Independent School District No. 879
Delano, Minnesota

Financial Statements

June 30, 2016

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CPAS | ADVISORS

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Independent School District No. 879
Board of Education and Administration
June 30, 2016

Board of Education	Position	Term Expires
Amy Johnson	Chairperson	December 31, 2016
Randy Durick	Vice Chairperson	December 31, 2016
Carolyn Milano	Clerk	December 31, 2018
Lisa Seguin	Treasurer	December 31, 2018
Mark Larson	Director	December 31, 2018
Sarah Baker	Director	December 31, 2016
Corey Black	Director	December 31, 2018

Administration	
Matthew Schoen	Superintendent
Mary Reeder	Business Manager

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Independent Auditor's Report

To the School Board
Independent School District No. 879
Delano, 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. 879, Delano, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, 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, 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 supplementary information identified in the Table of Contents is the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information and is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 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.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which such partial information was derived.

We also have previously audited the District's 2015 basic financial statements and our report, dated November 2, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

BerganKDV Ltd.

Minneapolis, Minnesota
November 9, 2016

Independent School District No. 879
Management's Discussion and Analysis

This section of Independent School District No. 879, Delano Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- *General Fund 01:* - The overall fund balance increased by $102,878.
- *Food Service Fund 02:* - The overall fund balance increased by $7,206.
- *Community Service Fund 04:* - The overall fund balance decreased by $141,752.
- *Debt Service Fund 07:* - The overall fund balance decreased by $3,720.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (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 funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

A. Management's Discussion and Analysis
B. Basic Financial Statements
    1. Government-Wide Financial Statements
    2. Fund Financial Statements

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial 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.

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 and deferred outflows of resources and 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 is an indicator of whether its financial position is improving or deteriorating, respectively.

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

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

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds – focusing on 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:

- Some funds are required by State law and by bond covenants.

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

The District has two kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in governmental funds, which generally focus on:

    (1) How cash and other financial assets that can readily be converted to cash flow in and out, and
    (2) The balances left at year-end that are available for spending.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

	Governmental Activities		Percentage
	2016	2015	Change
Assets			
Current and other assets	$ 83,604,924	$ 15,488,287	439.79%
Capital assets	26,661,429	27,398,602	-2.69%
Total assets	110,266,353	42,886,889	157.11%
Deferred Outflows of Resources	3,179,557	2,568,059	23.81%
Current Liabilities	7,097,925	4,649,412	52.66%
Long-term liabilities	81,941,255	19,668,335	316.62%
Net pension liability	15,125,725	12,327,650	22.70%
Total liabilities	104,164,905	36,645,397	184.25%
Deferred Inflows of Resources	10,865,616	8,573,828	26.73%
Net Position			
Invested in capital assets, net of related debt	4,841,802	5,846,472	-17.18%
Restricted	2,264,768	2,508,189	-9.71%
Unrestricted	(8,691,181)	(8,118,938)	7.05%
Net position	$ (1,584,611)	$ 235,723	-772.23%

The District's combined net position was ($1,584,611) on June 30, 2016, a decrease of $1,820,334, which was due in large part to the $65 million building bond referendum that was passed in November 2015. (See Table A-1.)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The following Table A-2 presents the Change in Net Position of the District:

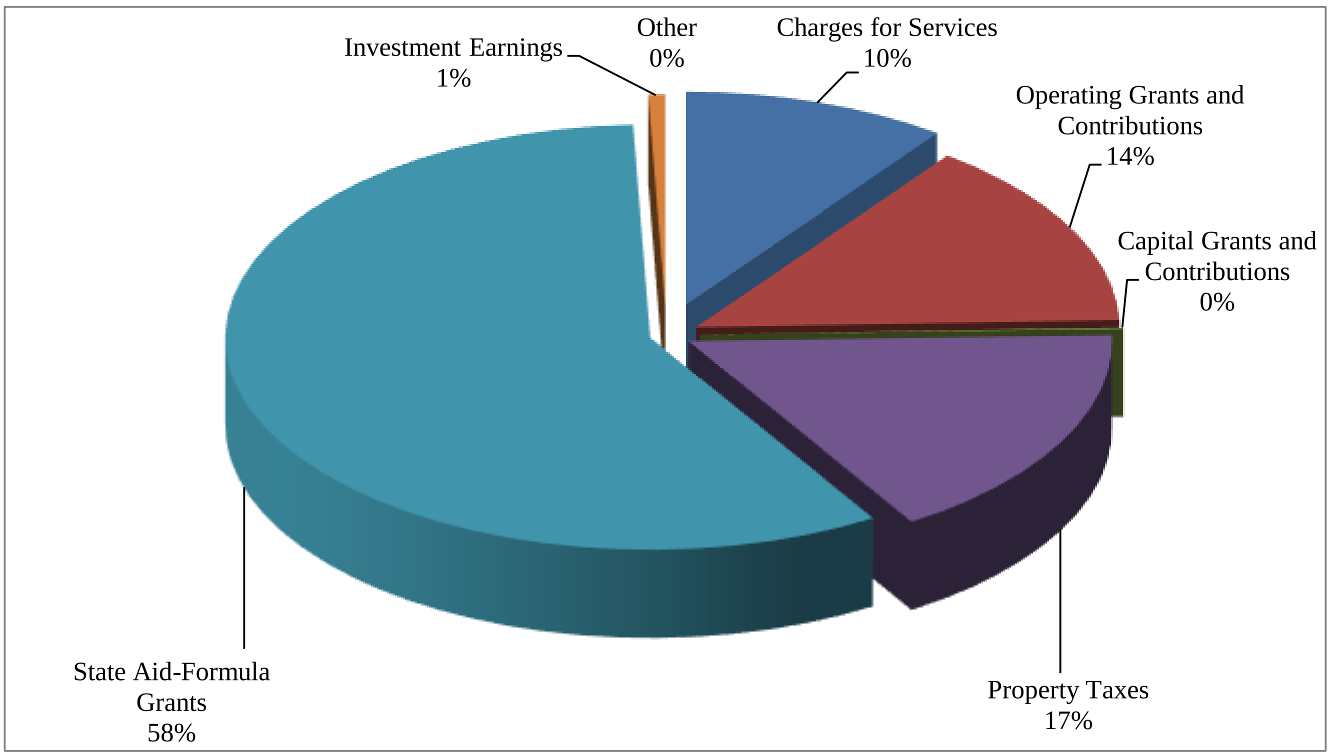
	Governmental Activities for the Fiscal Year Ended June 30,		Total Percentage Change
	2016	2015	
Revenues			
Program revenues			
Charges for services	$ 3,032,760	$ 2,762,263	9.79%
Operating grants and contributions	4,318,592	3,776,488	14.35%
Capital grants and contributions	25,297	32,131	(-21.27%)
General revenues			
Property taxes	5,001,844	4,932,989	1.40%
State aid-formula grants	17,470,637	16,884,823	3.47%
Investment earnings	192,736	14,730	1208.46%
Other	6,441	29,435	(-78.12%)
Total revenues	30,048,307	28,432,859	5.68%
Expenditures			
Administration	1,125,778	1,098,631	2.47%
District support services	1,084,491	986,690	9.91%
Elem & sec regular instruction	12,299,641	11,333,137	8.53%
Vocational education instruction	352,579	496,188	(-28.95%)
Special education instruction	3,694,470	3,116,021	18.56%
Instructional support services	1,092,348	1,110,915	(-1.67%)
Pupil support services	2,222,542	2,227,697	(-0.23%)
Sites and buildings	4,331,189	1,889,809	129.19%
Fiscal & other fixed cost programs	93,071	93,010	0.07%
Food service	999,839	967,292	3.36%
Community education and services	2,437,193	2,191,658	11.20%
Unallocated depreciation	775,395	806,650	(-3.87%)
Interest & fiscal charges on long-term debt	1,360,165	1,059,481	28.38%
Total expenditures	31,868,641	27,377,179	16.41%
Increase/(decrease) in net position	(1,820,334)	1,055,680	(-272.43%)
Beginning of year net position	235,723	12,883,279	(-98.17%)
Change in accounting principle (note 10)	-	(13,703,236)	(-100%)
Beginning net position - restated	235,723	(819,957)	(-128.75%)
End of year net position	$ (1,584,611)	$ 235,723	(-772.23%)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

District's Revenues

The District's total revenues were $30,048,307 for the year ended June 30, 2016. Property taxes and state aid-formula grants accounted for 75% of total revenue for the year. (See Figure A-1). The remaining 25% came from other program revenues (charges for services and operating and capital grants and contributions) and investment earnings.

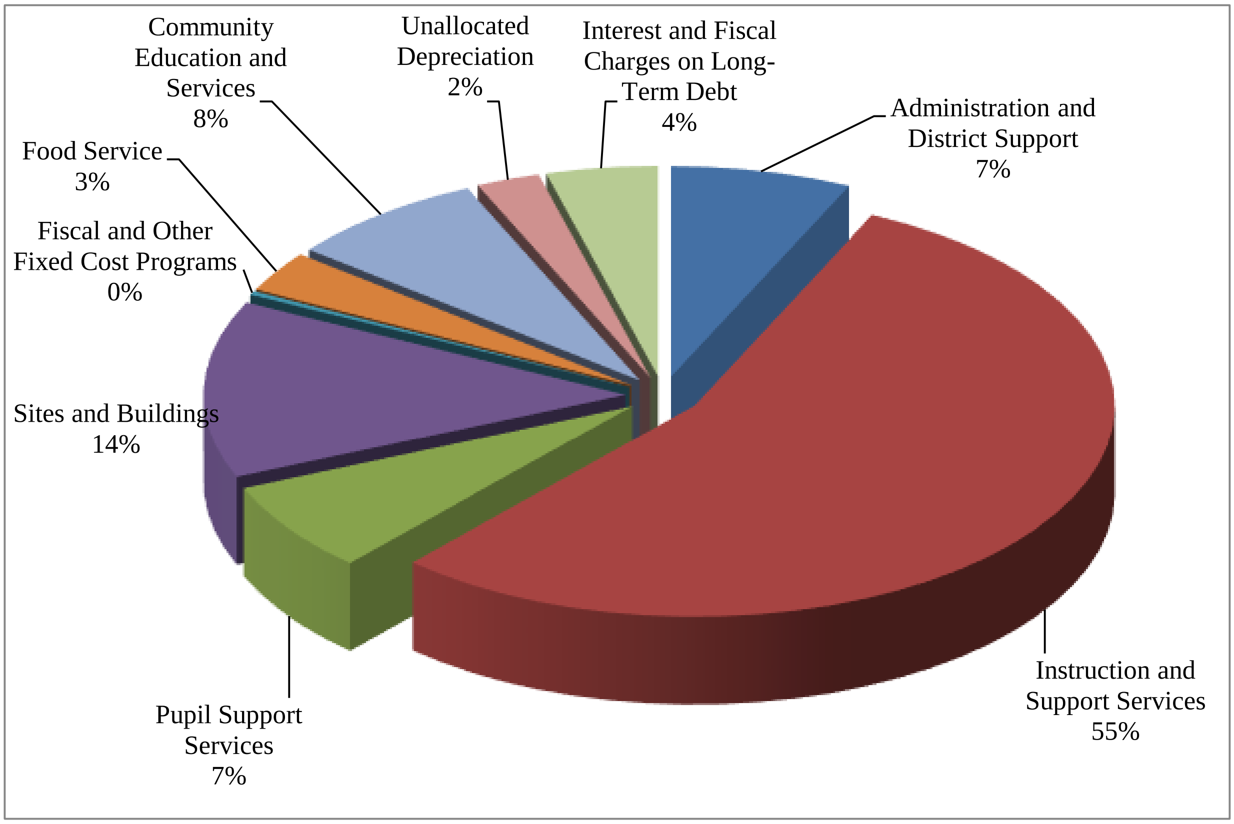
Figure A-1 Sources of District's Revenues for Fiscal 2016



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

District's Expenses

Figure A-2 District Expenses for Fiscal 2016



The total costs of all programs and services were $31,868,641 for fiscal year 2016. The District's expenses are predominately related to instruction and pupil support services (62%). (See Figure A-2.) Interest and fiscal charges for the District's bonds account for another 4%, and 14% accounts for the facilities maintenance needs of the entire district.

The cost of all governmental activities this year was $31,868,641.

- Some of the cost was paid by the users of the District's programs - $3,032,760
- The federal and state governments subsidized certain programs with grants and contributions – $4,318,592
- Most of the District's costs - $22,472,481, however, were paid for by District taxpayers and the taxpayers of the State of Minnesota

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

District's Expenses (Continued)

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 62% of those resources are spent on instruction and support services associated with education.

NET COST OF GOVERNMENTAL ACTIVITIES
Table A-3

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2016	2015	2015-2016	2016	2015	2015-2016
Administration	$ 1,125,778	$ 1,098,631	2.47%	$ 1,067,637	$ 1,051,231	1.56%
District support services	1,084,491	986,690	9.91%	1,060,450	956,244	10.90%
Elementary & secondary regular education	12,299,641	11,333,137	8.53%	11,088,136	10,431,794	6.29%
Vocational education instruction	352,519	496,188	(-28.95%)	352,519	496,188	(-28.95%)
Special education Instruction	3,694,470	3,116,021	18.56%	1,247,578	892,183	39.83%
instructional support Services	1,092,348	1,110,915	(-1.67%)	1,085,682	1,099,798	(-1.28%)
Pupil support services	2,222,542	2,227,697	(-0.23%)	2,151,498	2,163,760	(-0.57%)
Sites and buildings	4,331,189	1,889,809	129.19%	3,894,858	1,448,592	168.87%
fiscal and other fixed cost Programs	93,071	93,010	0.07%	93,071	93,010	0.07%
Food service	999,839	967,292	3.36%	(15,296)	(9,112)	66.87%
Community education and services	2,437,193	2,191,658	11.20%	330,299	316,478	4.37%
Unallocated depreciation	775,395	806,650	(-3.87%)	775,395	806,650	(-3.87%)
Interest & fiscal charges on long-term debt	1,360,165	1,059,481	28.38%	1,360,165	1,059,481	28.38%
Total	$ 31,868,641	$ 27,377,179	16.41%	$ 24,491,992	$ 20,806,297	17.71%

Table A-3 presents the total cost of governmental activities, as well as the cost of those activities. The net cost represents total cost less program revenues applicable in each category.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $70,881,056, an increase of $63,073,202 over last year's ending fund balance of $7,807,854.

Revenues and other financing sources for the District's governmental funds were $95,387,743, while total expenditures and other financing uses were $32,314,541, for a positive net change of $63,073,202.

General Fund

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

General Fund revenues are outlined in Table A-4 below:

Summary of General Fund Revenues
Table A-4

	Year Ended June 30, 2016	Year Ended June 30, 2015	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property taxes	$ 2,533,094	$ 2,461,855	$ 71,239	2.89%
Other local and county sources	971,782	907,822	63,960	7.05%
State sources	20,477,312	19,411,060	1,066,252	5.49%
Federal sources	276,820	271,509	5,311	1.96%
Sales & other conversion of assets	6,927	10,468	(3,541)	(-33.83%)
Total general fund revenue	$ 24,265,935	$ 23,062,714	$ 1,203,221	5.22%

Revenues from the General Fund totaled $24,265,935, an increase of 5.22% over the preceding year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue, including excess levy referendum, involves an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

State sources of revenue increased due to general education aid revenue, enrollment and special education revenue. Other local and county sources increased because of revenue generated through fundraising for activities and athletic groups to participate in out-of-state competitions.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

General Fund expenditures are itemized in Table A-5:

Summary of General Fund Expenditures
Table A-5

	Year Ended June 30, 2016	Year Ended June 30, 2015	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 13,059,784	$ 12,150,866	$ 908,918	7.48%
Employee benefits	5,449,603	5,015,799	433,804	8.65%
Purchased services	3,795,222	3,424,001	371,221	10.84%
Supplies and materials	882,385	1,039,665	(-157,280)	(-15.13%)
Capital expenditures	837,706	784,092	53,614	6.84%
Other expenditures	145,898	147,777	(-1,879)	(-1.27%)
Total general fund revenu	$ 24,170,598	$ 22,562,200	$ 1,608,398	7.13%

Total General Fund expenditures increased by $1,608,398 or 7.13% over the previous year.

Salaries increased due to hiring new staff due to special education needs and hiring an IT Coordinator, as well as contract settlements, and all Q Comp goals were met for the year. Employee benefits increased due benefits associated with additional new staff, contract changes and Q Comp payments. Professional services increased due to the district outsourcing substitute teachers and paraprofessionals through Teachers On-Call. Supplies and materials decreased due to decreased curriculum purchases. Capital expenditures increased due to servers being replaced at the Elementary school that will be partially reimbursed through the E-Rate program.

In 2015-2016, the General Fund recorded a surplus of $102,878. The unassigned fund balance closed at $4,459,578, which is 18.45% of General Fund unrestricted, operating expenditures.

It is the goal of the School Board of Education to maintain an unassigned fund balance of 12% of operating expenditures. For the fiscal year ended June 30, 2016, the District is in compliance with that fund balance goal.

GENERAL FUND

General Fund Budgetary Highlights

Actual revenues were $518,769 over the final budget, a 2.13% variance. Actual expenditures were $41,386 under budget, a 0.17% variance. The variance between original and final budgeted revenue amounts was due to budgeting for lopwer ADM's for general education aid, underestimating the new special education calculations which increased the special education aid and having to recognize as other state aid revenue net pension adjustment aid, though no revenue was actually received. The expenditure budget variance is due to unspent donated funds.

DEBT SERVICE FUND

The Debt Service Fund expenditures exceeded revenues by $3,720 in 2015-2016.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District investment in capital assets for its governmental activities amounts to $26,661,429 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment (see Table A-6). Additional information on capital assets can be found in Note 3 of this report.

Capital Assets - Governmental Activities
Table A-6

	2016	2015	Percentage Change
Land	$1,022,151	$1,022,151	0.00%
Land improvements	1,574,775	1,574,775	0.00%
Buildings	37,473,707	37,473,707	0.00%
Equipment	2,278,022	2,080,717	9.48%
Capital lease	3,178,525	3,178,525	0.00%
Construction in progress	31,565	-	100.00%
Less accumulated depreciation	(-18,897,316)	(-17,931,273)	5.39%
Total	$26,661,429	$27,398,602	(-2.69%)

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had $99,928,622 in total long-term debt, an increase of 194.66% from the previous year, as shown in Table A-7. (More detailed information about long-term liabilities can be found in Note 4 and Note 7 of the financial statements.)

Long-term Liabilities
Table A-7

	2016	2015	Percentage Change
General obligation bonds payable	$ 79,285,000	$ 18,045,000	339.37%
Bond premium payable	3,794,632	1,591,944	138.36%
Capital lease payable	1,691,391	1,915,186	-11.69%
Compensated absences payable	31,874	33,960	-6.14%
Net pension liability	15,125,725	12,327,650	22.70%
Total	$ 99,928,622	$ 33,913,740	194.66%

The biggest factor in the increase in long-term liabilities was due to the passage of the $65 million building bond referendum in November 2015.

FACTORS BEARING ON THE DISTRICT'S FUTURE

On November 3, 2015, the District asked the voters to approve two building bond referendum questions to build an Intermediate Grades 4-6 building, as well as make changes to the existing buildings and athletic spaces. The total of the two questions was $65 million dollars. Question two was contingent upon question one passing. Both questions passed, thus during the 2015 Pay 2016 levy process, the district levied for the operating referendum levy that was passed in 2007 but had never levied up to this point.

The District had a healthy General fund balance at the end of the 2015-2016 school year. A five-year financial planning program will continue to be used as a tool in long-term financial planning. Enrollment will continue to be monitored; enrollment in 2015-2016 increased by 34 students from 2014-2015, and the District is projecting enrollment to increase by 35 students in the 2016-2017 school year. Finally, the District will continue to strive to achieve its mission statement of "Educational Excellence is our Foremost Goal".

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Delano Public Schools ISD #879, Attention: Business Manager, 700 Elm Avenue East, Delano, MN 55328.

BASIC FINANCIAL STATEMENTS

Independent School District No. 879
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash and investments	$ 76,336,871
Current property taxes receivable	4,599,300
Delinquent property taxes receivable	81,828
Accounts receivable	17,091
Interest receivable	161,838
Due from Department of Education	1,910,252
Due from Federal Government through Department of Education	17,044
Due from other Minnesota school districts	74,696
Due from other governmental units	38,780
Inventory	49,656
Prepaid items	107,197
Equity interest in joint venture	210,371
Capital assets, not being depreciated	
Land	1,022,151
Construction in progress	31,565
Capital assets, net of accumulated depreciation	
Land improvements	719,091
Buildings	24,211,593
Machinery and equipment	677,029
Total assets	110,266,353
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	3,179,557
Total assets and deferred outflows of resources	$ 113,445,910
Liabilities	
Accounts payable	$ 156,944
Contracts payable	473,263
Salaries and benefits payable	2,328,938
Interest payable	1,035,227
Due to other Minnesota school districts	67,123
Due to other governmental units	71,973
Unearned revenue	94,468
Bonds payable	
Payable within one year	2,605,000
Payable after one year	80,474,632
Capital lease payable	
Payable within one year	233,115
Payable after one year	1,458,276
Vacation payable	
Payable within one year	31,874
Net pension liability	15,125,725
Net other post employment benefits (OPEB) obligation	8,347
Total liabilities	104,164,905
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	9,245,830
Deferred inflows of resources related to pensions	1,619,786
Total deferred inflows of resources	10,865,616
Net Position	
Net investment in capital assets	4,841,802
Restricted for	
Capital projects	148,847
Other purposes	2,115,921
Unrestricted	(8,691,181)
Total net position	(1,584,611)
Total liabilities, deferred inflows of resources, and net position	$ 113,445,910

See notes to the financial statements.

Independent School District No. 879
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	$ 1,125,778	$ -	$ 58,141	$ -	$ (1,067,637)
District support services	1,084,491	864	23,177	-	(1,060,450)
Elementary and secondary regular instruction	12,299,641	390,187	796,021	25,297	(11,088,136)
Vocational education instruction	352,519	-	-	-	(352,519)
Special education instruction	3,694,470	25,975	2,420,917	-	(1,247,578)
Instructional support services	1,092,348	-	6,666	-	(1,085,682)
Pupil support services	2,222,542	-	71,044	-	(2,151,498)
Sites and buildings	4,331,189	4,800	431,531	-	(3,894,858)
Fiscal and other fixed cost programs	93,071	-	-	-	(93,071)
Food service	999,839	698,878	316,257	-	15,296
Community education and services	2,437,193	1,912,056	194,838	-	(330,299)
Unallocated depreciation	775,395	-	-	-	(775,395)
Interest and fiscal charges on long-term debt	1,360,165	-	-	-	(1,360,165)
Total governmental activities	$ 31,868,641	$ 3,032,760	$ 4,318,592	$ 25,297	(24,491,992)

General revenues	
Taxes	
Property taxes, levied for general purposes	2,525,973
Property taxes, levied for community service	170,038
Property taxes, levied for debt service	2,305,833
State aid-formula grants	17,470,637
Investment income	192,736
Net income from joint venture	6,441
Total general revenues	22,671,658
Change in net position	(1,820,334)
Net position - beginning	235,723
Net position - ending	$ (1,584,611)

See notes to financial statements.

Independent School District No. 879
Balance Sheet - Governmental Funds
June 30, 2016

	General	Debt Service	Capital Project	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 8,964,895	$ 3,333,397	$ 63,463,203	$ 575,376	$ 76,336,871
Current property taxes receivable	1,787,096	2,717,746	-	94,458	4,599,300
Delinquent property taxes receivable	38,344	40,227	-	3,257	81,828
Accounts receivable	2,825	-	-	14,266	17,091
Interest receivable	25,198	-	136,640	-	161,838
Due from Department of Education	1,891,552	2,294	-	16,406	1,910,252
Due from Federal Government through Department of Education	16,291	-	-	753	17,044
Due from other Minnesota school districts	66,055	-	-	8,641	74,696
Due from other governmental units	36,955	-	-	1,825	38,780
Inventory	19,916	-	-	29,740	49,656
Prepaid items	106,817	-	-	380	107,197
Total assets	$ 12,955,944	$ 6,093,664	$ 63,599,843	$ 745,102	$ 83,394,553
Liabilities					
Accounts payable	$ 114,085	$ -	$ 17,990	$ 24,869	$ 156,944
Contracts payable	-	-	473,263	-	473,263
Salaries and benefits payable	2,221,756	-	-	107,182	2,328,938
Due to other Minnesota school districts	67,123	-	-	-	67,123
Due to other governmental units	69,713	-	-	2,260	71,973
Unearned revenue	3,153	-	-	91,315	94,468
Total liabilities	2,475,830	-	491,253	225,626	3,192,709
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	3,507,653	5,545,493	-	192,684	9,245,830
Unavailable revenue - delinquent property taxes	35,125	36,849	-	2,984	74,958
Total deferred inflows of resources	3,542,778	5,582,342	-	195,668	9,320,788
Fund Balances					
Nonspendable	126,733	-	-	30,120	156,853
Restricted	1,773,352	511,322	63,108,590	293,688	65,686,952
Committed	149,130	-	-	-	149,130
Assigned	428,543	-	-	-	428,543
Unassigned	4,459,578	-	-	-	4,459,578
Total fund balances	6,937,336	511,322	63,108,590	323,808	70,881,056
Total liabilities, deferred inflows of resources, and fund balances	$ 12,955,944	$ 6,093,664	$ 63,599,843	$ 745,102	$ 83,394,553

See notes to financial statements.

Independent School District No. 879
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2016

Total fund balance - governmental funds	$ 70,881,056
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current assets.	
Equity interest in joint venture - Wright Technical Center	210,371
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	45,558,745
Less accumulated depreciation	(18,897,316)
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	(79,285,000)
Capital lease payable	(1,691,391)
Net premium on bonds payable	(3,794,632)
Vacation payable	(31,874)
Net OPEB obligation	(8,347)
Net pension liability	(15,125,725)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred inflows of resources related to pensions	(1,619,786)
Deferred outflows of resources related to pensions	3,179,557
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.	74,958
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(1,035,227)
Total net position - governmental activities	$ (1,584,611)

See notes to financial statements.

Independent School District No. 879
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2016

	General	Debt Service	Capital Project	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 2,533,094	$ 2,313,910	$ -	$ 170,733	$ 5,017,737
Other local and county revenues	971,782	6,607	148,847	1,851,458	2,978,694
Revenue from state sources	20,477,312	22,936	-	185,524	20,685,772
Revenue from federal sources	276,820	-	-	270,611	547,431
Sales and other conversion of assets	6,927	-	-	821,198	828,125
Total revenues	24,265,935	2,343,453	148,847	3,299,524	30,057,759
Expenditures					
Current					
Administration	1,060,924	-	-	-	1,060,924
District support services	843,009	-	-	-	843,009
Elementary and secondary regular instruction	12,178,246	-	-	-	12,178,246
Vocational education instruction	339,909	-	-	-	339,909
Special education instruction	3,682,815	-	-	-	3,682,815
Instructional support services	1,075,966	-	-	-	1,075,966
Pupil support services	2,199,669	-	-	-	2,199,669
Sites and buildings	1,859,283	-	2,331,135	-	4,190,418
Fiscal and other fixed cost programs	93,071	-	-	-	93,071
Food service	-	-	-	991,863	991,863
Community education and services	-	-	-	2,410,519	2,410,519
Capital outlay					
Administration	4,994	-	-	-	4,994
District support services	324,583	-	-	-	324,583
Elementary and secondary regular instruction	112,757	-	-	-	112,757
Special education instruction	18,503	-	-	-	18,503
Instructional support services	9,177	-	-	-	9,177
Pupil support services	8,985	-	-	-	8,985
Sites and buildings	60,229	-	31,565	-	91,794
Food service	-	-	-	19,364	19,364
Community education and services	-	-	-	12,324	12,324
Debt service					
Principal	224,512	1,660,000	-	-	1,884,512
Interest and fiscal charges	73,966	687,173	-	-	761,139
Total expenditures	24,170,598	2,347,173	2,362,700	3,434,070	32,314,541
Excess of revenues over (under) expenditures	95,337	(3,720)	(2,213,853)	(134,546)	(2,256,782)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	7,541	-	-	-	7,541
Bond issuance	-	-	62,900,000	-	62,900,000
Bond premium	-	-	2,422,443	-	2,422,443
Total other financing sources (uses)	7,541	-	65,322,443	-	65,329,984
Net change in fund balances	102,878	(3,720)	63,108,590	(134,546)	63,073,202
Fund Balances					
Beginning of year	6,834,458	515,042	-	458,354	7,807,854
End of year	$ 6,937,336	$ 511,322	$ 63,108,590	$ 323,808	$ 70,881,056

See notes to financial statements.

Independent School District No. 879
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	$	63,073,202
Amounts reported for governmental activities in the Statement of Activities are different because:		
Net income from the equity interest in a joint venture does not provide current financial resources and its not reported as revenue in the funds.		6,441
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		253,204
Depreciation expense		(990,377)
Vacation and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		2,086
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.		
Bonds payable		1,660,000
Capital lease payable		223,795
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.		(818,064)
Proceeds from the issuance of debt is recognized as other financing sources in the governmental funds increasing fund balance but having no effect on net assets in the Statement of Activities.		
Bonds payable		(62,900,000)
Government funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized adjustment to total debt in the government-wide financial statements.		(2,422,443)
Premiums and discounts are amortized over the life of the bond on the statement of net position.		219,755
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		(60,550)
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.		
Pension expense		(51,490)
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.		(15,893)
Change in net position - governmental activities	$	(1,820,334)

See notes to financial statements.

Independent School District No. 879
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	$ 2,575,814	$ 2,543,814	$ 2,533,094	$ (10,720)
Other local and county revenues	451,941	906,406	971,782	65,376
Revenue from state sources	19,681,390	20,013,253	20,477,312	464,059
Revenue from federal sources	264,870	276,820	276,820	-
Sales and other conversion of assets	-	6,873	6,927	54
Total revenues	22,974,015	23,747,166	24,265,935	518,769
Expenditures				
Current				
Administration	1,115,009	1,087,565	1,060,924	(26,641)
District support services	1,371,255	862,073	843,009	(19,064)
Elementary and secondary regular instruction	11,149,296	12,021,092	12,178,246	157,154
Vocational education instruction	299,050	344,043	339,909	(4,134)
Special education instruction	3,320,649	3,726,898	3,682,815	(44,083)
Instructional support services	1,357,559	1,126,029	1,075,966	(50,063)
Pupil support services	2,312,630	2,208,433	2,199,669	(8,764)
Sites and buildings	2,075,942	1,895,951	1,859,283	(36,668)
Fiscal and other fixed cost programs	95,000	95,000	93,071	(1,929)
Capital outlay				
Administration	7,500	5,224	4,994	(230)
District support services	303,000	325,895	324,583	(1,312)
Elementary and secondary regular instruction	53,374	111,831	112,757	926
Special education instruction	795	19,297	18,503	(794)
Instructional support services	15,870	14,952	9,177	(5,775)
Pupil support services	1,100	8,991	8,985	(6)
Sites and buildings	40,000	60,232	60,229	(3)
Debt service				
Principal	224,492	224,512	224,512	-
Interest and fiscal charges	73,986	73,966	73,966	-
Total expenditures	23,816,507	24,211,984	24,170,598	(41,386)
Excess of revenues over (under) expenditures	(842,492)	(464,818)	95,337	560,155
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	7,541	7,541	-
Net change in fund balances	$ (842,492)	$ (457,277)	102,878	$ 560,155
Fund Balance				
Beginning of year			6,834,458	
End of year			$ 6,937,336	

See notes to financial statements.

Independent School District No. 879
Statement of Fiduciary Net Position
June 30, 2016

	Private Purpose Trust Fund
Assets	
Current	
Cash and investments	$ 33,886
Liabilities	
Unearned revenue	$ 2,840
Net Position	
Held in trust for scholarships	$ 31,046

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

	Private Purpose Trust Fund
Additions	
Other local revenues	$ 68,107
Deductions	
Pupil support services	68,890
Change in net position	(783)
Net Position	
Beginning of year	31,829
End of year	$ 31,046

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

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

A. Reporting Entity

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

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

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

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

Joint Venture

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 8.

B. Basic Financial Statement Information

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

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

C. Measurement Focus and Basis of Accounting

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

1. Revenue Recognition

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

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

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

Description of Funds:

Major Funds:

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

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

Fiduciary Fund:

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

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

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

Cash and investments at June 30, 2016, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF) including certificates of deposit and government securities and shares in the Minnesota Trust (MNTrust) Term Series, and brokered certificates of deposit. 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.

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Net Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has 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. 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.

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

Certain District employees earn vacation days based on the number of completed years of service. Vacation is accumulated at various rates and maximum hours are capped at different amounts. Certain employees are compensated for unused vacation upon termination of employment.

Employees are entitled to paid sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment (sick pay is recorded as an expenditure when payment is made).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in TRA Note 6.G.

O. Risk Management

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

P. 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 prepaids and inventory.

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

- Committed Fund Balances – The government's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment must be made by the School Board.

- Assigned Fund Balances – The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The School Board also delegates the power to assign fund balances to the Superintendent or Business Manager.

- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of 12% of operating expenditures.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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.

R. 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.

S. Comparative Data
Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the Academy's financial position and operations. This data has been restated where necessary for comparable classifications.

T. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Debt Service Funds.
4. Budgets for the General, Special Revenue, and Debt Service 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 possession of an outside party. *Minnesota Statutes* 118A requires all deposits be protected by federal deposit insurance, corporate security 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 has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

1. District Governmental Funds Pooled

As of June 30, 2016, the District had the following pooled deposits:

Checking	$ 249,945
Certificates of deposit	4,965,100
Total deposits	$ 5,215,045

2. District Governmental Funds Not Pooled

As of June 30, 2016, the District had the following deposits for the G.O. School Building Bonds, Series 2016A:

Certificates of deposit	$ 54,177,809
Savings deposit account	752,458
Total deposits	$ 54,930,267

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

1. District Governmental Funds Pooled

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

	Fair Value	Less Than One Year	Moody's/S&P Ratings
MSDLAF - Liquid Class	$ 2,761,409	$ 2,761,409	AAA
MSDLAF - Max Class	3,873,347	3,873,347	AAA
MNTrust Investment Share Portfolio	62,625	62,625	Aaa
Brokered Certificates of Deposit	993,669	993,669	N/A
Total investments	$ 7,691,050	$ 7,691,050	

2. District Governmental Funds Not Pooled

As of June 30, 2016, the District had the following pooled investments for the G.O. School Building Bonds, Series 2016A:

	Fair Value	Less Than One Year	1-2 Years	2-5 Years	Moody's/S&P Ratings
MNTrust Investment Share Portfolio	$ 21,430	$ 21,430	$ -	$ -	Aaa
MNTrust Term Series	500,000	500,000	-	-	Aaa
Government Securities	3,234,782	-	3,234,782	-	N/A
Brokered Certificates of Deposit	4,777,533	-	1,504,170	3,273,363	N/A
Total investments	$ 8,533,745	$ 521,430	$ 4,738,952	$ 3,273,363	

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 the District shall manage its investments in a manner to attain a market yield rate of return through various economics and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District will follow state law. The District's investments were rated in the table above by Standards and Poor's (S&P) and Moody's Investor Services. These investments were in the top two rating categories.

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 states the District will attempt to diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District's policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments. At June 30, 2016, the District's G.O. School Building Bonds, Series 2016A investment pool was exposed to concentration of credit risk at June 30, 2016, as the government security investments with Federal Farm Credit Bank, Federal National Mortgage Association, and Federal Home Loan Bank each represented 17.7% of the total investments for the G.O. School Building Bonds, Series 2016A.

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

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

- MSDLAF investments of $7,691,050 are valued using a quoted market prices (Level 1 inputs)
- MN Trust investments of $16,224,795 are valued using a quoted market prices (Level 1 inputs)

C. Summary of Deposits and Investments

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

Deposits (Note 3.A.)	$ 60,145,312
Petty cash	650
Investments (Note 3.B.)	16,224,795
Total deposits and investments	$ 76,370,757

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

Statement of Net Position	
Cash and investments	$ 76,336,871
Statement of Fiduciary Net Position	
Cash and investments - private purpose trust fund	33,886
Total deposits and investments	$ 76,370,757

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 1,022,151	$ -	$ -	$ 1,022,151
Construction in progress	-	31,565	-	31,565
Total capital assets not being depreciated	1,022,151	31,565	-	1,053,716
Capital assets being depreciated				
Improvements	1,574,775	-	-	1,574,775
Buildings	40,652,232	-	-	40,652,232
Equipment	2,080,717	221,639	24,334	2,278,022
Total capital assets being depreciated	44,307,724	221,639	24,334	44,505,029
Less accumulated depreciation for				
Improvements	845,587	10,097	-	855,684
Buildings	15,637,292	803,347	-	16,440,639
Equipment	1,448,394	176,933	24,334	1,600,993
Total accumulated depreciation	17,931,273	990,377	24,334	18,897,316
Total capital assets being depreciated, net	26,376,451	(768,738)	-	25,607,713
Governmental activities, capital assets, net	$ 27,398,602	$ (737,173)	$ -	$ 26,661,429

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

Administration	$ 47,999
Elementary and secondary regular instruction	19,102
Special education instruction	571
Pupil support services	9,282
Sites and buildings	119,014
Community service	11,473
Unallocated	782,936
Total depreciation expense	$ 990,377

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds, including refunding bonds						
G.O. alternative facilities bonds, series 2008A	04/23/08	3.50%-4.625%	$ 4,865,000	02/01/28	$ 3,790,000	$ 160,000
G.O. capital facilities bonds, series 2008B	06/10/08	2.25%-3.65%	920,000	02/01/18	205,000	100,000
G.O. bonds, series 2008C	07/01/08	3.10%-4.10%	980,000	02/01/24	590,000	65,000
G.O. school refunding bonds, series 2015A	04/08/15	3.00%-5.00%	13,140,000	02/01/25	11,800,000	1,070,000
G.O. school building bonds, series 2016A	02/18/16	2.75%-4.00%	62,900,000	02/01/36	62,900,000	1,210,000
Total G.O. bonds					79,285,000	2,605,000
Premium on bonds payable					3,794,632	-
Capital leases					1,691,391	233,115
Vacation payable					31,874	31,874
Total all long-term liabilities					$ 84,802,897	$ 2,869,989

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. The bond obligations are paid from the Debt Service Fund. Severance, vacation, and capital leases are paid from the General Fund.

B. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 18,045,000	$ 62,900,000	$ 1,660,000	$ 79,285,000
Premium on bonds payable	1,591,944	2,422,443	219,755	3,794,632
Capital leases	1,915,186	-	223,795	1,691,391
Vacation payable	33,960	68,158	70,244	31,874
Total long-term liabilities	$ 21,586,090	$ 65,390,601	$ 2,173,794	$ 84,802,897

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Debt Payment Schedule

Minimum annual principal and interest payments required to retire bonds:

Year Ending June 30,	G.O. Bonds Principal	G.O. Bonds Interest	G.O. Bonds Total
2017	$ 2,605,000	$ 2,655,169	$ 5,260,169
2018	2,795,000	2,636,916	5,431,916
2019	2,760,000	2,514,184	5,274,184
2020	3,010,000	2,391,884	5,401,884
2021	3,145,000	2,259,034	5,404,034
2022-2026	17,790,000	9,249,453	27,039,453
2027-2031	21,670,000	5,810,693	27,480,693
2031-2036	25,510,000	2,341,200	27,851,200
Total	$ 79,285,000	$ 29,858,533	$ 109,143,533

D. Capital Lease

On May 4, 2007, the District entered into a lease purchase agreement with CitiCapital for the acquisition of building improvements. The capital lease agreement includes monthly principal and interest payments of $23,950 for each of the 15 years of the agreement.

On January 25, 2013, the District entered into a capital lease agreement for copiers with US Bank Equipment Finance. The capital lease agreement includes monthly principal and interest payments of $1,100 for each of the five years of the agreement.

On June 24, 2013, the District entered into a capital lease agreement for a postage meter machine with MailFinance. The capital lease includes monthly principal and interest payments of $172 for each of the five years of the agreement.

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

Year Ending June 30,	
2017	$ 298,479
2018	294,034
2019	283,082
2020	283,082
2021	283,082
2022-2023	495,397
Total lease payments	1,937,156
Less amount representing interest	(245,765)
Present value of capital lease	$ 1,691,391

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease (Continued)

The assets acquired with the capital leases have a cost of $3,246,472 and accumulated depreciation of $568,734 for a net value of $2,677,738.

NOTE 5 –FUND BALANCES/NET POSITION

Fund Equity

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

	General Fund	Debt Service Fund	Capital Project Fund	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	$ 19,916	$ -	$ -	$ 29,740	$ 49,656
Prepaids items	106,817	-	-	380	107,197
Total nonspendable	126,733	-	-	30,120	156,853
Restricted/reserved for					
Staff development	133,472	-	-	-	133,472
Deferred maintenance	576,158	-	-	-	576,158
Health and safety	(15,777)	-	-	-	(15,777)
Operating capital	1,078,525	-	-	-	1,078,525
Area learning center	974	-	-	-	974
Debt service	-	511,322	-	-	511,322
Capital projects	-	-	63,108,590	-	63,108,590
Food service	-	-	-	181,326	181,326
Community education	-	-	-	109,015	109,015
Early childhood and family education	-	-	-	(82)	(82)
School readiness	-	-	-	2,414	2,414
Adult basic education	-	-	-	966	966
Community service	-	-	-	49	49
Total restricted/reserved	1,773,352	511,322	63,108,590	293,688	65,686,952
Committed for					
Separation/retirement benefits	149,130	-	-	-	149,130
Assigned for					
Donated funds	269,175	-	-	-	269,175
Student activities	32,645	-	-	-	32,645
Q comp	126,723	-	-	-	126,723
Total assigned	428,543	-	-	-	428,543
Unassigned	4,459,578	-	-	-	4,459,578
Total reserved fund balance	$ 6,937,336	$ 511,322	$ 63,108,590	$ 323,808	$ 70,881,056

NOTE 5 –FUND BALANCES/NET POSITION (CONTINUED)

Fund Equity (Continued)

Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subdivision 1).

Restricted/Reserved for Deferred Maintenance – Districts that qualified for deferred maintenance revenue (aid and levy) but have not spent the proceeds must restrict the balance in this code. An independent or special school district that does not qualify to participate in the alternative facilities bonding and levy program under *Minnesota Statutes* 123B.59, subd. 1. para (a) is eligible to receive deferred maintenance revenue per *Minnesota Statutes* 123B.591.

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

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at lease 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

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

Restricted for Capital Projects – This balance represents resources available for the acquisition or construction of major capital projects.

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

NOTE 5 –FUND BALANCES/NET POSITION (CONTINUED)

Fund Equity (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.

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 1240.16)

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

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

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, pensions, other post employment benefits (OPEB), and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

Assigned for Donated Funds – This balance represents resources segregated from unassigned fund balance for different groups (athletics, media center, principals, etc.) who have done fundraising or receive donations for specific purposes.

Assigned for Student Activities – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or receive donations for specific purposes.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balances for unspent Q Comp dollars.

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive General Fund restricted fund balances and the total net position restricted for food service and community service.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Summary of Significant Accounting Policies

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.

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

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

Summary of Significant Accounting Policies (Continued)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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.

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.

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

Teachers' Retirement Association (Continued)

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	(740,635)
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 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Merger of DTRFA

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

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

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	8.25%
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 6 – 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 6 – 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 $12,223,514 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2082% at the end of the measurement period and 0.1976% 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	$ 12,223,514
State's proportionate share of the net pension liability associated with the district	1,499,077

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 to 2.5% 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 $1,114,969. It also recognized $265,017 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	$ 626,332	$ -
Net difference between projected and actual earnings on plan investments	-	934,880
Changes in assumption	939,663	-
Changes in proportion	324,313	190,961
District's contribution to TRA subsequent to the measurement date	807,984	-
Total	$ 2,698,292	$ 1,125,841

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)
$807,984 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a relation of the net pension liability in the year ended June 30, 2017.

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

2017	$ (4,124)
2018	(4,124)
2019	(4,123)
2020	659,497
2021	117,341

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%)
$ 18,605,771	$ 12,223,514	$ 6,897,337

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

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

Public Employees' Retirement Association

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

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

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

General Employees Retirement Fund (GERF)

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

B. Benefits Provided

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

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

GERF Benefits

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

C. Contributions

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

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

Public Employees' Retirement Association (Continued)

C. Contributions (Continued)

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were $273,611. 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 $2,902,211 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, 2016, the District's proportion was 0.0560%, which was a decrease of 0.0022% 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 $283,133 for its proportionate share of GERF's pension expense.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 26,915	$ 146,321
Changes in actuarial assumptions	180,739	-
Changes in proportion	-	89,274
Difference between projected and actual investments earnings	-	258,350
District's contributions to GERF subsequent to the measurement date	273,611	-
Total	$ 481,265	$ 493,945

$273,611 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	$ (83,716)
2018	(83,716)
2019	(187,543)
2020	68,684

E. Actuarial Assumptions

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

GERF

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

NOTE 6 – 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 Rate

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 6 – 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 (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proprionate share of the GERF net pension liability	$ 4,563,307	$ 2,902,211	$ 1,530,400

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 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description
The District provides single-employer defined benefit health care insurance and life insurance upon retirement to certain retirees. Medical coverage is administered by BlueCross BlueShield. 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.

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 BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For 2016, the District contributed $314,766 to the plan.

As of June 30, 2014, the last valuation date, there were approximately 26 retirees receiving health benefits from the District's health plan. The plan has a total of 271 active participants and dependents. Of that total, 245 are not yet eligible to receive benefits.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual Other Post Employment Benefits Cost and Net Other Post Employment Benefits Costs Obligation

The District's annual other post employment benefits (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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB costs for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

ARC	$	374,444
Interest on net OPEB obligation		(2,088)
Adjustment to ARC		2,960
Annual OPEB cost		375,316
Contributions made		(314,766)
Increase in net OPEB obligation		60,550
Net OPEB obligation - beginning of year		(52,203)
Net OPEB obligation - end of year	$	8,347

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

Year Ended		Annual OPEB Cost		Employer Contribution	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
06/30/16	$	375,316	$	314,766	84%	$	8,347
06/30/15		374,658		399,466	107%		(52,203)
06/30/14		362,449		360,848	100%		(27,395)

D. Funded Status and Funding Progress

As of the July 1, 2014, actuarial study, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $3,252,827 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $3,252,827. The covered payroll (annual payroll of active employees covered by the plan) was $11,289,258, and the ratio of the UAAL to the covered payroll was 28.8%.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

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

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

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

NOTE 8 – COMMITMENTS

A. Joint Powers

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost. Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

NOTE 8 – COMMITMENTS (CONTINUED)

B. Construction

Contractor	Original Contract Amount	Work Completed as of 6/30/16	Amount Remaining on Contract
Ebert Construction	$ 2,440,700	$ 31,565	$ 2,409,135
ICS Consulting	1,398,000	250,200	1,147,800
WOLD Architects	3,670,690	1,440,556	2,230,134

NOTE 9 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB Statement No. 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.

NOTE 10 – SUBSEQUENT EVENT

On October 24, 2016 the district accepted bids totaling $17,616,000 from Jorgenson Construction, Inc. for the construction of the new Delano Intermediate School.

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 879
Schedule of Funding Progress – Other Post Employment Benefits
June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
07/01/10	$ -	$ 3,817,291	$ 3,817,291	0%	$ 9,671,203	39.47%
07/01/12	-	3,427,975	3,427,975	0%	9,892,804	34.65%
07/01/14	-	3,252,827	3,252,827	0%	11,289,258	28.81%

Independent School District No. 879
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	0.0582%	$ 2,733,944	$ 3,057,131	89.4%	78.75%
2015	0.0560%	2,902,211	3,237,587	89.6%	78.19%

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 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	0.2082%	$ 9,593,706	$ 674,763	$ 10,268,469	$ 9,502,729	101.0%	81.5%
2015	0.1976%	$ 12,223,514	$ 1,499,077	13,722,591	10,030,187	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. 879
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	$ 221,642	$ 221,642	$ -	$ 3,057,131	7.25%
2015	242,819	242,819	-	3,237,587	7.50%
2016	273,611	273,611	-	3,648,147	7.50%

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

Schedule of District Contributions
TRA Retirement Funds
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 665,191	$ 665,191	$ -	$ 9,502,729	7.00%
2015	752,264	752,264	-	10,030,187	7.50%
2016	807,984	807,984	-	10,773,120	7.50%

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

See notes to required supplementary information.

TRA Retirement Funds

Changes of benefit terms

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

Changes of assumptions

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

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SUPPLEMENTARY INFORMATION

Independent School District No. 879
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2016

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and investments (including cash equivalents)	$ 240,809	$ 334,567	$ 575,376
Current property taxes receivable	-	94,458	94,458
Delinquent property taxes receivable	-	3,257	3,257
Accounts receivable	286	13,980	14,266
Due from Department of Education	-	16,406	16,406
Due from Federal Government through Department of Education	753	-	753
Due from other Minnesota school districts	-	8,641	8,641
Due from other governmental units	-	1,825	1,825
Inventory	17,995	11,745	29,740
Prepaid items	380	-	380
Total assets	$ 260,223	$ 484,879	$ 745,102
Liabilities			
Accounts payable	$ 1,758	$ 23,111	$ 24,869
Salaries and benefits payable	19,430	87,752	107,182
Due to other governmental units	-	2,260	2,260
Unearned revenue	39,334	51,981	91,315
Total liabilities	60,522	165,104	225,626
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	192,684	192,684
Unavailable revenue - delinquent property taxes	-	2,984	2,984
Total deferred inflows of resources	-	195,668	195,668
Fund Balances			
Nonspendable	18,375	11,745	30,120
Restricted	181,326	112,362	293,688
Total fund balances	199,701	124,107	323,808
Total liabilities, deferred inflows of resources, and fund balances	$ 260,223	$ 484,879	$ 745,102

Independent School District No. 879
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2016

	Special Revenue Funds		Total
	Food Service	Community Service	Total Nonmajor Funds
Revenues			
Local property taxes	$ -	$ 170,733	$ 170,733
Other local and county revenues	4,492	1,846,966	1,851,458
Revenue from state sources	44,480	141,044	185,524
Revenue from federal sources	270,611	-	270,611
Sales and other conversion of assets	698,850	122,348	821,198
Total revenues	1,018,433	2,281,091	3,299,524
Expenditures			
Current			
Food service	991,863	-	991,863
Community education and services	-	2,410,519	2,410,519
Capital outlay			
Food service	19,364	-	19,364
Community education and services	-	12,324	12,324
Total expenditures	1,011,227	2,422,843	3,434,070
Net change in fund balances	7,206	(141,752)	(134,546)
Fund Balances			
Beginning of year	192,495	265,859	458,354
End of year	$ 199,701	$ 124,107	$ 323,808

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Detail General Fund
Year Ended June 30, 2016

	2016				2015
	Budgeted Amounts		Actual	Variance with Final Budget -	Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues					
Local property taxes					
Property tax levy	$ 2,510,814	$ 2,478,814	$ 2,466,302	$ (12,512)	$ 2,386,827
County apportionment	40,000	40,000	38,716	(1,284)	51,786
Miscellaneous taxes	25,000	25,000	28,076	3,076	23,242
Total local property taxes	2,575,814	2,543,814	2,533,094	(10,720)	2,461,855
Other local and county revenues					
Tuition and fees	247,785	349,845	368,157	18,312	320,457
Interest	10,000	16,000	32,242	16,242	11,017
Other local revenues	194,156	540,561	571,383	30,822	576,348
Total other local and county revenues	451,941	906,406	971,782	65,376	907,822
Revenue from state sources					
General education aid	17,038,929	17,053,901	17,116,478	62,577	16,580,759
Endowment fund	70,000	79,010	79,011	1	72,125
Special education aid	1,838,093	2,139,000	2,253,190	114,190	2,036,944
Educational agricultural and homestead credit	4,200	7,077	6,702	(375)	4,285
Other aids	730,168	734,265	1,021,931	287,666	716,947
Total revenue from state sources	19,681,390	20,013,253	20,477,312	464,059	19,411,060
Revenue from federal sources					
Title I	63,503	66,379	66,379	-	74,017
Special education	154,364	162,269	162,269	-	148,946
Other	47,003	48,172	48,172	-	48,546
Total revenue from federal source	264,870	276,820	276,820	-	271,509
Sales and other conversion of assets					
Local sales and other conversion of assets	-	6,873	6,927	54	10,468
Total revenues	22,974,015	23,747,166	24,265,935	518,769	23,062,714
Expenditures					
Current					
Administration					
Salaries and wages	748,213	736,143	735,346	(797)	735,566
Employee benefits	307,579	280,111	277,208	(2,903)	280,535
Purchased services	14,100	9,252	7,509	(1,743)	12,705
Supplies and materials	11,960	29,620	20,629	(8,991)	24,627
Capital expenditures	7,500	5,224	4,994	(230)	4,788
Other expenditures	33,157	32,439	20,232	(12,207)	19,895
Total administration	1,122,509	1,092,789	1,065,918	(26,871)	1,078,116
District support services					
Salaries and wages	590,274	381,737	378,986	(2,751)	339,293
Employee benefits	435,040	182,624	176,146	(6,478)	172,197
Purchased services	244,826	225,575	218,048	(7,527)	232,075
Supplies and materials	44,050	24,575	23,666	(909)	28,980
Capital expenditures	303,000	325,895	324,583	(1,312)	202,724
Other expenditures	57,065	47,562	46,163	(1,399)	52,604
Total district support services	1,674,255	1,187,968	1,167,592	(20,376)	1,027,873

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes In Fund Balance -
Budget and Actual - Detail General Fund
Year Ended June 30, 2016

	2016				2015
	Budgeted Amounts		Actual	Variance with Final Budget -	Actual
	Original	Final	Amounts	Over (Under)	Amounts
Expenditures					
Elementary and secondary regular instruction					
Salaries and wages	$ 7,587,998	$ 7,827,618	$ 7,814,002	$ (13,616)	$ 7,287,399
Employee benefits	2,852,926	2,940,143	3,186,256	246,113	2,759,071
Purchased services	432,714	719,231	694,707	(24,524)	525,082
Supplies and materials	247,670	507,099	456,520	(50,579)	614,603
Capital expenditures	53,374	111,831	112,757	926	201,578
Other expenditures	27,988	27,001	26,761	(240)	28,756
Total elementary and secondary regular instruction	11,202,670	12,132,923	12,291,003	158,080	11,416,489
Vocational education instruction					
Salaries and wages	59,904	101,452	101,409	(43)	98,245
Employee benefits	28,046	47,741	47,184	(557)	41,234
Purchased services	207,100	190,850	189,401	(1,449)	214,823
Supplies and materials	4,000	4,000	1,915	(2,085)	262
Total vocational education instruction	299,050	344,043	339,909	(4,134)	354,564
Special education instruction					
Salaries and wages	2,187,150	2,446,554	2,439,698	(6,856)	2,079,052
Employee benefits	829,739	883,118	862,321	(20,797)	783,326
Purchased services	186,505	297,877	294,120	(3,757)	197,711
Supplies and materials	99,755	75,891	63,218	(12,673)	48,397
Capital expenditures	795	19,297	18,503	(794)	25,365
Other expenditures	17,500	23,458	23,458	-	14,460
Total special education instruction	3,321,444	3,746,195	3,701,318	(44,877)	3,148,311
Instructional support services					
Salaries and wages	720,706	712,661	707,617	(5,044)	744,440
Employee benefits	256,474	256,764	252,484	(4,280)	251,902
Purchased services	122,827	90,823	63,743	(27,080)	47,737
Supplies and materials	241,322	50,329	37,378	(12,951)	39,016
Capital expenditures	15,870	14,952	9,177	(5,775)	26,046
Other expenditures	16,230	15,452	14,744	(708)	15,051
Total instructional support services	1,373,429	1,140,981	1,085,143	(55,838)	1,124,192
Pupil support services					
Salaries and wages	412,114	255,867	255,567	(300)	263,818
Employee benefits	398,971	348,231	343,320	(4,911)	430,187
Purchased services	1,491,580	1,580,482	1,579,821	(661)	1,521,092
Supplies and materials	8,110	21,958	19,311	(2,647)	10,078
Capital expenditures	1,100	8,991	8,985	(6)	-
Other expenditures	1,855	1,895	1,650	(245)	1,755
Total pupil support services	2,313,730	2,217,424	2,208,654	(8,770)	2,226,930

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Detail General Fund
Year Ended June 30, 2016

	2016				2015
	Budgeted Amounts		Actual	Variance with Final Budget -	Actual
	Original	Final	Amounts	Over (Under)	Amounts
Expenditures					
Sites and buildings					
Salaries and wages	$ 660,672	$ 627,886	$ 627,159	$ (727)	$ 603,038
Employee benefits	311,246	313,456	304,684	(8,772)	297,351
Purchased services	798,490	677,646	654,802	(22,844)	582,308
Supplies and materials	292,814	264,073	259,748	(4,325)	273,707
Capital expenditures	40,000	60,232	60,229	(3)	25,112
Other expenditures	12,720	12,890	12,890	-	12,720
Total sites and buildings	2,115,942	1,956,183	1,919,512	(36,671)	1,794,236
Fiscal and other fixed cost programs					
Purchased services	95,000	95,000	93,071	(1,929)	93,010
Debt service					
Principal	224,492	224,512	224,512	-	215,539
Interest and fiscal charges	73,986	73,966	73,966	-	82,940
Total debt service	298,478	298,478	298,478	-	298,479
Total expenditures	23,816,507	24,211,984	24,170,598	(41,386)	22,562,200
Excess of revenues over (under) expenditures	(842,492)	(464,818)	95,337	560,155	500,514
Other Financing Sources					
Proceeds from sale of capital assets	-	7,541	7,541	-	175
Net change in fund balance	$ (842,492)	$ (457,277)	102,878	$ 560,155	500,689
Fund Balance					
Beginning of year			6,834,458		6,333,769
End of year			$ 6,937,336		$ 6,834,458

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Detail Food Service Fund
Year Ended June 30, 2016

	2016				2015
	Budgeted Amounts		Actual	Variance with Final Budget -	Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues					
Other local and county revenues					
Interest	$ 400	$ 900	$ 3,298	$ 2,398	$ 412
Other local revenues	2,700	1,200	1,194	(6)	2,781
Total other local and county revenues	3,100	2,100	4,492	2,392	3,193
Revenue from state sources					
Lunch program aid	43,860	45,075	44,480	(595)	44,390
Revenue from federal sources					
Lunch aid program	204,109	196,769	195,958	(811)	201,824
Food distribution program	77,000	74,881	74,653	(228)	62,019
Total revenue from federal sources	281,109	271,650	270,611	(1,039)	263,843
Sales and other conversion of assets					
Sale of food	679,867	698,992	698,850	(142)	665,390
Total revenues	1,007,936	1,017,817	1,018,433	616	976,816
Expenditures					
Current					
Food service					
Salaries and wages	370,426	370,426	362,486	(7,940)	363,059
Employee benefits	160,468	160,488	144,664	(15,824)	151,095
Purchased services	34,450	38,630	38,355	(275)	34,443
Supplies and materials	442,500	452,686	440,842	(11,844)	414,054
Capital expenditures	25,000	20,250	19,364	(886)	3,725
Other expenditures	5,800	5,545	5,516	(29)	5,772
Total expenditures	1,038,644	1,048,025	1,011,227	(36,798)	972,148
Net change in fund balance	$ (30,708)	$ (30,208)	7,206	$ 37,414	4,668
Fund Balance					
Beginning of year			192,495		187,827
Ending of year			$ 199,701		$ 192,495

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Detail Community Service Fund
Year Ended June 30, 2016

	2016				2015
	Budgeted Amounts		Actual	Variance with Final Budget -	Actual
	Original	Final	Amounts	Over (Under)	Amounts
Revenues					
Local property taxes					
Property tax levy	$ 172,331	$ 172,331	$ 168,787	$ (3,544)	$ 149,252
Miscellaneous taxes	350	350	1,946	1,596	301
Total local property taxes	172,681	172,681	170,733	(1,948)	149,553
Other local and county revenues					
Tuition and fees	1,586,263	1,770,147	1,753,892	(16,255)	1,540,849
Interest	1,500	1,500	1,742	242	993
Other local revenues	68,500	93,723	91,332	(2,391)	95,662
Total other local and county revenues	1,656,263	1,865,370	1,846,966	(18,404)	1,637,504
Revenue from state sources					
Educational agricultural and homestead credit	1,100	1,425	1,582	157	869
Other aids	118,442	138,362	139,462	1,100	125,857
Total revenue from state sources	119,542	139,787	141,044	1,257	126,726
Sales and other conversion of assets					
Sale of food	109,000	109,000	122,348	13,348	112,880
Total revenues	2,057,486	2,286,838	2,281,091	(5,747)	2,026,663
Expenditures					
Community education and services					
Salaries and wages	1,244,312	1,383,015	1,498,539	115,524	1,330,270
Employee benefits	324,892	362,405	391,694	29,289	327,502
Purchased services	280,920	311,389	311,065	(324)	275,257
Supplies and materials	197,914	217,586	202,049	(15,537)	209,316
Capital expenditures	19,500	20,000	12,324	(7,676)	46,304
Other expenditures	9,268	9,368	7,172	(2,196)	3,778
Total expenditures	2,076,806	2,303,763	2,422,843	119,080	2,192,427
Net change in fund balance	$ (19,320)	$ (16,925)	(141,752)	$ (124,827)	(165,764)
Fund Balance					
Beginning of year			265,859		431,623
End of year			$ 124,107		$ 265,859

Independent School District No. 879
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2016

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 24,265,935	$ 24,265,936	$ (1)
Total expenditures		24,170,598	24,170,600	(2)
Nonspendable:				
460	Nonspendable fund balance	126,733	126,732	1
Restricted/Reserved:				
403	Staff Development	133,472	133,472	-
405	Deferred Maintenance	576,158	576,158	-
406	Health and Safety	(15,777)	(15,777)	-
407	Capital Projects Levy	-	-	-
408	Cooperative Programs	-	-	-
409	Alternative Facility Program	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
414	Operating Debt	-	-	-
416	Levy Reduction	-	-	-
417	Taconite Building Maintenance	-	-	-
424	Operating Capital	1,078,525	1,078,525	-
426	$25 Taconite	-	-	-
427	Disabled Accessibility	-	-	-
428	Learning and Development	-	-	-
434	Area Learning Center	974	974	-
435	Contracted Alternative Programs	-	-	-
436	State Approved Alternative Program	-	-	-
438	Gifted and Talented	-	-	-
440	Teacher Development and Evaluation	-	-	-
441	Basic Skills Programs	-	-	-
445	Career Technical Programs	-	-	-
446	First Grade Preparedness	-	-	-
448	Achievement and Integration	-	-	-
449	Safe School Crime	-	-	-
450	Transition for Pre-kindergarten	-	-	-
451	QZAB and QSCB Payments	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
453	Unfunded Severance and			
Restricted	Retirement Levy	-	-	-
464	Restricted Fund Balance	-	-	-
Committed:				
418	Committed for Separation	149,130	149,130	-
461	Committed	-	-	-
Assigned:				
462	Assigned Fund Balance	428,543	428,543	-
Unassigned:				
422	Unassigned Fund Balance (Net Position)	4,459,578	4,459,579	(1)
02 Food Services Fund				
Total revenue		$ 1,018,433	$ 1,018,432	$ 1
Total expenditures		1,011,227	1,011,228	(1)
Nonspendable:				
460	Nonspendable fund balance	18,375	18,375	-
Restricted/reserved:				
452	OPEB liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	181,326	181,325	1
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 2,281,091	$ 2,281,094	$ (3)
Total expenditures		2,422,843	2,422,843	-
Nonspendable:				
460	Nonspendable fund balance	11,745	11,745	-
Restricted/reserved:				
426	$25 taconite	-	-	-
431	Community education	109,015	109,015	-
432	ECFE	(82)	(82)	-
440	Teacher Development and Evaluation	-	-	-
444	School readiness	2,414	2,414	-
447	Adult basic education	966	966	-
452	Opeb liabilities not held in trust	-	-	-
Restricted:				
464	Restricted fund balance	49	48	1
Unassigned:				
463	Unassigned fund balance	-	-	-

		Audit	UFARS	Audit-UFARS
06 Building Construction Fund				
Total revenue		$ 148,847	$ 148,848	$ (1)
Total expenditures		2,362,700	2,362,699	1
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/Reserved:				
407	Capital Projects Levy	-	-	-
409	Alternative Facility Program	-	-	-
413	Building Projects Funded by COP/LP	-	-	-
Restricted:				
464	Restricted fund balance	63,108,590	63,108,591	(1)
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 2,343,453	$ 2,343,452	$ 1
Total expenditures		2,347,173	2,347,173	-
Nonspendable:		-	-	-
460	Nonspendable fund balance			
Restricted/Reserved:				
425	Bond refunding	-	-	-
451	QZAB and QSCB payments	-	-	-
Restricted:				
464	Restricted fund balance	511,322	511,321	1
Unassigned:				
463	Unassigned fund balance	-	-	-
08 Trust Fund				
Total revenue		$ 68,107	$ 68,107	$ -
Total expenditures		68,890	68,889	1
Unassigned:				
422	Unassigned fund balance (net position)	31,046	31,046	-
20 Internal Service Fund				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
25 OPEB Revocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
45 OPEB Irrevocable Trust				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Unassigned fund balance (net position)	-	-	-
47 OPEB Debt Service				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Unassigned:				
463	Unassigned fund balance	-	-	-

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BerganKDV, Ltd.

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. 879
Delano, 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. 879, Delano, Minnesota, as of and for the year ending June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 9, 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.

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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 Corrective Action Plans on Legal Compliance and Internal Control that we consider to be a significant deficiency in internal control, Audit Finding 2011-001.

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 Corrective Action Plans on Legal Compliance and Internal Control. 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.

BerganKDV Ltd.

Minneapolis, Minnesota
November 9, 2016

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BerganKDV, Ltd.

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Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 879
Delano, 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. 879, Delano, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, and have issued our report thereon dated November 9, 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 results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Bergan KDV Ltd.

Minneapolis, Minnesota
November 9, 2016

Independent School District No. 879
Schedule of Findings and Corrective Action Plans
on Legal Compliance and Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Audit Finding 2011-001 – Lack of Segregation of Accounting Duties

During the year ended June 30, 2016, the District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. 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. 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 district accountant enters bank deposit amounts in skyward, along with preparing the monthly bank reconciliations.
- The District Accountant stuffs and mails checks to vendors, along with preparing the monthly bank reconciliations.
- The Business Manager and District Accountant have access to all areas of the accounting system, while performing some initiation and reconciliation duties.

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
   Administration will examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named, as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.

3. Official Responsible for Ensuring CAP
   Matthew Schoen, Superintendent, 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 ongoing.

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

Independent School District No. 879
Schedule of Findings and Corrective Action Plans
on Legal Compliance and Internal Control

PRIOR YEAR LEGAL COMPLIANCE FINDING:

Eliminate Old Outstanding Checks

According to *Minnesota Statutes* 345.38-.43, if the local government's records show unclaimed property over $100 for more than three years, the property should be reported and paid or delivered to the State Commissioner of Commerce.

At June 30, 2015, the District had 1 outstanding check over $100 and more than three years old on its bank reconciliation which wasn't reported and paid or delivered to the State Commissioner of Commerce as required by *Minnesota Statutes* 345.38-.43.

CORRECTIVE ACTION TAKEN:

The District properly followed up on all outstanding items.