive payments, an accrual is made in the governmental fund incurring the liability.

The amount of severance payment that is based on convertible sick leave is recorded as a liability in the government-wide financial statements as it is earned and when it becomes probable that it will vest at some point in the future.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Pensions (Continued)

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

P. Risk Management

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

Q. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- 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, but are not limited to, inventories and prepaid items.

- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.

- Assigned Fund Balances – The School Board by majority vote may assign fund balances to be used for specific purposes. The board also delegated power to assign fund balances to the Superintendent and Director of Finance.

- Minimum Fund Balance Policy – The School Board shall strive to maintain a fund balance of between 5% and 8% of total unreserved operating expenditures. The fund balance shall be defined as the sum of the undesignated/unreserved fund balance. It shall not include funds reserved for operating capital, health and safety, basic skills, or any other new reserve created by the School Board, state, or federal guidelines.

R. Net Position

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

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 all governmental funds.
4. Budgets for the governmental 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: This is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* requires 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. The District's policy states funds may not be invested in an institution that does not agree to provide the required collateral as noted.

As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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

Pooled	
Cash	$ (110,196)
Certificates of deposits	1,996,100
Total pooled deposits	$ 1,885,904
Non-pooled	
Cash	$ 12
Certificates of deposit	26,258,899
Total non-pooled deposits	$ 26,258,911

B. Investments

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

Investment	Maturities	Fair Value	Percent of Total
Pooled			
MN Trust	6/30/16	$ 5,202,156	83.96%
Bank of Baroda Certificate of Deposit	8/12/16	248,000	4.00%
Santander Bank, NA/Soverign Bank Certificate of Deposit	8/12/16	247,998	4.00%
Mizuho Bank (USA) Certificate of Deposit	8/12/16	249,007	4.02%
United Bank/Rockville Bank Certificate of Deposit	8/16/16	249,000	4.02%
		6,196,161	100.00%
Capital project non-pooled			
MN Trust	6/30/16	7,923	0.78%
MN Trust Term Series	7/7/16	100,000	9.87%
Bank of India Certificate of Deposit	8/24/16	249,047	24.59%
Federal National Mortgage Association Note	7/20/18	655,720	64.75%
		1,012,690	100.00%

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Investment	Maturities	Fair Value	Percent of Total
Debt service non-pooled			
US Bank Brokered Cash	6/30/16	$ 94	0.00%
US Treasury Note	1/31/17	19,042,047	96.04%
US Treasury State and Local Government Series Time Deposit	2/1/17	784,593	3.96%
		19,826,734	100.00%
OPEB Revocable Trust Fund non-pooled			
MN TRUST	6/30/15	361,274	11.99%
BMW Bank Of North America Certificate of Deposit	9/30/16	248,402	8.24%
Fairmont Minn Indpt Sch Dist #2752	2/1/17	286,238	9.50%
GE Capital Retail Bank / GE Money Bank Certificate of Deposit	8/31/17	249,411	8.27%
American Express Bank, Fsb Certificate of Deposit	10/16/17	150,801	5.00%
Capital One Bank (usa), NA Certificate of Deposit	10/16/17	165,987	5.51%
American Express Centurion Bank Certificate of Deposit	12/18/17	249,999	8.29%
Goldman Sachs Bank USA Certificate of Deposit	2/12/18	249,282	8.27%
Dollar Bank, FSB Certificate of Deposit	9/10/18	218,083	7.24%
Discover Bank Certificate of Deposit	10/15/18	251,013	8.33%
Ally Bank Certificate of Deposit	1/28/19	176,512	5.86%
Oakwood OH City School District	12/9/19	407,106	13.51%
Total OPEB Revocable Trust Fund non-pooled investments		3,014,108	100.00%
Total investments		$ 30,049,693	

MNTrust is an external investment pool not registered with the SEC and invests according to *Minnesota Statutes.* The fair value position in the pool is the same as the value of the pooled shares.

As of June 30, 2016, the District has formal policies in place to address custodial credit risk, custodial credit risk, concentration of credit risk and interest rate risk for investments.

Credit Risk: This is the risk an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits its investments to those allowed by state statutes. Additionally, investment in commercial paper is limited to those rated in the highest classifications by at least two of the four nationally recognized rating services. As of June 30, 2016, the District's investments in MNTrust money market and MNTrust Term Series was rated AAAm by Standard & Poor's (S&P). The Fairmont, Minnesota Independent School District Bonds were rated Aa2 Enhanced and the Oakwood OH City School District bonds were rated Aa2 by Moody's. The US Treasury Note and Federal National Mortgage Association Note were both rated AAA by Moody's. The certificates of deposit were unrated.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states investment maturities shall be scheduled to coincide with projected District cash flow needs.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District will limit investments to avoid over concentration in securities from a specific issuer or business sector. As of June 30, 2016, the District was exposed to concentration of credit risk as more than 5% of its total investments were invested in individual investments as indicated by the table on the previous page.

Custodial Credit Risk – Investments: This is the risk 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 requires all investments be held in third party safekeeping by an institution designated as a custodial agent and all investments shall be fully collateralized.

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

- $58,304,705 of $58,304,705 are valued using a quoted market prices (Level 1 inputs)

C. Deposits and Investments

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

Petty cash	$ 400
Deposits (Note 3.A.)	
Pooled	1,885,904
Non-pooled	26,258,911
Investments (Note 3.B.)	
Pooled	6,196,161
Non-pooled	23,853,532
Total deposits and investments	$ 58,194,908

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

Statement of Net Position	
Cash and investments	$ 38,368,174
Cash with fiscal agent	19,826,734
Total Cash and investments	$ 58,194,908

NOTE 3 – INTERFUND ACTIVITY

A. Transfers

	Transfers In			
	Debt Service Fund	Capital Project Fund	Other Nonmajor Funds	Total
Transfers out				
General Fund	$ -	$ 395,592	$ 100,445	$ 496,037
Capital Projects Fund	2,441	-	-	2,441
Total	$ 2,441	$ 395,592	$ 100,445	$ 498,478

These transfers were performed to distribute levy dollars dedicated to specific funds, and in accordance with bond documents.

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	$ 657,500	$ -	$ -	$ 657,500
Work in progress	165,798	7,454,897	850,428	6,770,267
Total capital assets not being depreciated	823,298	7,454,897	850,428	7,427,767
Capital assets being depreciated				
Buildings	57,920,788	917,789	28,838	58,809,739
Land improvements	1,989,025	90,997	37,589	2,042,433
Furniture and equipment	4,055,032	329,799	444,510	3,940,321
Total capital assets being being depreciated	63,964,845	1,338,585	510,937	64,792,493
Less accumulated depreciation for				
Buildings	28,360,974	2,237,086	13,165	30,584,895
Land improvements	1,670,440	70,620	35,102	1,705,958
Furniture and equipment	3,596,167	108,872	434,051	3,270,988
Total accumulated depreciation	33,627,581	2,416,578	482,318	35,561,841
Total capital assets being depreciated, net	30,337,264	(1,077,993)	28,619	29,230,652
Governmental activities, capital assets, net	$ 31,160,562	$ 6,376,904	$ 879,047	$ 36,658,419

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $2,416,578 for the year ended June 30, 2016, was charged to the following governmental functions:

District support services	$ 2,405
Regular instruction	6,490
Special education instruction	4,756
Instructional support services	24,671
Pupil support services	3,444
Food service	7,706
Community education and services	63,420
Unallocated	2,303,686
Total depreciation expense	$ 2,416,578

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

Long-term liabilities as of June 30, 2016, consisted of the following:

On February 11, 2016, the District issued $16,740,000 G.O. Alternative Facilities Refunding Bonds, Series 2016B for the advance refunding of a portion of the G.O. Alternative Facilities Bonds, Series 2007A. The principal balances of both the refunded and refunding bonds are reported as long-term debt of the District until the call date of the refunded bonds, at which time the refunded bonds will be considered defeased and the related liability will be removed from the Statement of Net Position. The call date for the 2007A bond is February 1, 2017. The refunding was done to take advantage of lower interest rates. The refunding resulted in a decrease in future debt service payments of $2,689,773. The net present value cash flow savings from the transaction was $2,368,402.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

A. Components of Long-Term Liabilities (Continued)

	Interest Rate	Maturity Date	Original Issue	Balance	Due Within One Year
G.O. Alternative Facilities Bonds	4.00%-4.375%	02/01/28	$ 23,525,000	$ 20,365,000	$ 20,365,000
G.O. School Building Refunding Bonds	2.00%-3.00%	02/01/26	11,240,000	9,215,000	755,000
G.O. Taxable OPEB Bonds Series 2009A	5.00%-5.75%	02/01/24	5,485,000	3,585,000	375,000
G.O. School Building Bonds Series 2016A	3.00%-5.00%	02/01/35	25,890,000	25,890,000	-
G.O. Alternative Facilities Bonds Series 2016B	4.00%-5.00%	02/01/28	16,740,000	16,740,000	-
Unamortized bond discounts and premiums, net				5,749,134	-
Total G.O. bonds (net of unamortized premium)				81,544,134	21,495,000
Energy loan capital lease	4.15%	07/31/22	3,142,381	1,836,279	244,245
Elementary additions capital lease	2.75%	02/01/28	3,400,000	2,813,648	200,872
Phone/network LPA lease	2.34%	10/29/18	178,396	107,605	35,065
Phone/network LPA lease	2.58%	10/29/19	117,140	71,565	22,392
Phone/network LPA lease	3.27%	09/30/17	230,033	92,895	68,122
Phone/network LPA lease	3.21%	10/31/18	99,425	53,032	22,692
Technology and Computer lease	3.88%	09/30/19	30,975	21,464	8,677
Technology and Computer lease	3.74%	09/30/19	30,165	22,662	6,655
Technology and Computer lease	3.38%	02/28/20	156,245	117,606	34,596
Equipment lease	2.75%	06/24/20	62,827	62,827	15,066
Vacation payable				346,530	346,530
Severance payable				1,016,967	200,000
Total all long-term liabilities				$ 88,107,214	$ 22,699,912

The long-term bond and lease liabilities listed above were issued to finance the acquisition and construction or improvements of capital facilities or to refinance (refund) previous bond issues. Other liabilities are typically liquidated through the General Fund.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds

Year Ending, June 30,	G.O. Bonds Principal	Interest	Total
2017	$ 21,495,000	$ 3,057,459	$ 24,552,459
2018	2,135,000	2,199,678	4,334,678
2019	2,480,000	2,109,078	4,589,078
2020	2,665,000	1,993,278	4,658,278
2021	2,785,000	1,868,025	4,653,025
2022-2026	15,950,000	7,333,688	23,283,688
2027-2031	15,780,000	3,694,350	19,474,350
2032-2035	12,505,000	951,600	13,456,600
Total	$ 75,795,000	$ 23,207,156	$ 99,002,156

C. Changes in Long-Term Liabilities

	Beginning Balance, Restated	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 35,155,000	$ 42,630,000	$ 1,990,000	$ 75,795,000
Unamortized discount and premium, net	738,909	5,240,626	230,401	5,749,134
Capital lease	5,534,243	280,212	614,872	5,199,583
Vacation payable	470,224	502,288	625,982	346,530
Severance benefits payable	1,157,373	36,345	176,751	1,016,967
Total long-term liabilities	$ 43,055,749	$ 48,689,471	$ 3,638,006	$ 88,107,214

D. Capital Lease Obligations

On May 31, 2007, the District entered into a lease purchase agreement for energy capital improvements. The capital lease obligation totaled $3,142,381. The capital lease agreement includes monthly interest payments of $10,775 from June 30, 2007, through January 31, 2008, and semiannual principal and interest payments ranging from $72,833 to $197,993 for the remaining years of the agreement.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations (Continued)

On March 19, 2013, the District entered into a lease purchase agreement for additions at the Elementary Schools. The capital lease obligation totaled $3,400,000. The capital lease agreement includes semiannual principal and interest payments ranging from $138,288 to $138,586.

On April 14, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $178,396. The capital lease agreement includes annual principal and interest payments of $37,511.

On April 14, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $117,140. The capital lease agreement includes annual principal and interest payments ranging from $24,251 to $2,697.

On July 28, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $230,033. The capital lease agreement includes annual principal and interest payments ranging from $71,201 to $25,664.

On July 28, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $99,425. The capital lease agreement includes annual principal and interest payments ranging from $24,416 to $6,929.

On September 30, 2015, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $32,453. The capital lease agreement includes annual principal and interest payments ranging from $3,920 to $9,511.

On September 30, 2015, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $31,953. The capital lease agreement includes annual principal and interest payments ranging from $1,940 to $7,503.

On February 28, 2016, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $165,115. The capital lease agreement includes annual principal and interest payments ranging from $10,560 to $38,639.

On June 3, 2016, the District entered into a lease purchase agreement for equipment. The capital lease obligation totaled $67,260. The capital lease agreement includes annual principal and interest payments of $16,815.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments are listed below.

Year Ending June 30,	
2017	$ 824,745
2018	795,110
2019	763,065
2020	677,039
2021	663,434
2022-2026	1,728,040
2027-2028	553,752
Total minimum lease payments	6,005,185
Less amount representing interest	(805,602)
Present value of net minimum lease payments	$ 5,199,583

The assets purchased with the 2007 lease are classified as buildings and totaled $3,291,290. The associated accumulated depreciations for these assets is $3,291,290 for a net value of $0. The asset added through the lease dated May 31, 2007 exceeds the lease amount since the asset was also financed with other revenue sources.

The assets purchased with the 2013 lease are classified as buildings and totaled $3,211,356. The associated accumulated depreciation for these assets is $192,681 for a net value of $3,018,675. The assets added through the lease dated March 19, 2013 are less than the lease amount due to expenditures that did not meet the criteria for capitalization.

The assets purchased through the 2015 leases did not meet the threshold for capitalization and are not included in fixed assets, therefor there is no depreciation or net value to report.

The assets purchased with the 2016 lease are classified as equipment and totaled $44,621. The associated accumulated depreciation for these assets is $8,924 for a net value of $35,697. The assets added through the 2016 leases are less than the leases issued due to expenditures that did not meet the criteria for capitalization.

NOTE 6 – FUND BALANCES

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

Fund Equity

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

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted Fund Balance

	General Fund	Debt Service	Capital Projects	Other Nonmajor Funds	Total
Nonspendable					
Inventories	$ -	$ -	$ -	$ 8,141	$ 8,141
Prepaid items	80,134	-	-	5,474	85,608
Total nonspendable	80,134	-	-	13,615	93,749
Restricted/reserved for					
Health and safety	(206,747)	-	-	-	(206,747)
Safe schools - crime levy	47,166	-	-	-	47,166
Operating capital	232,107	-	-	-	232,107
Community education	-	-	-	78,666	78,666
ECFE	-	-	-	50,069	50,069
School readiness	-	-	-	66,973	66,973
Capital projects	-	-	20,860,429	-	20,860,429
Capital projects levy	-	-	418,483	-	418,483
Bond Refunding	-	19,826,734	-	-	19,826,734
Debt service	-	883,275	-	135,930	1,019,205
Food service	-	-	-	549,733	549,733
Community service	-	-	-	7,132	7,132
Total restricted/reserved	72,526	20,710,009	21,278,912	888,503	42,949,950
Assigned					
Students	56,119	-	-	-	56,119
Health and safety project	514,700	-	-	-	514,700
Separation/retirement benefits	545,763	-	-	-	545,763
MA Revenue	742,025	-	-	-	742,025
Self-funding health insurance startup	452,856	-	-	-	452,856
Total assigned	2,311,463	-	-	-	2,311,463
Unassigned	2,449,326	-	-	-	2,449,326
Total fund balance	$ 4,913,449	$ 20,710,009	$ 21,278,912	$ 902,118	$ 47,804,488

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

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

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

Restricted/Reserved for Safe Schools – Crime Levy – The unspent resources available from the levy must be reserved in this account for future use.

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

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted Fund Balance (Continued)

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. At June 30, 2015 the balance in this account was ($130,264) which is presented as unassigned fund balance to comply with generally accepted accounting principles.

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. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

Restricted/Reserved for Capital Projects – This amount represents available resources for capital projects.

Restricted/Reserved for Capital Projects Levy – This amount represents available resources from the capital projects levy to be used for building construction and other projects.

Restricted/Reserved for Bond Refunding – This amount represents resources set aside from the proceeds of refunded obligations that have not met the criteria of defeasance. These resources will be used to pay off future bonded obligations.

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

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

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund not set aside in other restrictions.

Assigned for Students – This balance represents resources set aside for each building based on fundraising done by students and donations for various programs.

Assigned for health and safety project – This balance represents resources set aside for future health and safety projects.

Assigned for Separation/Retirement Benefits – This balance represents resources set aside for future separation and retirement obligations.

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted Fund Balance (Continued)
Assigned for MA Revenue – This balance represents medical assistance revenues that have been received but not yet spent and are available for future obligations.

Assigned for Self-Funding Health Insurance Startup – This balance represents resources set aside for the District self-funding health insurance and the costs associated with this.

B. Net Position
Net position restricted for other purposes is comprised of the positive General Fund and total Special Revenue Funds restricted balances.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

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

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

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

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier 1 Benefits

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

With these provisions:

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

Tier II Benefits

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

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

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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.

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

Teachers' Retirement Association (Continued)

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

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

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

E. Actuarial Assumptions

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

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

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
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 $18,626,013 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and the Duluth and Minneapolis School District. District proportionate share was 0.3011% at the end of the measurement period and 0.3144% 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	$ 18,626,013
State's proportionate share of the net pension liability associated with the District	2,284,436

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 $1,350,890. It also recognized $403,859 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	$ 995,771	$ -
Net difference between projected and actual earnings on plan investments	-	1,569,064
Changes in assumptions	1,431,845	
Changes in proportion	-	1,015,025
District's contributions subsequent to measurement date	1,231,812	-
Total	$ 3,659,428	$ 2,584,089

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability (Continued)

$1,231,812 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

2017	$ (376,224)
2018	(376,224)
2019	(376,225)
2020	760,261
2021	211,939

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%)
$ 28,351,203	$ 18,626,013	$ 10,510,061

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 the Duluth and Minneapolis School Districts.

I. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

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

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

General Employees Retirement Fund (GERF)

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

B. Benefits Provided

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

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

GERF Benefits

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

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% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were $439,291. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

GERF Pension Costs

At June 30, 2016, the District reported a liability of $5,109,964 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0986%, which was a decrease of 0.0115% from its proportion measured as of June 30, 2014.

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

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

For the year ended June 30, 2016, the District recognized pension expense of $395,884 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	$ 52,915	$ 257,629
Changes in actuarial assumptions	355,347	-
Difference between projected and actual investments earnings		564,354
Changes in proportion and differences between contributions made and District's proportion share of contributions	-	405,159
District's contributions to GERF subsequent to the measurement due	439,291	-
Total	$ 847,553	$ 1,227,142

$439,291 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	$ (245,227)
2018	(245,229)
2019	(449,359)
2020	120,935

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 memberpayroll growth	3.90	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.

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

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

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

Asset Class	Target Allocation	Long-Term
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%	

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.

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

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.9%	7.9%	8.9%
District's proprionate share of the GERF net pension liability	$ 8,034,679	$ 5,109,964	$ 2,694,598

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by 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 post employment retirement benefits to pay health and life insurance premiums for certain retired District personnel. Benefits are paid on behalf of retired administrative personnel to Medicare eligibility and other qualified staff to Medicare eligibility at which time benefits cease.

B. Funding Policy

Retirees 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 year 2016, the District contributed $295,156 to the plan. As of June 30, 2016, there were approximately 26 retirees receiving health benefits from the District's health plan.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$ 530,764
Interest on net OPEB obligation	(21,947)
Adjustment to ARC	36,776
Annual OPEB cost (expense)	545,593
Contributions made	(295,156)
Increase in net OPEB obligation	250,437
Net OPEB obligation - beginning of year	(731,554)
Net OPEB obligation - end of year	$ (481,117)

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
06/30/14	$ 509,058	$ 437,782	86%	$ (802,830)
06/30/15	553,680	350,129	63%	(731,554)
06/30/16	545,593	295,156	54%	(481,117)

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 $3,965,795 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $3,965,795. The covered payroll (annual payroll of active employees covered by the plan) was $20,248,125, and the ratio of the UAAL to the covered payroll was 19.6%.

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.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the Notes to the 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 July 2, 2009, the District issued $5,485,000 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 OPEB Internal Service Fund. As of June 30, 2016, the ending market value of these assets was $4,478,756.

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.

At the July 1, 2014, the actuarial valuation date, the projected unit credit with 30 year amortization of the market value of assets method was used. The actuarial assumptions included a 3.0% discount rate. 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 10 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015 was 30 years.

NOTE 9 – COMMITMENTS

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

Project	Contractor	Original Contract Amount	Remaining Commitment
Hayes Additions	Ebert Construction	$ 4,887,521	$ 2,278,791
HS/MS Remodel	Sheehy Construction	10,923,300	8,359,990
District Security Upgrades	Pro-Tech Design Inc.	524,584	280,428

NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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. 14
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)
07/01/08	$ -	$ 5,378,025	$ 5,378,025	0.0%	$ 15,753,694	34.1%
07/01/10	-	4,387,147	4,387,147	0.0%	16,920,884	25.9%
07/01/12	-	4,123,951	4,123,951	0.0%	17,298,049	23.8%
07/01/14	-	3,965,795	3,965,795	0.0%	20,248,125	19.6%

Independent School District No. 14
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
2014	0.1101%	$ 5,171,946	$ 5,778,869	89.5%	78.7%
2015	0.0986%	5,109,964	5,696,880	89.7%	78.2%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3144%	$ 14,487,326	$ 1,019,111	$ 15,506,437	$ 14,351,612	100.9%	81.5%
2015	0.3011%	18,626,013	2,284,436	20,910,449	15,281,867	121.9%	76.8%

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

Independent School District No. 14
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	$ 418,968	$ 418,968	$ -	$ 5,778,869	7.25%
2015	427,266	427,266	-	5,696,880	7.50%
2016	439,291	439,291	-	5,857,213	7.50%

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

Schedule of District Contributions
TRS 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	$ 1,004,613	$ 1,004,613	$ -	$ 14,351,612	7.00%
2015	1,146,140	1,146,140	-	15,281,867	7.50%
2016	1,231,812	1,231,812	-	16,424,160	7.50%

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

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. 14
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue		
	Food Service	Community Service	Total
Assets			
Cash and investments	$ 610,446	$ 242,340	$ 852,786
Current property taxes receivable	-	361,304	361,304
Delinquent property taxes receivable	-	4,848	4,848
Accounts receivable, net of allowance	11,684	20,715	32,399
Due from Department of Education	-	5,779	5,779
Due from other Minnesota school districts	50	-	50
Due from other governmental units	2,470	33,008	35,478
Inventory	8,141	-	8,141
Prepaid items	140	5,334	5,474
Total assets	$ 632,931	$ 673,328	$ 1,306,259
Liabilities			
Accounts payable	$ 35,278	$ 28,137	$ 63,415
Salaries and benefits payable	21,111	72,392	93,503
Due to other governmental units	-	958	958
Unearned revenue	18,528	-	18,528
Total liabilities	74,917	101,487	176,404
Deferred Outflows of Resources			
Unavailable revenue - delinquent property taxes	-	2,363	2,363
Property taxes levied for subsequent year's expenditures	-	361,304	361,304
Total deferred inflows of resources	-	363,667	363,667
Fund Balances			
Nonspendable	8,281	5,334	13,615
Restricted	549,733	202,840	752,573
Total fund balances	558,014	208,174	766,188
Total liabilities, deferred inflows of resources, and fund balances	$ 632,931	$ 673,328	$ 1,306,259

Debt Service	
Post Employment Benefits Debt Service	Total Nonmajor Funds
$ 424,550	$ 1,277,336
292,515	653,819
7,356	12,204
-	32,399
-	5,779
-	50
-	35,478
-	8,141
-	5,474
$ 724,421	$ 2,030,680
$ -	$ 63,415
-	93,503
-	958
-	18,528
-	176,404
3,851	6,214
584,640	945,944
588,491	952,158
-	13,615
135,930	888,503
135,930	902,118
$ 724,421	$ 2,030,680

Independent School District No. 14
Combining Statement of Revenues, Expenditures, and Changes and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2016

	Special Revenue		
	Food Service	Community Service	Total
Revenues			
Local property taxes	$ -	$ 374,191	$ 374,191
Other local and county revenues	638	1,954,145	1,954,783
Revenue from state sources	138,133	518,727	656,860
Revenue from federal sources	1,511,110	-	1,511,110
Sales and other conversion of assets	373,672	-	373,672
Total revenues	2,023,553	2,847,063	4,870,616
Expenditures			
Current			
Food service	1,725,283	-	1,725,283
Community education and services	-	2,669,891	2,669,891
Capital outlay			
Food service	65,266	-	65,266
Community education and services	-	5,228	5,228
Debt service			
Principal	-	-	-
Interest and fiscal charges	-	-	-
Total expenditures	1,790,549	2,675,119	4,465,668
Excess of revenues over expenditures	233,004	171,944	404,948
Other Financing Sources			
Proceeds from sale of capital assets	8,312	-	8,312
Transfers in	-	100,445	100,445
Total other financing sources (uses)	8,312	100,445	108,757
Net change in fund balances	241,316	272,389	513,705
Fund Balances			
Beginning of year	316,698	(64,215)	252,483
End of year	$ 558,014	$ 208,174	$ 766,188

Debt Service	
Post Employment Benefits Debt Service	Total Nonmajor Funds
$ 610,795	$ 984,986
-	1,954,783
-	656,860
-	1,511,110
-	373,672
610,795	5,481,411
-	1,725,283
-	2,669,891
-	65,266
-	5,228
355,000	355,000
207,577	207,577
562,577	5,028,245
48,218	453,166
-	8,312
-	100,445
-	108,757
48,218	561,923
87,712	340,195
$ 135,930	$ 902,118

Independent School District No. 14
Combining Statement of Net Position - Internal Service Funds
June 30, 2016

	Self Insurance	OPEB Revocable Trust	Total Internal Service Funds
Assets			
Cash and cash equivalents	$ 1,248,033	$ 232,622	$ 1,480,655
Investments	-	4,246,134	4,246,134
Interest receivable	-	59,352	59,352
Total assets	$ 1,248,033	$ 4,538,108	$ 5,786,141
Liabilities			
Accounts payable	$ 1,408	$ -	$ 1,408
Incurred but not reported claims	220,250	-	220,250
Total liabilities	221,658	-	221,658
Net Position			
Unrestricted	1,026,375	4,538,108	5,564,483
Total liabilities and net position	$ 1,248,033	$ 4,538,108	$ 5,786,141

Independent School District No. 14
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Internal Service Funds
Year Ended June 30, 2016

	Self Insurance	OPEB Revocable Trust	Total Internal Service Funds
Operating Revenues			
Charges for services	$ 5,313,158	$ 107,907	$ 5,421,065
Operating Expense			
Insurance	3,955,838	198,626	4,154,464
Administrative	515,183	-	515,183
Total Operating Expenses	4,471,021	198,626	4,669,647
Operating income (loss)	842,137	(90,719)	751,418
Nonoperating Revenues			
Investment income	-	73,183	73,183
Change in net position	842,137	(17,536)	824,601
Net Position			
Beginning of year	184,238	4,555,644	4,739,882
End of year	$ 1,026,375	$ 4,538,108	$ 5,564,483

Independent School District No. 14
Combining Statement of Cash Flows - Internal Service Funds
Year Ended June 30, 2016

	Self Insurance	OPEB Revocable Trust	Total Internal Service Funds
Cash Flows - Operating Activities			
Receipts from district contribution	$ -	$ 107,907	$ 107,907
Receipts from employees	5,313,158	-	5,313,158
Payments to vendors	(4,249,363)	(198,626)	(4,447,989)
Net cash flows - operating activities	1,063,795	(90,719)	973,076
Cash Flows - Investing Activities			
Net sale/(purchase) of investments	-	12,495	12,495
Interest received	-	57,115	57,115
Net cash flows - investing activities	-	69,610	69,610
Net change in cash and cash equivalents	1,063,795	(21,109)	1,042,686
Cash and Cash Equivalents			
Beginning of year	184,238	253,731	437,969
End of year	$ 1,248,033	$ 232,622	$ 1,480,655
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities			
Operating income (loss)	$ 842,137	$ (90,719)	$ 751,418
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Change in assets and liabilities accounts payable	221,658	-	221,658
Net cash flows - operating activities	$ 1,063,795	$ (90,719)	$ 973,076

Independent School District No. 14
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2016

	Audit	UFARS	Audit-UFARS
01 General Fund			
Total revenue	$ 41,272,589	$ 41,272,594	$ (5)
Total expenditures	39,627,507	39,627,509	(2)
Nonspendable:			
460 Nonspendable fund balance	80,134	80,134	-
Restricted/reserved:			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health And Safety	(206,747)	(206,747)	-
407 Capital Projects Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Alternative Facility Program	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	232,107	232,107	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	1	(1)
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	-	-	-
438 Gifted And Talented	-	1	(1)
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement And Integration Revenue	-	-	-
449 Safe School Crime	47,166	47,166	-
450 Transition To Pre-kindergarten	-	-	-
451 Qzab And Qscb Payments	-	-	-
452 Opeb Liabilities Not Held In Trust	-	-	-
453 Unfunded Severance And Retirement Levy	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Committed for separation	-	-	-
461 Committed	-	-	-
Assigned:			
462 Assigned fund balance	2,311,463	2,311,463	-
Unassigned:			
422 Unassigned fund balance (net position)	2,449,326	2,449,325	1
02 Food Services Fund			
Total revenue	$ 2,023,553	$ 2,023,555	$ (2)
Total expenditures	1,790,549	1,790,549	-
Nonspendable:			
460 Nonspendable fund balance	8,281	8,281	-
Restricted/reserved:			
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	549,733	549,734	(1)
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ 2,847,063	$ 2,847,066	$ (3)
Total expenditures	2,675,119	2,675,122	(3)
Nonspendable:			
460 Nonspendable fund balance	5,334	5,334	-
Restricted/reserved:			
426 $25 taconite	-	-	-
431 Community Education	78,666	78,666	-
440 ECFE	50,069	50,069	-
444 School Readiness	66,973	66,973	-
447 Adult Basic Education	-	-	-
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	7,132	7,131	1
Unassigned:			
463 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 Building Construction Fund			
Total revenue	$ 53,296	$ 53,296	$ -
Total expenditures	7,630,738	7,630,738	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
407 Capital Projects Levy	418,483	418,484	(1)
409 Alternative Facility Program	-	-	-
413 Building Projects funded by COP/LP	-	-	-
Restricted:			
464 Restricted fund balance	20,860,429	20,860,427	2
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ 3,155,934	$ 3,155,934	$ -
Total expenditures	3,012,194	3,012,195	(1)
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
425 Bond refunding	19,826,734	19,826,734	-
451 QZAB and QSCB payments	-	-	-
Restricted:			
464 Restricted fund balance	883,275	883,275	-
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
20 Internal Service Fund			
Total revenue	$ 5,313,158	$ 5,313,158	$ -
Total expenditures	4,471,021	4,471,021	-
Unassigned:			
422 Unassigned fund balance (net position)	1,026,375	1,026,375	-
25 OPEB Revocable Trust			
Total revenue	$ 181,090	$ 181,090	$ -
Total expenditures	198,626	198,624	2
Unassigned:			
422 Unassigned fund balance (net position)	4,538,108	4,538,108	-
45 OPEB Irrevocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
47 OPEB Debt Service			
Total revenue	$ 610,795	$ 610,795	$ -
Total expenditures	562,577	562,578	(1)
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted:			
425 Bond refundings	-	-	-
464 Restricted fund balance	135,930	135,930	-
Unassigned:			
463 Unassigned fund balance	-	-	-

Independent School District No. 14
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	$ 110,695
School Breakfast	10.553	413,033
National School Lunch	10.555	900,451
Summer Food Service	10.559	30,731
Total Child Nutrition Cluster		1,454,910
Fresh Fruit and Vegetables	10.582	56,200
Total U.S. Department of Agriculture		1,511,110
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	446,031
Title II, Part A - Improving Teacher Quality	84.367	76,117
Title III, Part A - English Language Acquisition	84.365	48,818
Special Education Cluster		
Special Education	84.027	717,297
Special Education Family Engagement Training	84.027A	12,204
Special Education - Preschool Grant	84.173	13,402
Total Special Education Cluster		742,903
Infants and Toddlers	84.181	4,772
Carl Perkins	84.048A	18,808
Direct from U.S. Department of Education		
Carol M White Physical Education Program	84.215F	970
Total U.S. Department of Education		1,338,419
Total federal expenditures		$ 2,849,529

See notes to schedule of expenditures of federal awards.

Independent School District No. 14
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. 14
Fridley, 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. 14, Fridley, Minnesota, as of and for the year ending June 30, 2015, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 6, 2016.

Internal Control over Financial Reporting

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

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

Internal Control over Financial Reporting
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified . Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be significant deficiencies in internal control, described as Audit Finding 2002-001.

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

Bergan KDV Ltd.

Minneapolis, Minnesota
October 6, 2016

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

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 14, Fridley, Minnesota, compliance with the types of compliance requirements described in the OMB *Compliance Supplemen*t that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost, in Accordance with the Uniform Guidance.

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. 14 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.

Bergan KDV Ltd.

Minneapolis, Minnesota
October 6, 2016

Independent School District No. 14
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 2002-001
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.:	84.027, 84.027A, and 84.173
Name of Federal Program or Cluster:	Special Education Cluster
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	Yes

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2002-001

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 lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Accounts Payable Clerk enters invoices into the system and prepares the checks.
- The Accounting Supervisor has access to all areas of the accounting system.

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 (CONTINUED)

Audit Finding 02-01 (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
   a. As a mitigating control, the Accounting Supervisor receives a system report of checks prior to the preparation of checks for review. In addition, the Accounting Supervisor reviews the edit to the check register to verify that the edit was not changed after review.
   b. The Accounting Supervisor has access to all areas of the accounting system. Segregation will be reviewed to determine whether access can feasibly be limited.

3. Official Responsible for Ensuring CAP
   Matt Hammer, 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 are no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There are no prior year federal award findings or questioned costs.

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Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, 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. 14, Fridley, 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 6, 2016.

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

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

The purpose of this report is solely to describe the scope of our testing of compliance and the result 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 6, 2016