

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 181
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INTRODUCTORY SECTION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2016**

BOARD OF EDUCATION

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Tom Haglin	December 31, 2018	Chairperson
Bob Nystrom	December 31, 2016	Vice-Chairperson
Chris Robinson	December 31, 2018	Clerk/Treasurer
Reed Campbell	December 31, 2016	Director
Ruth Nelson	December 31, 2018	Director
Sue Kern	December 31, 2016	Director

ADMINISTRATION

Robert Gross	Superintendent
William Severson	Director of Schools
Steve Lund	Director of Business Services
Tim Murtha	Director of Teaching and Learning
Cori Reynolds	Director of Community Education
Nancy Anderson	Assistant Director of Special Education
Sarah Porisch	Director of Media Services
Alissa Thompson	Director of Food Services
Earl Wolleat	Director of Building and Grounds
District Offices	Independent School District No. 181 Brainerd Public Schools 804 Oak Street Brainerd, MN 56401 (218) 454-6900

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 181
Brainerd Public Schools
Brainerd, 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 181 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

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

Report on Summarized Comparative Information

We have previously audited the District's 2015 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 19, 2015. 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for postemployment benefit plan, the schedule of employer contributions, the schedule of the District's proportionate share of the net pension liability, and the schedule of District contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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.

Supplementary 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 individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by *Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.


Other Matters (Continued)

Supplementary Information (Continued)

The individual fund financial statements, the Uniform Financial Accounting and Reporting Standards Compliance Table and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information 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 October 19, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 result 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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
October 19, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

This section of Brainerd Public Schools – Independent School District No. 181's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2015 - 2016 fiscal years include the following:

- District-wide, accrual basis net position increased by approximately \$5,407,000 on revenues of \$92,438,000 compared to expenses of \$87,031,000.
- Total General Fund revenues were approximately \$76,899,000 as compared to \$77,841,000 of expenditures.
- The fund balance of the General Fund decreased by a net of approximately \$38,000 from the prior year representing a .4% decrease in fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are District-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 District-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.
 - Proprietary funds statements (the District's health insurance internal service fund) offer short-term and long-term financial information about the activities the District operates like businesses.
 - 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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

District-Wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, 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 District-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – is one way to measure the District's financial health or position.

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

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

- Governmental activities – 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, state aids, and federal 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 it is properly using certain revenues (e.g., federal grants).

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

The District has three kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional reconciling information within the governmental funds statements to explain the relationship (or differences) between the funds.
- Proprietary funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District uses internal service funds to report activities that provide services for the District's other programs and activities. The District currently has one internal service fund for its self-insured health insurance fund.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the District's Postemployment Benefits Irrevocable Trust Fund, the amounts held for the flexible benefits and administrative dental programs and the amounts reported for the special education cooperative. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was \$1,857,384 on June 30, 2016, reflecting an improvement from the prior year net position of a negative \$3,549,621. The positive results in the overall governmental funds, retirement of long term debt and positive operating results in the internal service fund were all major contributors to the overall improvement (see Table A-1).

**Table A-1
The District's Net Position**

	Governmental Activities as of June 30,		Percentage Change
	2016	2015	
Current and Other Assets	\$ 65,715,371	\$ 66,609,596	(1.3)%
Capital and Noncurrent Assets	69,760,968	71,000,788	(1.7)
Total Assets	135,476,339	137,610,384	(1.6)
Deferred Outflows of Resources	8,886,622	7,028,766	N/A
Current Liabilities	12,720,793	13,157,033	(3.3)
Long-Term Liabilities	105,106,054	104,111,125	1.0
Total Liabilities	117,826,847	117,268,158	0.5
Deferred Inflows of Resources	24,678,730	30,920,613	(20.2)
Net Position			
Net Investment in Capital Assets	20,503,935	17,485,402	17.3
Restricted	5,486,354	5,254,910	4.4
Unrestricted	(24,132,905)	(26,289,933)	(8.2)
Total Net Position	\$ 1,857,384	\$ (3,549,621)	(152.3)

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$92,438,121 for the year ended June 30, 2016. Property taxes and state aid formula accounted for 67% of total revenue for the year. Another 27% came from other program-specific federal and state aid.

**Table A-2
Change in Net Position**

	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2016	2015	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 4,836,597	\$ 4,683,212	3.3 %
Operating Grants and Contributions	23,177,959	24,067,207	(3.7)
Capital Grants and Contributions	1,589,532	1,587,513	0.1
<u>General Revenues</u>			
Property Taxes	18,906,869	16,748,454	12.9
Unrestricted Federal and State Aid	43,396,196	42,420,370	2.3
Investment Earnings	48,460	15,807	206.6
Other	482,508	741,807	(35.0)
Total Revenues	<u>92,438,121</u>	<u>90,264,370</u>	2.4
Expenses			
Administration	2,848,546	2,850,235	(0.1)
District Support Services	1,330,874	1,287,986	3.3
Regular Instruction	33,725,916	31,722,100	6.3
Vocational Education Instruction	1,263,616	1,266,753	(0.2)
Special Education Instruction	19,361,021	20,049,308	(3.4)
Instructional Support Services	4,933,911	4,102,469	20.3
Pupil Support Services	6,502,933	6,149,223	5.8
Sites and Buildings	8,528,239	7,806,762	9.2
Fiscal and Other Fixed Cost Programs	304,376	349,148	(12.8)
Food Service	3,378,860	3,445,760	(1.9)
Community Service	2,870,807	2,438,072	17.7
Interest and Fiscal Charges on Long-Term Liabilities	1,982,017	2,295,700	(13.7)
Total Expenses	<u>87,031,116</u>	<u>83,763,516</u>	3.9
Increase (Decrease) in Net Position			
	5,407,005	6,500,854	
Net Position - Beginning of Year	<u>(3,549,621)</u>	<u>(10,050,475)</u>	
Net Position - End of Year	<u>\$ 1,857,384</u>	<u>\$ (3,549,621)</u>	

Revenues increased in 2016 primarily due to an increase in the local property tax levy and an increase in the state aid funding formula. Beyond this, the district also experienced a slight growth in enrollment increasing the overall revenue. While total expense experienced an overall growth of 3.9%, growth in revenue was able to sustain a growth in the net position by \$5,407,005.

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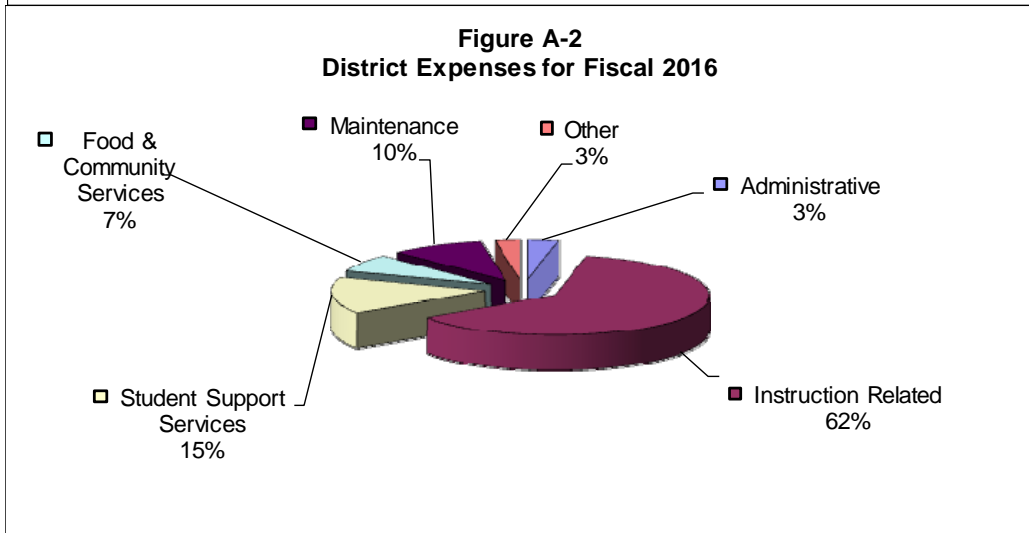
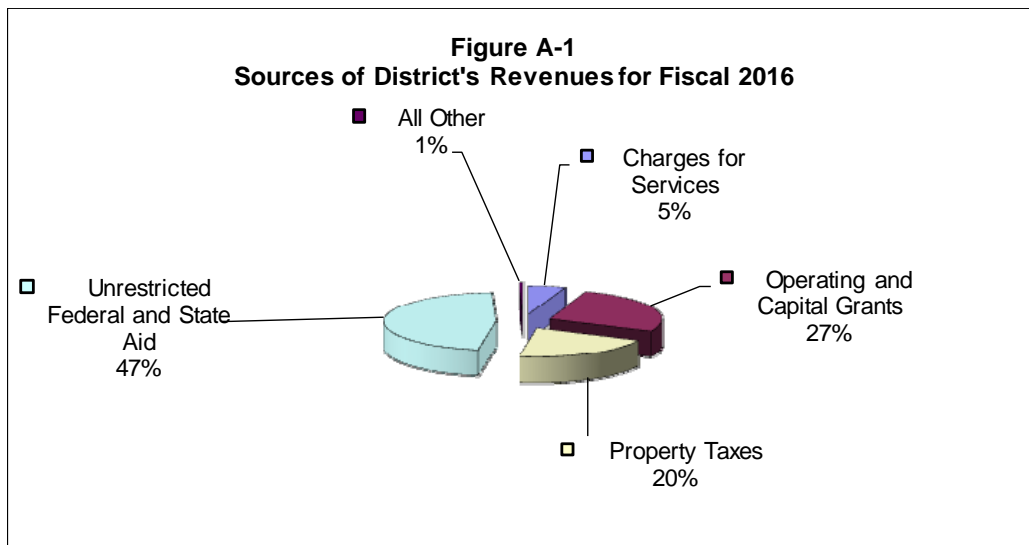
**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The cost of all governmental activities this year was \$87,031,146.

- Some of the cost was paid by the users of the District's programs (\$4,836,597).
- The federal and state governments subsidized certain programs with grants and contributions (\$24,767,491).
- The rest of the remaining District's costs (\$57,427,058), however, were paid by District taxpayers and the taxpayers of our state in property taxes and state aid based on the statewide education aid formula and other miscellaneous revenues.



**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-3
Cost and Net Cost of Services

	Total Cost of Services			Net Cost of Services		
	2016	2015	Change	2016	2015	Change
Administration	\$ 2,848,546	\$ 2,850,235	(0.1)%	\$ 2,474,714	\$ 2,601,038	(4.9)%
District Support Services	1,330,874	1,287,986	3.3	1,330,874	1,287,986	3.3
Regular Instruction	33,725,916	31,722,100	6.3	26,529,446	25,616,949	3.6
Vocational Education Instruction	1,263,616	1,266,753	(0.2)	1,155,149	1,089,909	6.0
Special Education Instruction	19,361,021	20,049,308	(3.4)	6,033,845	4,503,926	34.0
Instructional Support Services	4,933,911	4,102,469	20.3	4,417,974	3,452,785	28.0
Pupil Support Services	6,502,933	6,149,223	5.8	5,675,908	5,355,758	6.0
Sites and Buildings	8,528,239	7,806,762	9.2	7,077,024	6,359,345	11.3
Fiscal and Other Fixed Cost Programs	304,376	349,148	(12.8)	304,376	349,148	(12.8)
Food Service	3,378,860	3,445,760	(1.9)	(161,685)	(27,320)	491.8
Community Service	2,870,807	2,438,072	17.7	614,987	542,020	13.5
Interest and Fiscal Charges on Long-Term Liabilities	1,982,017	2,295,700	(13.7)	1,974,416	2,294,040	(13.9)
Total	\$ 87,031,116	\$ 83,763,516	3.9	\$ 57,427,028	\$ 53,425,584	7.5

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the school district as a whole is further detailed in the governmental funds balance sheet on pages 19 and 20. As the District completed the year, its governmental funds reported combined balances of \$14,238,093, marking a slight decline of about \$374,000. The majority of this decline was contained within the District's restricted funds, with the unassigned fund balance only decreasing by about \$10,000.

As detailed in the statement of revenues, expenditures and changes in fund balances on pages 22 and 23, the District's overall governmental fund revenues increased by approximately 2.3 percent to a level of \$92,403,25. At 1.3 percent, expenses for 2016 increased less than revenues; however, expenses remained in excess of revenues by about \$1.3 million. However, about \$922,000 of this increase was attributed to capital purchases that were funded by capital leases, resulting in a diminished negative impact on the ending fund balance of approximately \$374,000.

GENERAL FUND

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

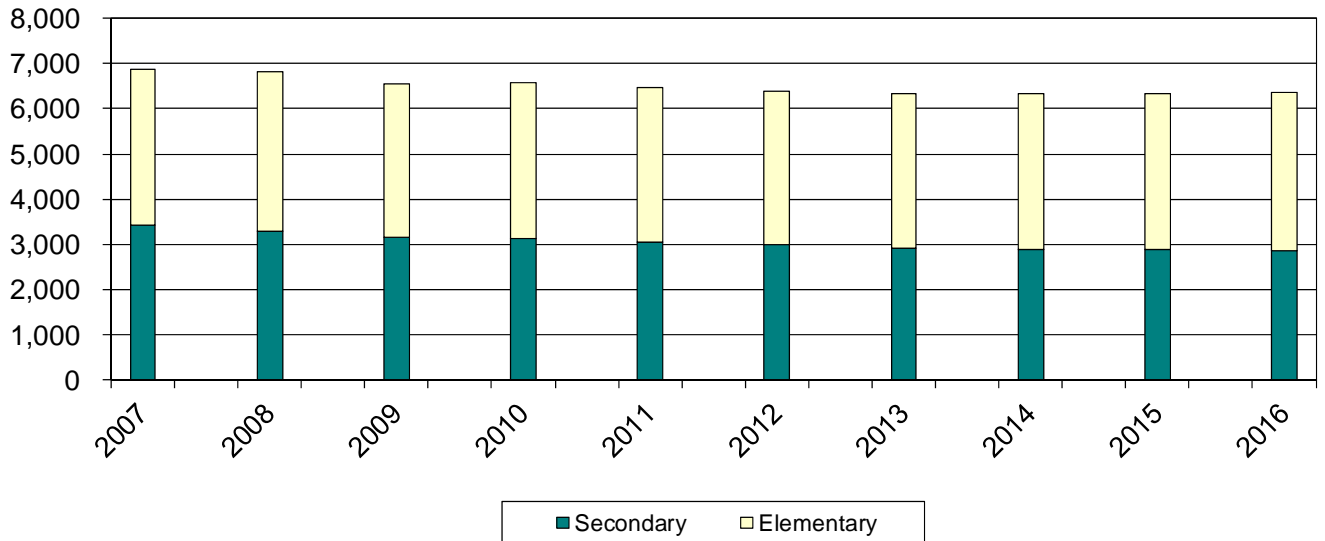
GENERAL FUND (CONTINUED)

The following graph shows the trend in student counts over the past ten years:

**Table A-4
Student Enrollment (Average Daily Membership)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Pre-K	69	73	71	79	86	85	101	107	101	107
HCP K	51	64	70	65	72	73	76	81	93	97
Reg K	434	449	414	457	427	410	394	408	411	378
Elementary	2,924	3,000	2,904	2,919	2,899	2,876	2,921	2,917	2,946	3,000
Secondary	3,439	3,306	3,160	3,119	3,049	3,008	2,908	2,903	2,884	2,865
Total Students for Aid	6,917	6,892	6,619	6,639	6,533	6,453	6,399	6,416	6,435	6,447
Percent Change	-0.44%	-0.36%	-3.96%	0.30%	-1.60%	-1.22%	-0.83%	0.26%	0.30%	0.19%

**Table A-3
BRAINERD PUBLIC SCHOOLS
Student Enrollment (in ADM's)**



**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues:

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2016	June 30, 2015	Amount Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 9,193,848	\$ 7,320,558	\$ 1,873,290	25.6 %
Earnings on Investments	22,002	4,688	17,314	369.3
Other	2,337,627	3,295,730	(958,103)	(29.1)
State Sources	63,044,374	60,422,778	2,621,596	4.3
Federal Sources	2,301,338	4,381,166	(2,079,828)	(47.5)
Total General Fund Revenue	<u>\$ 76,899,189</u>	<u>\$ 75,424,920</u>	<u>\$ 1,474,269</u>	2.0

Overall, total general fund revenue increased by \$1,474,269. Beginning in 2016, the District's general fund is no longer serving as the fiscal host for the Paul Bunyan Special Education Cooperative and removal of the revenues negatively impacted Federal and Other Local Source categories. However, offsetting this and producing the overall increase of 2 percent are increases in property tax revenues and state aid, which both are mainly attributed to legislative increases in school funding mechanisms for 2016.

The following schedule presents a summary of General Fund Expenditures:

**Table A-6
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2016	June 30, 2015	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 42,309,027	\$ 41,941,008	\$ 368,019	0.9 %
Employee Benefits	17,210,942	16,816,137	394,805	2.3
Purchased Services	9,962,145	9,605,025	357,120	3.7
Supplies and Materials	3,014,537	2,728,665	285,872	10.5
Capital Expenditures	4,276,515	2,776,501	1,500,014	54.0
Other Expenditures	1,067,838	1,328,288	(260,450)	(19.6)
Total Expenditures	<u>\$ 77,841,004</u>	<u>\$ 75,195,624</u>	<u>\$ 2,645,380</u>	3.5

Total General Fund Expenditures increased approximately \$2,645,380 or 3.5% to provide additional services and add more staff for growing enrollment along with necessary capital asset purchases and continued maintenance including an elevator, lease for computers and the Riverside addition.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

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

- Generally speaking, the first budget amendment concentrates on students and staff. Actual student counts from the beginning of the school year are tracked and matched against the student enrollment estimates used to project many of the revenue components in the preliminary budget revenue categories. Actual staffing and respective assignments are verified for accuracy against the projected staffing costs used to establish the preliminary budget expense for salaries and benefits.
- Because it occurs further into the fiscal year, the second amendment of the budget has a heavier concentration on the review and tracking of both actual revenue and expense categories toward the annual budgeted amounts.

In the case of either budget amendments, depending on how actual revenue and expense items are tracking against the preliminary budget amounts, adjustments are proposed to specific categories for review and approval by the school board.

Actual results differed from budget as follows:

- While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$716,834, actual expenditures exceeded actual revenues by \$941,815.
- Overall, actual revenues were about \$1,228,000 more than budgeted, representing approximately a 1.5% variation from budget to actual, primarily due to special education funding and TRA direct aid.
- The actual expenditures for current year were about \$1,453,355 more than budgeted, which represents less than 1% of budgeted expenditures, primarily due to capital outlay expenses and TRA direct aid.
- The General Fund's unassigned fund balance decreased by approximately \$10,100, and each category of restricted fund balance, except for health and safety, decreased, resulting in a slight decrease in overall fund balance.

CONSTRUCTION PROJECTS AND DEBT SERVICE

An annual levy is made to fund the bond payments of approximately \$6,570,000 in principal and \$2,471,095 of interest.

INTERNAL SERVICE FUND

The District provides group health insurance and dental insurance for various employee groups through a self-insurance program funded by District contributions and payroll withholding. Medica is the current provider of administrative services for health insurance and Delta Dental is the current provider of administrative services for dental insurance. Revenues for the year ended June 30, 2016 exceeded expenses by approximately \$384,000 and net position at year-end totaled approximately \$5,987,000 as compared to annual expenses of approximately \$12,709,000.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

CAPITAL ASSETS

As shown in the table below, the District has invested \$131,826,434 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$4,310,518.

**Table A-7
The District's Capital Assets**

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Land	\$ 2,230,747	\$ 2,180,972	2.3 %
Construction-in-Progress	-	1,188,464	(100.0)
Land Improvements	12,451,613	12,369,206	0.7
Buildings and Improvements	102,755,990	99,221,451	3.6
Equipment	14,388,084	14,152,704	1.7
Less: Accumulated Depreciation	<u>(62,065,466)</u>	<u>(58,112,009)</u>	6.8
Total	<u><u>\$ 69,760,968</u></u>	<u><u>\$ 71,000,788</u></u>	(1.7)

Long-Term Liabilities

At year-end, the District had \$55,890,000 in general obligation bonds outstanding, approximately \$4,419,000 in a lease purchase, and about \$2,983,000 in capital leases as shown in Note 5 to the financial statements.

**Table A-8
The District's Long-Term Liabilities**

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 55,890,000	\$ 62,460,000	(10.5)%
Net Bond Premium and Discount	1,171,324	1,499,565	(21.9)
Obligations Under Capital Leases	2,983,406	2,499,346	19.4
Lease Purchase Series 2014	<u>4,418,657</u>	<u>4,689,623</u>	100.0
Total	<u><u>\$ 64,463,387</u></u>	<u><u>\$ 71,148,534</u></u>	(9.4)
Long-Term Liabilities			
Due Within One Year	\$ 7,578,324	\$ 7,190,914	
Due in More Than One Year	<u>56,885,063</u>	<u>63,957,620</u>	
Total	<u><u>\$ 64,463,387</u></u>	<u><u>\$ 71,148,534</u></u>	

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendums, the District is dependent on the State of Minnesota for its revenue authority.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the State of Minnesota and its legislative process for educational resources.

As the state economy followed national trends during the downturn from 2009 – 2012, increases in funding from the state were very limited and at a level that were insufficient in meeting the instructional program needs and increased costs due to inflation. The District responded to these financial challenges by taking appropriate steps to bring relative stability to its budget. While the amount of the unassigned fund balance has experienced stability, the District's expenses continue to increase resulting on a reduction of the percentage of the unassigned balance when compared to its annual operating expenditures. Although the District's unassigned fund balance diminished by only about \$10,000 in 2016, its percent of annual expenditures experienced a greater decline to a level that is now at 9.7 percent of its annual expenditures. While this level remains above the current school board policy, reduction of this percentage results in a diminishment of the unassigned fund balance's impact in assisting in financial and cash flow needs resulting from any future uncertainty in funding or unexpected changes in its operating environment.

However, as the economic recovery has produced positive results in the State of Minnesota's overall budget, the legislature has allocated additional funding resources to school districts at a greater level. In fact, the basic aid formula amount has increased nearly 8 percent since 2012 to its current level of \$5,948 per pupil in 2016. Beyond this, the state also adjusted funding for kindergarten students from 61 percent to 100 percent of this formula amount in 2014, resulting in additional revenue beyond the percentage increase in the basic formula aid. Also, in recent years, the state legislature has expanded the authority provided to school boards to secure additional funding through their local property tax levies. This expanded authority has resulted in over \$300 per pupil in additional revenue since 2014.

The District has also recently experienced a reversal of its historical trend of declining enrollment, showing an increase of nearly 50 students since 2013. With continued active and prudent management of expenses, combined with the effects of increased funding from the state and increasing trends in enrollment, the District is well-positioned to achieve stability in its operating budget.

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. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 181, 804 Oak Street, Brainerd, Minnesota 56401.

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BASIC FINANCIAL STATEMENTS

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF NET POSITION
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Governmental Activities	
	2016	2015
ASSETS		
Cash and Investments	\$ 24,620,660	\$ 22,327,991
Cash Held by Fiscal Agent	150,830	1,408,869
Receivables		
Property Taxes	9,365,940	10,492,789
Other Governments	8,004,692	8,343,170
Other	230,149	333,142
Prepaid Items	163,712	85,873
Net Prepaid OPEB Obligation	23,055,863	23,496,584
Inventories	123,525	121,178
Capital Assets		
Land	2,230,747	2,180,972
Construction in Progress	-	1,188,464
Other Capital Assets, Net of Depreciation	67,530,221	67,631,352
Total Assets	<u>135,476,339</u>	<u>137,610,384</u>
DEFERRED OUTFLOWS OF RESOURCES		
Loss on Refunding	85,506	99,757
Pension Related	8,801,116	6,929,009
Total Deferred Outflows of Resources	<u>8,886,622</u>	<u>7,028,766</u>
LIABILITIES		
Salaries Payable	2,169,612	2,067,589
Accounts and Contracts Payable	1,243,322	1,819,814
Accrued Interest	1,003,808	1,132,506
Due to Other Governmental Units	377,751	498,467
Unearned Revenue - Charges for Services	150,325	194,447
Net Pension Liability	48,220,991	40,153,505
Long-Term Liabilities		
Portion Due Within One Year	7,775,975	7,444,210
Portion Due in More Than One Year	56,885,063	63,957,620
Total Liabilities	<u>117,826,847</u>	<u>117,268,158</u>
DEFERRED INFLOWS OF RESOURCES		
Gain on Refunding	186,299	239,977
Pension Related	6,398,455	12,751,279
Property Taxes Levied for Subsequent Year	18,093,976	17,929,357
Total Deferred Inflows of Resources	<u>24,678,730</u>	<u>30,920,613</u>
NET POSITION		
Net Investment in Capital Assets	20,503,935	17,485,402
Restricted for:		
General Fund Operating Capital Purposes	715,793	762,048
General Fund State-Mandated Reserves	1,782,427	1,945,002
Food Service	255,888	91,048
Community Service	1,448,273	1,276,448
Building Company	199,274	199,006
Debt Service	1,084,699	981,358
Unrestricted	(24,132,905)	(26,289,933)
Total Net Position	<u>\$ 1,857,384</u>	<u>\$ (3,549,621)</u>

See accompanying Notes to Financial Statements.

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BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)

Functions	2016				2015	
	Expenses	Program Revenues			Net (Expense)	Net (Expense)
		Charges for Services	Operating	Capital	Revenue and	Revenue and
			Grants and Contributions	Grants and Contributions	Changes in	Changes in
				Net Position	Net Position	
				Total	Total	
				Governmental	Governmental	
				Activities	Activities	
Governmental Activities						
Administration	\$ 2,848,546	\$ 42,250	\$ 331,582	\$ -	\$ (2,474,714)	\$ (2,601,038)
District Support Services	1,330,874	-	-	-	(1,330,874)	(1,287,986)
Regular Instruction	33,725,916	983,483	6,145,843	67,144	(26,529,446)	(25,616,949)
Vocational Education Instruction	1,263,616	51,352	57,115	-	(1,155,149)	(1,089,909)
Special Education Instruction	19,361,021	671,330	12,655,846	-	(6,033,845)	(4,503,926)
Instructional Support Services	4,933,911	24,457	421,806	69,674	(4,417,974)	(3,452,785)
Pupil Support Services	6,502,933	-	825,526	1,499	(5,675,908)	(5,355,758)
Sites and Buildings	8,528,239	-	-	1,451,215	(7,077,024)	(6,359,345)
Fiscal and Other Fixed Cost Programs	304,376	-	-	-	(304,376)	(349,148)
Food Service	3,378,860	1,380,231	2,160,314	-	161,685	27,320
Community Service	2,870,807	1,683,494	572,326	-	(614,987)	(542,020)
Interest and Fiscal Charges on						
Long-Term Liabilities	1,982,017	-	7,601	-	(1,974,416)	(2,294,040)
Total School District	<u>\$ 87,031,116</u>	<u>\$ 4,836,597</u>	<u>\$ 23,177,959</u>	<u>\$ 1,589,532</u>	<u>(57,427,028)</u>	<u>(53,425,584)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					9,391,109	7,289,444
Community Service					568,241	584,454
Debt Service					8,947,519	8,874,556
State Aid Not Restricted to Specific Purposes					43,396,196	42,420,370
Earnings on Investments					48,460	15,807
Gain on Sale of Assets					4,359	-
Miscellaneous					478,149	741,807
Total General Revenues					<u>62,834,033</u>	<u>59,926,438</u>
Change in Net Position					5,407,005	6,500,854
Net Position - Beginning of Year					(3,549,621)	(10,050,475)
Net Position - End of Year					<u>\$ 1,857,384</u>	<u>\$ (3,549,621)</u>

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Major Funds		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 9,025,630	\$ 203,842	\$ 1,802,099
Cash Held by Fiscal Agent	150,830	-	-
Receivables			
Current Property Taxes	4,254,758	-	270,011
Delinquent Property Taxes	248,163	-	18,259
Due from Other Minnesota School Districts	239,613	-	-
Due from Minnesota Department of Education	5,926,120	-	65,529
Due from Federal through Minnesota Department of Education	410,483	24,021	3,671
Due from Other Governmental Units	1,329,476	-	-
Other Receivables	230,149	-	-
Prepaid Items	157,712	6,000	-
Inventory	21,875	101,650	-
Total Assets	<u>\$ 21,994,809</u>	<u>\$ 335,513</u>	<u>\$ 2,159,569</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Salaries Payable	\$ 1,994,891	\$ 74,785	\$ 99,936
Accounts and Contracts Payable	437,731	4,130	6,868
Due to Other Minnesota School Districts	101,158	-	-
Due to Other Governmental Units	276,593	-	-
Unearned Revenue - Charges for Services	117,302	710	32,313
Total Liabilities	<u>2,927,675</u>	<u>79,625</u>	<u>139,117</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	8,421,825	-	572,179
Unavailable Revenue - Delinquent Taxes	100,376	-	18,259
Total Deferred Inflows of Resources	<u>8,522,201</u>	<u>-</u>	<u>590,438</u>
Fund Balance			
Nonspendable:			
Prepaid Items	157,712	6,000	-
Inventory	21,875	101,650	-
Restricted:			
Deferred Maintenance	207,901	-	-
Health and Safety	41,109	-	-
Projects Funded by Certificates of Lease Purchase	-	-	-
Alternative Facilities Program	-	-	-
Operating Capital	715,793	-	-
Learning and Development	241,058	-	-
Safe Schools - Crime	276,968	-	-
Community Education Programs	-	-	963,729
Early Childhood and Family Educations Programs	-	-	429,469
School Readiness	-	-	34,877
Staff Development	1,015,391	-	-
Other Restricted	-	148,238	1,939
Assigned:			
Q Comp	424,430	-	-
Unassigned	7,442,696	-	-
Total Fund Balances	<u>10,544,933</u>	<u>255,888</u>	<u>1,430,014</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 21,994,809</u>	<u>\$ 335,513</u>	<u>\$ 2,159,569</u>

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Total Governmental Funds	
		2016	2015
\$ 199,274	\$ 6,607,951	\$ 17,838,796	\$ 15,918,792
-	-	150,830	1,408,869
-	4,294,226	8,818,995	9,914,791
-	280,523	546,945	577,998
-	-	239,613	588,186
-	5,779	5,997,428	6,655,361
-	-	438,175	1,006,411
-	-	1,329,476	93,212
-	-	230,149	333,142
-	-	163,712	85,873
-	-	123,525	121,178
<u>\$ 199,274</u>	<u>\$ 11,188,479</u>	<u>\$ 35,877,644</u>	<u>\$ 36,703,813</u>
\$ -	\$ -	\$ 2,169,612	\$ 2,067,589
-	-	448,729	1,013,726
-	-	101,158	257,951
-	-	276,593	240,516
-	-	150,325	194,447
-	-	3,146,417	3,774,229
-	9,099,972	18,093,976	17,929,357
-	280,523	399,158	388,284
-	9,380,495	18,493,134	18,317,641
-	-	163,712	85,873
-	-	123,525	121,178
-	-	207,901	478,267
-	-	41,109	(130,809)
-	-	-	678,921
199,274	-	199,274	199,006
-	-	715,793	762,048
-	-	241,058	249,603
-	-	276,968	272,866
-	-	963,729	907,231
-	-	429,469	336,703
-	-	34,877	8,493
-	-	1,015,391	1,075,075
-	1,807,984	1,958,161	1,807,829
-	-	424,430	306,861
-	-	7,442,696	7,452,798
<u>199,274</u>	<u>1,807,984</u>	<u>14,238,093</u>	<u>14,611,943</u>
<u>\$ 199,274</u>	<u>\$ 11,188,479</u>	<u>\$ 35,877,644</u>	<u>\$ 36,703,813</u>

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**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
Total Fund Balance for Governmental Funds	\$ 14,238,093	\$ 14,611,943
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	2,230,747	2,180,972
Construction-in-Progress	-	1,188,464
Land Improvements, Net of Accumulated Depreciation	6,228,944	6,678,846
Buildings and Improvements, Net of Accumulated Depreciation	57,125,001	56,611,914
Equipment, Net of Accumulated Depreciation	4,176,276	4,340,592
OPEB trust assets net of the OPEB liability recognized to date, are not current financial resources and, therefore, are not reported at fund level.	23,055,863	23,496,584
The District's Net Pension Liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Net Pension Liability	(48,220,991)	(40,153,505)
Deferred Inflows of Resources - Pension Related	(6,398,455)	(12,751,279)
Deferred Outflows of Resources - Pension Related	8,801,116	6,929,009
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows of resources in the funds.	399,158	388,284
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(1,003,808)	(1,132,506)
Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end are:	5,987,271	5,603,111
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(55,890,000)	(62,460,000)
Unamortized Premiums	(1,179,032)	(1,507,273)
Unamortized Discounts	7,708	7,708
Gain on Refunding Bond	(186,299)	(239,977)
Loss on Refunding Bond	85,506	99,757
Obligations Under Capital Leases	(2,983,406)	(2,499,346)
Lease Purchase Payable	(4,418,657)	(4,689,623)
Compensated Absences Payable	(197,651)	(253,296)
Total Net Position of Governmental Activities	\$ 1,857,384	\$ (3,549,621)

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	Major Funds		
	General	Food Service	Community Service
REVENUES			
Local			
Property Taxes	\$ 9,193,848	\$ -	\$ 570,700
Earnings on Investments	22,002	212	3,511
Other	2,337,627	1,388,876	1,756,938
State Sources	63,044,374	196,179	575,019
Federal Sources	2,301,338	1,964,135	3,671
Total Revenues	<u>76,899,189</u>	<u>3,549,402</u>	<u>2,909,839</u>
EXPENDITURES			
Current			
Administration	2,748,001	-	-
District Support Services	1,275,664	-	-
Regular Instruction	31,865,041	-	-
Vocational Education Instruction	1,183,136	-	-
Special Education Instruction	18,168,417	-	-
Instructional Support Services	4,369,305	-	-
Pupil Support Services	6,132,662	-	-
Sites and Buildings	6,560,636	-	-
Fiscal and Other Fixed Cost Programs	304,376	-	-
Food Service	-	3,384,562	-
Community Service	36,049	-	2,723,266
Capital Outlay	4,276,515	-	30,496
Debt Service			
Principal	709,149	-	-
Interest and Fiscal Charges	212,053	-	-
Total Expenditures	<u>77,841,004</u>	<u>3,384,562</u>	<u>2,753,762</u>
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(941,815)	164,840	156,077
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	18,207
Transfers Out	(18,207)	-	-
Lease Refunding Payment	-	-	-
Proceeds from Capital Leases	922,243	-	-
Sale of Capital Assets	-	-	-
Total Other Financing Sources (Uses)	<u>904,036</u>	<u>-</u>	<u>18,207</u>
NET CHANGE IN FUND BALANCE	(37,779)	164,840	174,284
Fund Balance - Beginning of Year	<u>10,582,712</u>	<u>91,048</u>	<u>1,255,730</u>
FUND BALANCE - END OF YEAR	<u>\$ 10,544,933</u>	<u>\$ 255,888</u>	<u>\$ 1,430,014</u>

See accompanying Notes to Financial Statements.

Capital Projects - Building Construction	Debt Service	Total Governmental Funds	
		2016	2015
\$ -	\$ 8,976,334	\$ 18,740,882	\$ 16,711,348
268	10,429	36,422	7,689
-	-	5,483,441	6,289,199
-	57,790	63,873,362	61,154,534
-	-	4,269,144	6,160,823
268	9,044,553	92,403,251	90,323,593
-	-	2,748,001	2,729,539
-	-	1,275,664	1,246,865
-	-	31,865,041	30,722,620
-	-	1,183,136	1,193,530
-	-	18,168,417	19,293,091
-	-	4,369,305	3,393,849
-	-	6,132,662	5,760,850
-	-	6,560,636	6,649,863
-	-	304,376	294,092
-	-	3,384,562	3,459,846
-	-	2,759,315	2,363,028
678,921	-	4,985,932	5,685,296
-	6,570,000	7,279,149	6,811,902
-	2,471,095	2,683,148	2,911,455
678,921	9,041,095	93,699,344	92,515,826
(678,653)	3,458	(1,296,093)	(2,192,233)
-	-	18,207	98,890
-	-	(18,207)	(98,890)
-	-	-	(2,265,000)
-	-	922,243	4,338,940
-	-	-	99,020
-	-	922,243	2,172,960
(678,653)	3,458	(373,850)	(19,273)
877,927	1,804,526	14,611,943	14,631,216
\$ 199,274	\$ 1,807,984	\$ 14,238,093	\$ 14,611,943

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**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
Net Change in Fund Balance-Total Governmental Funds	\$ (373,850)	\$ (19,273)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	3,066,339	4,258,921
Net Depreciated Value of Disposed Assets	4,359	(102,887)
Depreciation Expense	(4,310,518)	(4,193,954)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Proceeds from Capital Lease	(922,243)	(4,338,940)
Change in Accrued Interest Expense - Capital Leases	38,383	(21,457)
Principal Payments - Capital Leases	438,183	370,823
Loss on Refunding Lease	-	114,008
Lease Refunding Payment	-	2,265,000
Payment of OPEB benefits are recognized as expenditures at the fund level while the change in the net prepaid OPEB obligation is recognized in the statement of net position.		
	(440,721)	(147,055)
Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources.		
	157,442	817,896
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Payment on Lease Purchase Agreement	270,966	166,079
Repayment of Bond Principal	6,570,000	6,275,000
Change in Accrued Interest Expense - General Obligation Bonds	90,318	75,618
Amortization of Loss on Refunding	(14,251)	(14,251)
Amortization of Gain on Refunding	53,678	58,235
Amortization of Bond Premium	329,232	352,679
Amortization of Bond Discount	(991)	(2,103)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unavailable in the funds.		
	10,874	(69,001)
In the statement of activities, severance benefits and compensated absences are measured on the accrual basis. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	55,645	(59,388)
Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net gain (loss) of the internal service funds is reported with governmental activities.		
	384,160	714,904
Change in Net Position of Governmental Activities	\$ 5,407,005	\$ 6,500,854

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 8,967,077	\$ 8,967,077	\$ 9,193,848	\$ 226,771
Earnings on Investments	4,500	4,500	22,002	17,502
Other	2,760,979	1,986,069	2,337,627	351,558
State Sources	61,385,018	62,312,118	63,044,374	732,256
Federal Sources	4,631,428	2,401,051	2,301,338	(99,713)
Total Revenues	<u>77,749,002</u>	<u>75,670,815</u>	<u>76,899,189</u>	<u>1,228,374</u>
EXPENDITURES				
Current				
Administration	2,642,329	2,677,996	2,748,001	70,005
District Support Services	1,259,438	1,276,635	1,275,664	(971)
Elementary and Secondary Regular Instruction	31,421,917	31,258,157	31,865,041	606,884
Vocational Education Instruction	1,125,666	1,116,588	1,183,136	66,548
Special Education Instruction	19,311,335	17,788,636	18,168,417	379,781
Community Education	30,000	30,000	36,049	6,049
Instructional Support Services	4,236,882	4,315,528	4,369,305	53,777
Pupil Support Services	7,416,130	7,102,984	6,132,662	(970,322)
Sites and Buildings	6,920,632	6,620,581	6,560,636	(59,945)
Fiscal and Other Fixed Cost Programs	312,529	312,000	304,376	(7,624)
Capital Outlay	2,658,704	3,061,174	4,276,515	1,215,341
Debt Service				
Principal	616,761	631,078	709,149	78,071
Interest and Fiscal Charges	196,292	196,292	212,053	15,761
Total Expenditures	<u>78,148,615</u>	<u>76,387,649</u>	<u>77,841,004</u>	<u>1,453,355</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(399,613)	(716,834)	(941,815)	(224,981)
OTHER FINANCING SOURCES (USES)				
Transfers Out	(10,000)	(10,000)	(18,207)	(8,207)
Proceeds from Capital Leases	-	-	922,243	922,243
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>(10,000)</u>	<u>904,036</u>	<u>914,036</u>
NET CHANGE IN FUND BALANCE	<u>\$ (409,613)</u>	<u>\$ (726,834)</u>	<u>(37,779)</u>	<u>\$ 689,055</u>
FUND BALANCE				
Beginning of Year			<u>10,582,712</u>	
END OF YEAR			<u>\$ 10,544,933</u>	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Earnings on Investments	\$ 150	\$ 150	\$ 212	\$ 62
Other - Primarily Meal Sales	1,532,570	1,384,870	1,388,876	4,006
State Sources	203,618	195,200	196,179	979
Federal Sources	1,800,200	1,865,700	1,964,135	98,435
Total Revenues	<u>3,536,538</u>	<u>3,445,920</u>	<u>3,549,402</u>	<u>103,482</u>
EXPENDITURES				
Current				
Food Service	<u>3,536,538</u>	<u>3,330,196</u>	<u>3,384,562</u>	<u>54,366</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 115,724</u>	164,840	<u>\$ 49,116</u>
FUND BALANCE				
Beginning of Year			<u>91,048</u>	
END OF YEAR			<u>\$ 255,888</u>	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 569,770	\$ 569,770	\$ 570,700	\$ 930
Earnings on Investments	350	350	3,511	3,161
Other - Primarily Tuition and Fees	1,383,650	1,383,650	1,756,938	373,288
State Sources	455,062	461,801	575,019	113,218
Federal Sources	3,529	3,529	3,671	142
Total Revenues	<u>2,412,361</u>	<u>2,419,100</u>	<u>2,909,839</u>	<u>490,739</u>
EXPENDITURES				
Current				
Community Service	2,097,639	2,514,147	2,723,266	209,119
Capital Outlay	427,150	17,700	30,496	12,796
Total Expenditures	<u>2,524,789</u>	<u>2,531,847</u>	<u>2,753,762</u>	<u>221,915</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(112,428)	(112,747)	156,077	268,824
OTHER FINANCING SOURCES				
Transfers In	<u>19,695</u>	<u>19,695</u>	<u>18,207</u>	<u>(1,488)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (92,733)</u>	<u>\$ (93,052)</u>	174,284	<u>\$ 267,336</u>
FUND BALANCE				
Beginning of Year			<u>1,255,730</u>	
END OF YEAR			<u>\$ 1,430,014</u>	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 6,781,864	\$ 6,409,199
LIABILITIES		
Current Liabilities		
Claims Payable	794,593	806,088
NET POSITION		
Unrestricted Net Position	\$ 5,987,271	\$ 5,603,111

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	2016	2015
OPERATING REVENUES		
Contributions from District and Employees	\$ 13,043,448	\$ 12,350,329
OPERATING EXPENSES		
Insurance Claims and Administration	12,693,927	11,625,046
Wellness Expenses from Insurance Administrator	15,000	20,157
Total Operating Expenses	12,708,927	11,645,203
Operating Income (Loss)	334,521	705,126
NONOPERATING INCOME (EXPENSES)		
Earnings on Investments	19,639	9,778
Change in Net Position	384,160	714,904
Net Position - Beginning of Year	5,603,111	4,888,207
NET POSITION - END OF YEAR	\$ 5,987,271	\$ 5,603,111

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	Governmental Activities - Internal Service Funds	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from District and Employees	\$ 13,043,448	\$ 12,350,329
Cash Payments for Insurance and Other Operating Expenses	<u>(12,720,422)</u>	<u>(11,772,435)</u>
Net Cash Provided (Used) by Operating Activities	323,026	577,894
 CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	<u>19,639</u>	<u>10,952</u>
Net Increase (Decrease) in Cash and Cash Equivalents	372,665	588,846
Cash and Cash Equivalents - Beginning of Year	<u>6,409,199</u>	<u>5,820,353</u>
 CASH AND CASH EQUIVALENTS - END OF YEAR	 <u><u>\$ 6,781,864</u></u>	 <u><u>\$ 6,409,199</u></u>
 RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ 334,521	\$ 705,126
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Increase (Decrease) in Claims Payable	<u>(11,495)</u>	<u>(127,232)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 323,026</u></u>	<u><u>\$ 577,894</u></u>

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	Postemployment Benefits Irrevocable Trust Fund	Agency
ASSETS		
Cash and Investments	\$ 24,458,761	\$ 404,337
Accounts Receivable		1,559,200
Interest Receivable	107,439	-
Prepaid Items	-	20,909
Total Assets	\$ 24,566,200	\$ 1,984,446
LIABILITIES		
Accounts Payable	\$ -	\$ 54,837
Due to Other Governments	-	1,253,469
Due to Other Minnesota School Districts	-	215,398
Amounts Held for Others	-	404,337
Unearned Revenue	-	56,405
Total Liabilities	-	\$ 1,984,446
NET POSITION		
Held in Trust for Postemployment Benefits	\$ 24,566,200	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POSTEMPLOYMENT BENEFITS IRREVOCABLE TRUST FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
ADDITIONS		
Investment Earnings	\$ 360,339	\$ 637,304
DEDUCTIONS		
Admin Fees	78,969	133,565
OPEB Health Insurance Payments	<u>1,665,606</u>	<u>1,389,967</u>
Total Deductions	<u>1,744,575</u>	<u>1,523,532</u>
CHANGE IN NET POSITION	(1,384,236)	(886,228)
Net Position - Beginning of Year	<u>25,950,436</u>	<u>26,836,664</u>
NET POSITION - END OF YEAR	<u>\$ 24,566,200</u>	<u>\$ 25,950,436</u>

See accompanying Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 181 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

The District is an instrumentality of the state of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

U.S. Generally Accepted Accounting Principles (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The Board of Education does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's Board of Education has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational; or capital requirements of a particular function or segment. Taxes and other 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 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 each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

Separate Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type. The District has one agency fund and one trust fund.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services is the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal source of operating revenue of the District's internal service fund is the District's operating funds for health insurance premiums related to District employees. Operating expenses for the internal service fund include the cost of medical benefits, re-insurance premiums, and third-party administration fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

D. Measurement Focus and Basis of Accounting

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

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 U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is used for revenues other than property taxes.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

The existence of the various District funds has been established by the state of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund are generated from user fees, federal reimbursements and state aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes and state credits.

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific voter-approved bond issues.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term obligation bond principal, interest, and related costs.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

Proprietary Fund

Internal Service Fund

The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The Internal Service Fund accounts for the financing of services provided by one department to other departments of the District on a cost reimbursement basis. The District's Internal Service Fund reflects the activities of its self-insured health insurance plan for its employees.

Fiduciary Funds

Agency Fund

The Agency Fund was established to account for cash and other assets held by the District as the agent for others. There are two separate programs within the Agency fund. The first program is used to account for the District's flexible benefit plan for employees and the administrative dental program for employees. The second program is used to account for transactions relating to the special education cooperative which had been included in the General Fund during the previous year.

Postemployment Benefits Irrevocable Trust Fund

This Trust Fund is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits. District contributions to this fund must be expensed to an operating fund.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. An annual budget is not adopted for the Capital Projects – Building Construction Fund because project length financial plans are adopted in accordance with bond issue authorization. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budgeted amounts represent the amended budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board of Education prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by Board of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

Total fund expenditures in excess of the budget require approval of either the Director of Business Services or the Board of Education. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels

Budgeted amounts include interim budget amendments that increased and decreased revenue and expenditure budgets as follows:

	Original Budget	Amendments	Amended Budget
<u>Revenues and Transfers In</u>			
General Fund	\$ 77,749,002	\$ (2,078,187)	\$ 75,670,815
Special Revenue Funds			
Food Service Fund	3,536,538	(90,618)	3,445,920
Community Service Fund	2,412,361	26,434	2,438,795
<u>Expenditures and Transfers Out</u>			
General Fund	78,158,615	(1,760,966)	76,397,649
Special Revenue Funds			
Food Service Fund	3,536,538	(206,342)	3,330,196
Community Service Fund	2,524,789	7,058	2,531,847

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

At the end of each fiscal year, if the General Fund has a net unreserved deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which excludes certain reserves specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the commissioner of the Department of Education.

F. Cash and Investments

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. The Trust Fund, Internal Service Funds and the escrowed assets are not included in this pool.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Expenses are allocated over the periods benefited.

J. Net Prepaid OPEB Obligation

This represents the difference between contributions and the annual OPEB cost from adoption of the standard which began in 2009.

K. Property Taxes

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid by through various state tax credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred inflow of resources (property taxes levied for subsequent year).

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes (Continued)

The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift." In the Debt Service Fund, all property taxes collected in a calendar year are recorded as revenue in the fiscal year which begins July 1 of that calendar year.

In accordance with state law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$381,871) advance recognized as revenue each year with no corresponding state aid adjustment. Certain other portions of the District's 2015 Pay 2016 levy, normally revenue for the 2016-17 fiscal year, are also advance recognized as June 30, 2016, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is unavailable because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2016, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

L. Capital Assets

Capital 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 District maintains a threshold level of \$2,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets (Continued)

Capital assets not being depreciated include land and construction in progress.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

M. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports 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. The District will not recognize the related outflow until a future event occurs.

N. Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are 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, 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.

O. Accrued Employee Benefits

Sick Pay

Substantially, all District employees are entitled to sick leave at various rates. No sick leave is paid out at termination.

Vacation Pay

The secretarial, custodial, superintendent and the non-union employees are the only groups to accrue vacation. Secretarial, custodial and the superintendent have to be down to one year's accumulation by a specified date according to their contract or they lose it. Any unused vacation at termination is paid out. The non-union employees all vary from contract to contract, but most contracts state that there is no limit on the amount of carryover of vacation and any unused vacation at termination is paid out.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Accrued Employee Benefits (Continued)

Severance and Other Postretirement Benefits

Severance and other postretirement benefit liabilities are paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

Severance benefits consist of lump sum retirement payments, and postemployment health care benefits. Accounting policies for severance and health benefits are described below:

1. Severance Payments at Retirement

The District maintains various retirement payment plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements. Generally, the District makes payments to an independent trustee who administers a health savings account for each retiree, thus this liability is considered to be related to postemployment benefits and is included in the OPEB liability.

2. Postemployment Health Care Benefits

The District provides postemployment retirement benefits to pay health insurance premiums for certain retired District personnel. Eligible administrative personnel hired prior to January 1, 2009 receive health insurance benefits to age 70. Eligible administrative personnel hired after January 1, 2009 receive health insurance benefits to age 65. Eligible teaching staff hired prior to January 1, 2009, receive health insurance benefits to Medicare eligible age. Teaching staff hired after January 1, 2009 do not receive postemployment health insurance benefits. Other qualified staff hired prior to March 1, 2010, also receives health insurance benefits to Medicare eligible age. Other staff hired after March 1, 2010 do not receive postemployment health insurance benefits. The District's liability was actuarially determined, in accordance with GASB Statement No. 45, as of July 1, 2014, the date of the most recent actuarial study.

P. Deferred Inflows of Resources

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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.

R. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for the unearned grant revenue, charges for services, and school lunch deposits.

S. Statement of Cash Flows

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

T. Cash and Investments Held by Fiscal Agent

Cash and Investments held with fiscal agent are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture.

U. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance are related to prepaid items and inventories. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Director of Business Services to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned fund balance.

It is also the District's policy to strive to maintain a minimum unassigned General Fund balance of five percent of the annual budgeted expenditures and an optimal operating range of five to seven percent.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks except for employee health insurance, which is self-insured by the District.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

W. Net Position

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

X. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 76,387,649	\$ 77,841,004	\$ 1,453,355
Special Revenue Funds			
Food Service Fund	3,330,196	3,384,562	54,366
Community Service Fund	2,531,847	2,753,762	221,915
Debt Service Fund	9,040,995	9,041,095	100

All related expenditures were approved by the District's Board.

B. Interfund Transfers

The District had the following interfund transfers at June 30, 2016:

	<u>Transfers In:</u>
	Community
	Service Fund
<u>Transfers Out:</u>	
General Fund	\$ 18,207

The purpose of the transfer from the General Fund to the Community Service Fund was to reimburse the costs of current and prior year preschool screening costs which were paid from the Community Service Fund.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the District maintains deposits at financial institutions which are authorized by the School District's Board.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The District's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

With the exception of the fiduciary funds held in the District's Other Postemployment Benefit Trust account discussed in Note 3, C, the District may invest idle funds as authorized by Minnesota Statutes *Chapter 118A* as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies;
- Shares of investment companies registered under the Investment Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less;

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- General obligations rated “A” or better; revenue obligations rated “AA” or better;
- General obligations of the Minnesota Housing Finance Agency rate “A” or better;
- Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System;
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less;
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories and repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

At June 30, 2016, the District, excluding its Postemployment Benefits Irrevocable Trust Fund, had the following investments. (See separate investment disclosures for the Benefits Trust Fund at Note 3, C):

	Amount
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 19,159,244
MN Trust Investment Share	72,145
ICS Money Market	3,110,117
Total Investments	\$ 22,341,506

The MN Trust Investment Share is a money market account that is valued at amortized cost with maturities of investments of one year or less.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District’s policy is that the obligations at the time of purchase must be rated at the highest classification by at least two of the four standard rating services. The following chart summarizes year-end ratings for the District’s investments as rated by Moody’s Investors Service:

<u>Type</u>	<u>Credit Quality Rating</u>	<u>Amount</u>
MSDLAF+	AAAm	\$ 19,159,244
MN Trust Investment Shares	AAAm	72,145
ICS Money Market	NR	3,110,117
Total		<u>\$ 22,341,506</u>

Concentration of Credit Risk – The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by Minnesota Statutes. Investments in any one issuer that represent 5% or more of total District investments as of June 30, 2016 are disclosed below.

<u>Type</u>	<u>Amount</u>	<u>Percentage</u>
ICS Money Market	\$ 3,110,117	13.9 %

The District’s deposits (\$2,429,984), investments (\$22,341,506), irrevocable OPEB trust (\$24,458,761), and Agency deposits (\$404,337) are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 24,771,490
Cash and Investments - OPEB Trust	24,458,761
Cash and Investments - Agency Fund (deposits)	404,337
Total Cash and Investments	<u>\$ 49,634,588</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Other Postemployment Benefit Trust Account

Fiduciary Funds held in the District's Other Postemployment Benefit Trust account may be invested as authorized by Minnesota Statutes Chapter 356A. The District has further restricted and defined its authorized statute investment parameters within an OPEB Trust investment policy statement as follows:

Following is a list of the permissible assets for the OPEB Trust portfolio:

- Securities of the U.S. Government, its Agencies and/or Instrumentality
- Commercial Paper; Domestic and Eurodollar
- Corporate Notes/Bonds; Domestic and International
- Asset-Backed Securities
- Certificates of Deposit
- Tax-Exempt and Taxable Municipal bonds
- Mortgage-backed securities (U.S. Government-backed)
- Domestic Equities traded on a major exchange
- International Equities traded on a U.S. exchange (ADRs)
- Open-ended mutual funds that invest substantially all their assets in the asset classes listed above, such as: money market funds, domestic and foreign equity and fixed income funds
- Alternative funds that employ non-traditional strategies

Asset Allocation

The long-term financial requirements and prudent diversification implies a balanced investment approach. The target asset class allocation and ranges are as follows:

	Long-Term Target	Allowable Ranges	Actual Allocation as of 6/30/2016	
Money Market/Cash Equivalent	n/a	n/a	\$ 1,419,451	2%
Domestic Fixed Income	55%	50-70%	12,146,606	48%
Foreign Fixed Income	5%	0-10%	495,352	5%
Total Fixed Income	60%	50-70%	12,641,958	53%
U.S. Stocks	30%	20-35%	7,694,531	31%
Foreign Stocks	5%	0-10%	1,209,634	7%
Total Equity	35%	20-40%	8,904,165	38%
Alternative Investments	5%	0-10%	1,493,187	7%
Total Investments			<u>\$ 24,458,761</u>	100%

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Other Postemployment Benefit Trust Account (Continued)

Approximate breakdown of fixed income securities is as follows:

<u>Sector Distribution</u>		
Treasury	\$ 1,270,725	10%
Federal Agency	3,644,174	29%
Bond Mutual Funds	3,805,919	30%
Corporate Bonds	2,252,679	18%
Municipal Bonds	1,668,461	13%
Total	\$ 12,641,958	100%

Fixed Income – Maturity Restrictions

Duration of the portfolio will generally be within +/- 20% of the Barclays Aggregate Bond Index, or the duration of the OPEB obligation, whichever is greater.

<u>Quality Distribution Ratings</u>		
Govt/AAA	\$ 6,900,253	66%
AA	1,730,891	16%
A	749,549	7%
BBB	1,120,951	11%
Total	\$ 10,501,644	100%

Credit Quality Standards

Any individual fixed income security purchased or retained in an account must have a rating of at least BBB-/ Baa3 (i.e., investment grade or above) as determined by at least one Nationally Recognized Statistical Rating Organization (NRSRO). Non-U.S. dollar denominated and below-investment grade obligations may be purchased only if held in a mutual fund.

Industry concentrations within the corporate, municipal revenue and asset-backed sectors should generally be limited to no more than 25% of an account's fixed income portfolio. In general, fixed income portfolios of individual securities will be well diversified and constructed to reflect the District's risk and return requirements, and will be comprised of investment grade securities.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Other Postemployment Benefit Trust Account (Continued)

Approximate maturities of fixed income securities are as follows:

<u>Duration Distribution</u>		
0-1 Years	\$ 1,168,634	11%
1-3 Years	4,640,393	44%
3-5 Years	3,075,857	29%
5-7 Years	1,163,467	10%
7-10 Years	453,293	5%
Total	<u>\$ 10,501,644</u>	<u>100%</u>

Issuer Concentration Policy

No single security, with the exception of a security issued by the U.S. Government, its Agencies and/or Instrumentalities, shall at the time of purchase constitute more than 5% of the value of the portfolio.

D. Fair Value Measurements

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurements (Continued)

Financial assets and liabilities recorded on the combined statement of financial position are categorized based on the inputs to the valuation techniques as follows:

- *Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- *Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- *Level 3* – Financial asset and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use a pricing the asset.

Assets measured at fair value on a recurring basis:

Type	Level 1	Level 2	Level 3	Total
Government/Agency Obligations	\$ 2,512,028	\$ -	\$ -	\$ 2,512,028
Mortgage Backed Securities (MBS)	-	2,402,871	-	2,402,871
Corporate Bonds	-	2,252,679	-	2,252,679
Municipal Obligations	-	1,668,461	-	1,668,461
Equity Securities	6,380,870	-	-	6,380,870
Mutual Funds/ETFs	6,329,214	-	-	6,329,214
Alternative Investments	1,493,187	-	-	1,493,187
Total	<u>\$ 16,715,299</u>	<u>\$ 6,324,011</u>	<u>\$ -</u>	23,039,310
NAV Funds				19,159,244
Total Investments				<u>\$ 42,198,554</u>

The MSDLAF+ is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board.

The District reports its investment in the Pool at the NAV per share, the fair value established by the Pool.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurements (Continued)

The District's investment in the Pool is included in two share classes, as follows:

	2016 Net Asset Value	Unfunded Commitments
MSDLAF + Liquid Class	\$ 4,659,429	\$ -
MSDLAF + MAX Class	\$ 14,499,815	\$ -

The Liquid Class has no redemption requirements. The Max Class may not be redeemed for at least 14 days, and a 24 hour hold is placed on redemption requests. Redemptions prior to 14 days may be subject to penalty.

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 2,180,972	\$ 49,775	\$ -	\$ 2,230,747
Construction-in-Progress	1,188,464	-	(1,188,464)	-
Total Capital Assets, Not Being Depreciated	3,369,436	49,775	(1,188,464)	2,230,747
Capital Assets, Being Depreciated				
Land Improvements	12,369,206	82,407	-	12,451,613
Buildings and Improvements	99,221,451	3,534,539	-	102,755,990
Equipment	14,152,704	588,082	(352,702)	14,388,084
Total Capital Assets, Being Depreciated	125,743,361	4,205,028	(352,702)	129,595,687
Accumulated Depreciation for				
Land Improvements	(5,690,360)	(532,785)	476	(6,222,669)
Buildings and Improvements	(42,609,537)	(3,025,335)	3,883	(45,630,989)
Equipment	(9,812,112)	(752,398)	352,702	(10,211,808)
Total Accumulated Depreciation	(58,112,009)	(4,310,518)	357,061	(62,065,466)
Total Capital Assets, Being Depreciated, Net	67,631,352	(105,490)	4,359	67,530,221
Governmental Activities Capital Assets, Net	<u>\$ 71,000,788</u>	<u>\$ (55,715)</u>	<u>\$ (1,184,105)</u>	<u>\$ 69,760,968</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the District as follows:

Governmental Activities:

Administration	\$ 148,553
District Support Services	50,766
Regular Instruction	1,589,605
Vocational Education Instruction	80,651
Special Education Instruction	1,228,797
Instructional Support Services	111,248
Pupil Support Services	453,791
Sites and Buildings	406,364
Community Service	240,743
Total Depreciation Expense, Governmental Activities	<u>\$ 4,310,518</u>

NOTE 5 LONG-TERM LIABILITIES

A. Components of General Long-Term Debt

Description of Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Outstanding
School Building Bonds					
Series 2010A-Refunding	3/10/2010	3.00-4.00%	\$ 49,970,000	2/1/2023	\$ 37,490,000
Series 2013A	3/19/2013	0.40 - 1.95%	1,240,000	2/1/2024	1,000,000
Series 2013B	6/11/2013	2.00%	2,120,000	2/1/2024	2,120,000
OPEB Bonds					
Series 2009A	06/23/09	4.00 - 5.00%	22,915,000	02/01/23	15,280,000
Total General Obligation Bonds					<u>55,890,000</u>
Capital Lease Payable					
Buildings - Refunded	05/28/14	1.00 - 2.35%	2,175,000	02/01/22	1,625,000
Franklin Building	02/15/08	5.15%	718,553	02/21/28	327,303
Copier/Printer	08/01/14	4.62%	328,940	08/01/18	197,096
Teachers Computers	05/05/16	2.17%	522,243	05/15/20	490,673
Lowell LULA Elevator	07/13/15	2.88%	400,000	02/01/22	343,334
Total Capital Leases					<u>2,983,406</u>
Lease Purchase Payable					
Lease Purchase Series 2014	03/13/14	3.87%	3,020,702	02/01/29	2,697,570
Lease Purchase Series 2015	05/19/15	2.87%	1,835,000	02/01/30	1,721,087
Total Lease Purchases					<u>4,418,657</u>
Compensated Absences Payable					
					<u>197,651</u>
Total Long-Term Liabilities					<u>\$ 63,489,714</u>

**BRAINERD PUBLIC SCHOOLS
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NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Year Ending June 30	General Obligation Bonds Payable		Capital Leases Payable		Lease Purchases	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 6,780,000	\$ 2,253,345	\$ 533,657	\$ 71,912	\$ 264,667	\$ 151,504
2018	7,060,000	1,986,105	546,980	60,890	273,977	142,195
2019	7,330,000	1,707,425	560,599	48,558	283,621	132,551
2020	7,630,000	1,411,510	464,787	35,347	293,611	122,561
2021	7,940,000	1,096,695	375,462	26,258	303,960	112,212
2022-2026	19,150,000	1,220,975	442,341	42,664	1,688,531	392,328
2027-2031	-	-	59,580	2,721	1,310,289	88,376
Total	<u>\$ 55,890,000</u>	<u>\$ 9,676,055</u>	<u>\$ 2,983,406</u>	<u>\$ 288,350</u>	<u>\$ 4,418,656</u>	<u>\$ 1,141,727</u>

C. Description of Long-Term Debt

1. General Obligation School Building Bonds

These bonds were issued to finance acquisition and/or construction/improvement of capital facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. Deferred future years' tax levies available to retire bond principal and interest payable at June 30, 2016 are approximately \$68,844,000. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota Statutes.

2. General Obligation School Building Refunding Bonds

On March 10, 2010, the District issued \$49,970,000 General Obligation Refunding Bonds, Series 2010A to refund (in 2012) the 2002 General Obligation School Building Bonds, dated June 1, 2002.

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NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

3. General Obligation Taxable OPEB Bonds

On June 23, 2009, the District issued \$22,915,000 General Obligation Taxable OPEB Bonds, Series 2009A. The proceeds are to be used to finance the OPEB liability. Repayment of the principal will be in thirteen annual installments, plus variable interest at 4.00% to 5.00%, commencing February 1, 2010.

4. Other Long-Term Debt

On March 13, 2014, the District entered into a lease-purchase agreement with Capital One Funding, LLC in the amount of \$3,020,702, bearing interest at 3.87% to finance capital projects. Repayment of the lease will occur in 30 semi-annual installments of \$133,011 commencing August 8, 2014. The proceeds were used to finance improvements made to the lower-site activity fields.

On May 19, 2015, the District entered into a fifteen year lease agreement Kinetic Leasing in the amount of \$1,835,000, bearing interest at 2.87% to finance the Riverside addition. Repayment of the lease will occur with \$75,075 payments occurring twice a year starting August 1, 2015. The proceeds were used to finance the addition to the Riverside School Building.

5. Capital Lease Obligations

Buildings-

On July 2, 2014, the District refunded its 2002A Lease Revenue Bonds with a remaining balance of \$2,265,000 by issuing Lease Revenue Refunding Bonds, Series 2014A for \$2,175,000 bearing interest at 1.00% to 2.35%. Repayment will be in one annual installment, plus 15 semi-annual interest payments commencing February 1, 2015. The original proceeds were used for the purchase of and improvements to the Area Education Center facility.

On February 15, 2008, the District entered into a twenty-year lease with Artspace Brainerd Limited Partnership in the amount of \$718,553, bearing interest at 5.15% to finance the acquisition of additional gymnasium space. Lease terms call for a \$250,000 down payment and monthly lease payments of \$3,115 commencing April 1, 2008.

On July 13, 2015, the District entered into a seven-year lease with Kinetic Leasing, Inc. in the amount of \$400,000, bearing interest at 2.88% for an elevator in the Lowell Elementary School. Monthly lease payments of \$31,350 commenced on August 1, 2015.

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NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

5. Capital Lease Obligations (Continued)

Equipment-

On August 1, 2014, the District entered into a five-year lease-purchase agreement with Marco in the amount of \$328,940, bearing interest at 4.62% to finance its copiers and printers across the District. Repayment of the lease will occur in five annual installments of \$71,860, commencing August 1, 2014.

On May 5, 2016, the District entered into a four-year lease-purchase agreement with Vantage Financial, LLC, in the amount of \$522,243, bearing interest at 2.17% to finance computers across the District. Repayment of the lease will occur in monthly payments of \$11,338, commencing May 27, 2016.

Assets acquired through capital leases, are summarized as follows:

Land	\$	148,509
Buildings and Improvements		4,930,592
Equipment		1,195,277
Less: Accumulated Depreciation		<u>(2,875,240)</u>
Total		<u><u>\$ 3,399,138</u></u>

D. Changes in Long-Term Debt

	June 30, 2015	Net Additions	Retirements	June 30, 2016	Due Within One Year
General Obligation Bonds	\$ 62,460,000	\$ -	\$ 6,570,000	\$ 55,890,000	\$ 6,780,000
Net Bond Premiums (Discount)	1,499,565	-	328,241	1,171,324	-
Capital Leases	2,499,346	922,243	438,183	2,983,406	533,657
Lease Purchases	4,689,623	-	270,966	4,418,657	264,667
Subtotal	<u>71,148,534</u>	<u>922,243</u>	<u>7,607,390</u>	<u>64,463,387</u>	<u>7,578,324</u>
Compensated Absences	253,296	189,783	245,428	197,651	197,651
Total	<u><u>\$ 71,401,830</u></u>	<u><u>\$ 1,112,026</u></u>	<u><u>\$ 7,852,818</u></u>	<u><u>\$ 64,661,038</u></u>	<u><u>\$ 7,775,975</u></u>

NOTE 6 RESTRICTED FUND BALANCES

A. Restricted for Deferred Maintenance

Deferred maintenance aid and levy can only be used for projects and costs that would be eligible for health and safety revenue, disabled access levy, or deferred maintenance projects necessary to prevent further erosion of facilities.

B. Restricted for Health and Safety

Represents available resources in the General Fund to be used for Health and Safety projects in accordance with an approved Health and Safety plan.

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NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

C. Projects Funded by Certificates of Lease Purchase

This account represents the June 30 balance in the building construction fund for projects funded by certificates of lease purchase agreement with related lease levy authority under Minnesota Statutes, section 126C.40.

D. Alternative Facilities Program

The fund balance restriction represents unspent bond proceeds available to provide funds for health and safety projects included in the five-year health and safety plan.

E. Restricted for Operating Capital

Represents tax levies and state aid in the General Fund to be used for purchase of equipment and facilities.

F. Restricted for Learning and Development

Represents the available general education revenues for learning and development, which is mainly for reducing the pupil-to-staff ratio.

G. Restricted for Safe Schools – Crime Levy

Represents the unspent resources from the crime levy to be used for crime prevention, student and staff safety and violence prevention measures.

H. Restricted for Community Education

Represents the resources available to provide programming such as: non-vocational, recreational and leisure time activities, programs for adults with disabilities, non-credit summer programs, adult basic education programs, youth development and youth service programming, early childhood family education, and extended day programs.

I. Restricted for Early Childhood and Family Education

Represents the resources available to provide for services for Early Childhood Family Education programming.

J. Restricted for School Readiness

Represents the resources available to provide for School Readiness Program.

K. Restricted for Adult Basic Education

Represents the resources available to provide for Adult Basic Education Programs.

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NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

L. Restricted for Staff Development

Represents cumulative unspent staff development dollars.

M. Restricted for Other Purposes

Restricted for other purposes represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

NOTE 7 ASSIGNED FUND BALANCES

A. Assigned for Q Comp

Represents amount set aside for Q Comp expenditures.

NOTE 8 PENSION PLANS

A. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. PERA and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Fund (TRA)

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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA) (Continued)

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the city of St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by 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

PERA and TRA provide 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.

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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.

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NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for 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

2. TRA Benefits

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

Two methods are used to compute benefits for 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 of Service 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 Services Years are July 1, 206 or After	1.9% per Year

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NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier 1 Benefits (Continued)

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

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. 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 Statutes. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

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

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 PENSION PLANS (CONTINUED)

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members. The District's contributions to the GEF for the Plan's fiscal year ended June 30, 2016, were \$839,485. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

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

	Ending June 30, 2015		Ending June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	10.5 %	11.0 %	11.0 %	11.5 %
Coordinated	7.5	7.5	7.5	7.5

The District's contributions to TRA for the Plan's fiscal year ended June 30, 2016, were \$2,334,688. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of \$9,737,953 for its proportionate share of the GEF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.1879% which was a decrease of .0179% from its proportion measured as of June 30, 2014.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$808,065 for its proportionate share of GERF's pension expense.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 90,308	\$ 490,959
Changes in Actuarial Assumptions	606,446	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	866,858
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	-	726,365
District Contributions Subsequent to the Measurement Date	839,485	-
Total	<u>\$ 1,536,239</u>	<u>\$ 2,084,182</u>

\$839,485 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 Expenses Amount
2016	\$ (423,171)
2017	(423,171)
2018	(771,548)
2019	230,462
2020	-

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JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of \$38,483,038 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.6221% at the end of the measurement period and 0.6616% for the beginning of the period.

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:

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 38,483,038
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	4,720,268

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer.

For the year ended June 30, 2016, the District recognized pension expense of \$2,220,978. It also recognized \$834,482 as pension expense for the support provided by direct aid.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 1,971,865	\$ -
Changes in Actuarial Assumptions	2,958,324	-
Net Difference Between Projected and Actual Investment Earnings	-	2,943,265
Changes in Proportion Differences Between Contributions and Made and the District's Proportionate Share of Contributions	-	1,371,008
District Contributions Subsequent to the Measurement Date	2,334,688	-
Total	<u>\$ 7,264,877</u>	<u>\$ 4,314,273</u>

\$2,334,688 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (504,082)
2017	(504,082)
2018	(504,082)
2019	1,665,953
2020	462,209

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

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

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

	6/30/2014 CAFR	Restated
Total Pension Liability (A)	\$ 24,901,612,000	\$ 25,299,564,000
Plan Fiduciary Net Position (B)	20,293,684,000	20,519,756,000
Net Pension Liability (A-B)	\$ 4,607,928,000	\$ 4,779,808,000

F. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.75% per Year	3.50%
Active Member Payroll Growth	3.50% per Year	3.75% Based on Years of Service
Investment Rate of Return	7.90%	8.00%

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The actuarial assumptions used in the June 30, 2014, valuation were based on the results of the actuarial experience study for the period of 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 following changes in actuarial assumptions for GERF occurred in 2015: the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

There was a change in actuarial assumptions that affected the measurement of the total liability for TRA since the prior measurement date. Postretirement benefit adjustments are now assumed to increase from 2.0% annually to 2.5% annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

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NOTE 8 PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9% for GERP and 8.0% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	45.0 %	5.5 %
International Equity	15.0	6.0
Bonds	18.0	1.5
Alternative Assets	20.0	6.4
Cash	2.0	0.5
Totals	<u>100.0 %</u>	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERP and 8.0% for TRA. 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.

**BRAINERD PUBLIC SCHOOLS
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NOTE 8 PENSION PLANS (CONTINUED)

H. Pension Liability Sensitivity

The following 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 one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
District's Proportionate Share of the GERF Net Pension Liability	\$ 15,311,524	\$ 9,737,953	\$ 5,135,040
<u>TRA Discount Rate</u>	7.00%	8.00%	9.00%
District's Proportionate Share of the TRA Net Pension Liability	\$ 58,576,165	\$ 38,483,038	\$ 21,714,743

I. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's 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.

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan ("the Plan") that provides health and dental insurance to eligible employees and their spouses through the District's health insurance plan. There are 641 active participants and 136 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes a percentage of the cost of current-year premiums (as determined by various labor contracts) for eligible retired plan members and their spouses. For fiscal year 2016, the District contributed \$215,224 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution (ARC)	\$ 339,124
Interest on Net OPEB Obligation	(1,174,829)
Adjustment to ARC	1,491,650
Annual OPEB Cost	<u>655,945</u>
Contributions During the Year	<u>(215,224)</u>
Increase (Decrease) in Net OPEB Obligation	440,721
Net OPEB (Asset) Liability - Beginning of the Year	<u>(23,496,584)</u>
Net OPEB (Asset) Liability - End of the Year	<u><u>\$ (23,055,863)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, and the two preceding years:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation (Asset)
June 30, 2016	\$ 655,945	\$ 215,224	32.8 %	\$ (23,055,863)
June 30, 2015	745,561	598,506	80.3	(23,496,584)
June 30, 2014	846,892	612,243	72.3	(23,643,639)

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

In 2009, the District issued approximately \$22,000,000 in OPEB bonds, placing proceeds into an irrevocable OPEB trust as described in Note 3, C. The establishment of this trust results in a "Net Prepaid OPEB Obligation" on the District's statement of net position. The calculation of the prepaid OPEB obligation is shown in Note 10, C, above. The annual payroll for active employees covered by the plan in the actuarial valuation was \$36,467,004 for a ratio of UAAL (July 1, 2014 actuarial study) to covered payroll of (20.8)%.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (Asset) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014	\$ 26,836,664	\$ 19,267,792	\$ (7,568,872)	139.3 %	\$ 36,467,004	(20.8)%

Actuarial valuations of an ongoing plan 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 healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions 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, presented as required supplementary information following the notes to the financial statements, presents multiyear 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 plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.5% to 5% in ten years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over 30 years.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 SELF-INSURANCE

A. Health Insurance

The District provides group health insurance for various employees through a self-insurance program which is funded by District contributions and employee payroll withholding. The funds are deposited into an employee benefit trust account from which all claims plus a processing fee are charged. Stop-loss coverage is in effect for individual claims exceeding \$175,000. The current net aggregate point limits claims to approximately \$12,051,627 for the contract period ended June 30, 2016.

Claims payable include provisions for claims reported and claims incurred but not reported. The provision for reported claims is determined by estimating the amount which will ultimately be paid each claimant. The provision for claims incurred but not yet reported is estimated based on District experience since the inception of the program. Changes in the balances of claim liabilities during fiscal year 2016 were as follows:

	Year Ended	
	2016	2015
Beginning of Fiscal Year Liability - Beginning of Year	\$ 797,124	\$ 924,511
Current Year Claims and Administration	12,143,283	11,127,116
Payments to Health Care Providers	(12,157,717)	(11,254,503)
Balance at Fiscal Year End - End of Year	\$ 782,690	\$ 797,124

B. Dental Insurance

The District provides group Dental insurance for various employees through a self-insurance program which is funded by District contributions and employee payroll withholding. The funds are deposited into an employee benefit trust account from which all claims plus a processing fee are charged.

Claims payable include provisions for claims reported and claims incurred but not reported. The provision for reported claims is determined by estimating the amount which will ultimately be paid each claimant. The provision for claims incurred but not yet reported is estimated based on District experience since the inception of the program. Changes in the balances of claim liabilities during fiscal year 2016 were as follows:

	Year Ended	
	2016	2015
Beginning of Fiscal Year Liability - Beginning of Year	\$ 8,964	\$ 8,809
Current Year Claims and Administration	550,644	497,931
Payments to Health Care Providers	(547,705)	(497,776)
Balance at Fiscal Year End - End of Year	\$ 11,903	\$ 8,964

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 11 COMMITMENTS AND CONTINGENCIES

Federal and State Programs

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

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REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (Asset) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014	\$ 26,836,664	\$ 19,267,792	\$ (7,568,872)	139.3 %	\$ 36,467,004	(20.8)%
7/1/2012	26,079,643	20,089,798	(5,989,845)	129.8	36,207,633	(16.5)
7/1/2010	23,644,772	21,408,988	(2,235,784)	110.4	34,927,494	(6.4)

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST EIGHT FISCAL YEARS**

<u>Year Ended</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2009	\$ 2,192,658	1110.2 %
June 30, 2010	1,217,456	137.4
June 30, 2011	957,792	230.6
June 30, 2012	800,583	130.4
June 30, 2013	825,345	73.1
June 30, 2014	846,892	72.3
June 30, 2015	745,561	80.3
June 30, 2016	655,945	32.8

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2016**

	<u>Measurement Date June 30, 2015</u>	<u>Measurement Date June 30, 2014</u>
PERA		
District's Proportion of the Net Pension Liability (Asset)	0.1879%	0.2058%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 9,737,953	\$ 9,667,453
District's Covered-Employee Payroll	\$ 11,038,651	\$ 10,796,201
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	88.22%	89.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%	78.75%
TRA		
District's Proportion of the Net Pension Liability (Asset)	0.6221%	0.6616%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 38,483,038	\$ 30,486,052
State's Proportionate Share of the Net Pension Liability Associated with the District	\$ 4,720,268	\$ 2,144,524
District's Covered-Employee Payroll	\$ 31,568,351	\$ 30,197,434
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	121.90%	100.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.80%	81.50%

NOTE: Information prior to 2014 is unavailable.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA			
Contractually Required Contribution	\$ 839,485	\$ 815,148	\$ 782,726
Contributions in Relation to the Contractually Required Contribution	(839,485)	(815,148)	(782,726)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 11,193,133	\$ 11,038,651	\$ 10,796,201
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.38%	7.25%
TRA			
Contractually Required Contribution	\$ 2,334,688	\$ 2,367,880	\$ 2,113,775
Contributions in Relation to the Contractually Required Contribution	(2,334,688)	(2,367,880)	(2,113,775)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 31,129,173	\$ 31,568,351	\$ 30,197,434
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.00%

NOTE: Information is presented prospectively and an accumulation of ten years will be provided.

SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
GENERAL FUND
JUNE 30, 2016**

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)

	2016	2015
ASSETS		
Cash and Investments	\$ 9,025,630	\$ 8,104,789
Cash Held by Fiscal Agent	150,830	150,825
Receivables		
Current Property Taxes	4,254,758	4,788,687
Delinquent Property Taxes	248,163	247,973
Due from Other Minnesota School Districts	239,613	588,186
Due from Minnesota Department of Education	5,926,120	6,582,642
Due from Federal through the Minnesota Department of Education	410,483	987,139
Due from Other Governmental Units	1,329,476	93,212
Accounts and Interest Receivable	230,149	302,366
Prepaid Items	157,712	85,678
Inventories	21,875	30,325
Total Assets	\$ 21,994,809	\$ 21,961,822
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Salaries Payable	\$ 1,994,891	\$ 1,912,656
Accounts and Contracts Payable	437,731	412,815
Due to Other Minnesota School Districts	101,158	257,951
Due to Other Governmental Units	276,593	240,516
Unearned Revenue - Charges for Services	117,302	155,141
Total Liabilities	2,927,675	2,979,079
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	8,421,825	8,341,803
Unavailable Revenue - Delinquent Taxes	100,376	58,228
Total Deferred Inflows of Resources	8,522,201	8,400,031
Fund Balances (Deficit)		
Nonspendable		
Prepaid Items	157,712	85,678
Inventory	21,875	30,325
Restricted		
Deferred Maintenance	207,901	478,267
Health and Safety	41,109	(130,809)
Operating Capital	715,793	762,048
Learning and Development	241,058	249,603
Safe Schools - Crime	276,968	272,866
Staff Development	1,015,391	1,075,075
Assigned		
Q Comp	424,430	306,861
Unassigned	7,442,696	7,452,798
Total Fund Balances	10,544,933	10,582,712
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 21,994,809	\$ 21,961,822

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**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>		<u>Over (Under) Final Budget</u>	<u>2015</u>
	<u>Final Budget</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
REVENUES				
Local Sources				
Property Taxes	\$ 8,967,077	\$ 9,193,848	\$ 226,771	\$ 7,320,558
Earnings on Investments	4,500	22,002	17,502	4,688
Other	1,986,069	2,337,627	351,558	3,295,730
State Sources	62,312,118	63,044,374	732,256	60,422,778
Federal Sources	2,401,051	2,301,338	(99,713)	4,381,166
Total Revenues	<u>75,670,815</u>	<u>76,899,189</u>	<u>1,228,374</u>	<u>75,424,920</u>
EXPENDITURES				
Current				
Administration				
Salaries	1,752,145	1,816,881	64,736	1,759,473
Employee Benefits	787,276	805,752	18,476	824,898
Purchased Services	111,500	105,331	(6,169)	124,717
Supplies and Materials	6,050	5,788	(262)	7,895
Other Expenditures	21,025	14,249	(6,776)	12,556
Total Administration	<u>2,677,996</u>	<u>2,748,001</u>	<u>70,005</u>	<u>2,729,539</u>
District Support Services				
Salaries	684,815	699,831	15,016	679,140
Employee Benefits	310,060	321,113	11,053	307,350
Purchased Services	101,610	101,026	(584)	100,880
Supplies and Materials	141,150	136,577	(4,573)	121,952
Capital Expenditures	16,000	4,456	(11,544)	11,143
Other Expenditures	39,000	17,117	(21,883)	37,543
Total District Support Services	<u>1,292,635</u>	<u>1,280,120</u>	<u>(12,515)</u>	<u>1,258,008</u>
Elementary and Secondary Regular Instruction				
Salaries	20,918,509	21,069,896	151,387	20,649,791
Employee Benefits	7,512,487	7,942,163	429,676	7,567,730
Purchased Services	1,372,919	1,377,143	4,224	1,228,192
Supplies and Materials	1,447,042	1,448,539	1,497	1,273,817
Capital Expenditures	280,000	266,105	(13,895)	149,497
Other Expenditures	7,200	27,300	20,100	3,090
Total Elementary and Secondary Regular Instruction	<u>31,538,157</u>	<u>32,131,146</u>	<u>592,989</u>	<u>30,872,117</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued)				
Vocational Education Instruction				
Salaries	\$ 699,797	\$ 753,284	\$ 53,487	\$ 768,849
Employee Benefits	295,143	341,452	46,309	326,539
Purchased Services	27,100	4,142	(22,958)	5,238
Supplies and Materials	94,548	84,258	(10,290)	92,904
Capital Expenditures	-	11,199	11,199	27,271
Total Vocational Education Instruction	1,116,588	1,194,335	77,747	1,220,801
Special Education Instruction				
Salaries	11,307,010	11,780,080	473,070	12,218,340
Employee Benefits	5,084,645	5,186,547	101,902	5,406,660
Purchased Services	1,118,177	1,002,037	(116,140)	1,264,424
Supplies and Materials	189,704	111,783	(77,921)	312,465
Capital Expenditures	22,500	11,132	(11,368)	23,023
Other Expenditures	89,100	87,970	(1,130)	91,202
Total Special Education Instruction	17,811,136	18,179,549	368,413	19,316,114
Community Education				
Salaries	30,000	31,263	1,263	24,798
Employee Benefits	-	4,786	4,786	4,214
Total Community Education	30,000	36,049	6,049	29,012
Instructional Support Services				
Salaries	2,224,620	2,362,132	137,512	2,047,489
Employee Benefits	814,937	868,617	53,680	719,085
Purchased Services	894,370	496,173	(398,197)	335,282
Supplies and Materials	381,601	642,383	260,782	291,993
Capital Expenditures	280,000	343,856	63,856	395,258
Total Instructional Support Services	4,595,528	4,713,161	117,633	3,789,107
Pupil Support Services				
Salaries	2,191,897	1,284,816	(907,081)	1,279,647
Employee Benefits	566,994	576,811	9,817	534,427
Purchased Services	4,249,645	4,196,408	(53,237)	3,864,281
Supplies and Materials	94,448	74,627	(19,821)	82,495
Capital Expenditures	91,970	70,102	(21,868)	88,125
Total Pupil Support Services	7,194,954	6,202,764	(992,190)	5,848,975

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>		Over (Under) Final Budget	<u>2015</u>
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued)				
Sites and Buildings				
Salaries	\$ 2,498,840	\$ 2,510,844	\$ 12,004	\$ 2,513,481
Employee Benefits	1,154,848	1,163,701	8,853	1,125,234
Purchased Services	2,476,243	2,375,509	(100,734)	2,387,919
Supplies and Materials	490,650	510,582	19,932	545,144
Capital Expenditures	2,370,704	3,569,665	1,198,961	2,082,184
Other Expenditures	-	-	-	78,085
Total Sites and Buildings	<u>8,991,285</u>	<u>10,130,301</u>	<u>1,139,016</u>	<u>8,732,047</u>
Fiscal and Other Fixed Cost Programs				
Purchased Services	312,000	304,376	(7,624)	294,092
Debt Service				
Principal Payments	631,078	709,149	78,071	865,842
Interest Payments	196,292	212,053	15,761	239,970
Total Debt Service	<u>827,370</u>	<u>921,202</u>	<u>93,832</u>	<u>1,105,812</u>
Total Expenditures	<u>76,387,649</u>	<u>77,841,004</u>	<u>1,453,355</u>	<u>75,195,624</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(716,834)	(941,815)	(224,981)	229,296
OTHER FINANCING SOURCES (USES)				
Transfers Out	(10,000)	(18,207)	(8,207)	(98,890)
Lease Refunding Payment	-	-	-	(2,265,000)
Proceeds from Capital Leases	-	922,243	922,243	2,503,940
Sale of Capital Assets	-	-	-	99,020
Total Other Financing Sources (Uses)	<u>(10,000)</u>	<u>904,036</u>	<u>914,036</u>	<u>239,070</u>
NET CHANGE IN FUND BALANCE	<u>\$ (726,834)</u>	<u>(37,779)</u>	<u>\$ 689,055</u>	468,366
FUND BALANCE				
Beginning of Year		<u>10,582,712</u>		<u>10,114,346</u>
END OF YEAR		<u>\$ 10,544,933</u>		<u>\$ 10,582,712</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
FOOD SERVICE FUND
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
ASSETS		
Cash and Investments	\$ 203,842	\$ 32,894
Receivables		
Due from Federal through the Minnesota Department of Education	24,021	15,742
Due from Minnesota Department of Education	-	16,622
Accounts and Interest Receivable	-	276
Inventory	101,650	90,853
Prepaid Items	6,000	195
Total Assets	\$ 335,513	\$ 156,582
LIABILITIES AND FUND BALANCE		
Liabilities		
Salaries Payable	\$ 74,785	\$ 58,035
Accounts and Contracts Payable	4,130	7,499
Unearned Revenue - Charges for Services	710	-
Total Liabilities	79,625	65,534
Fund Balance		
Nonspendable		
Prepaid Items	6,000	195
Inventory	101,650	90,853
Restricted		
Other Restricted	148,238	-
Total Fund Balances	255,888	91,048
Total Liabilities and Fund Balance	\$ 335,513	\$ 156,582

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources				
Earnings on Investments	\$ 150	\$ 212	\$ 62	\$ -
Other - Primarily Meal Sales	1,384,870	1,388,876	4,006	1,489,882
State Sources	195,200	196,179	979	208,731
Federal Sources	1,865,700	1,964,135	98,435	1,776,127
Total Revenues	3,445,920	3,549,402	103,482	3,474,740
EXPENDITURES				
Current				
Salaries	973,789	988,410	14,621	895,192
Employee Benefits	597,486	652,501	55,015	543,583
Purchased Services	80,020	66,503	(13,517)	43,416
Supplies and Materials	1,678,901	1,677,148	(1,753)	1,977,655
Total Expenditures	3,330,196	3,384,562	54,366	3,459,846
Excess (Deficiency) of Revenues Over (Under) Expenditures	115,724	164,840	49,116	14,894
OTHER FINANCING SOURCES (USES)				
Transfer In	-	-	-	85,191
NET CHANGE IN FUND BALANCE	\$ 115,724	164,840	\$ 49,116	100,085
FUND BALANCE (DEFICIT)				
Beginning of Year		91,048		(9,037)
END OF YEAR		\$ 255,888		\$ 91,048

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
COMMUNITY SERVICE FUND
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
ASSETS		
Cash and Investments	\$ 1,802,099	\$ 1,587,041
Receivables		
Current Property Taxes	270,011	306,342
Delinquent Property Taxes	18,259	20,717
Due from Minnesota Department of Education	65,529	51,769
Due from Federal Government through the Minnesota Department of Education	3,671	3,530
Accounts and Interest Receivable	-	30,500
Total Assets	\$ 2,159,569	\$ 1,999,899
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Salaries Payable	\$ 99,936	\$ 96,898
Accounts and Contracts Payable	6,868	14,289
Unearned Revenue - Charges for Services	32,313	39,306
Total Liabilities	139,117	150,493
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	572,179	572,958
Unavailable Revenue - Delinquent Taxes	18,259	20,718
Total Deferred Inflows of Resources	590,438	593,676
Fund Balances		
Restricted		
Community Education Programs	963,729	907,231
Early Childhood and Family Education Programs	429,469	336,703
School Readiness	34,877	8,493
Other Restricted	1,939	3,303
Total Fund Balances	1,430,014	1,255,730
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,159,569	\$ 1,999,899

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>			<u>2015</u>
	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>	<u>Actual Amounts</u>
REVENUES				
Local Sources				
Property Taxes	\$ 569,770	\$ 570,700	\$ 930	\$ 580,405
Earnings on Investments	350	3,511	3,161	651
Other - Primarily Tuition and Fees	1,383,650	1,756,938	373,288	1,503,587
State Sources	461,801	575,019	113,218	479,732
Federal Sources	3,529	3,671	142	3,530
Total Revenues	<u>2,419,100</u>	<u>2,909,839</u>	<u>490,739</u>	<u>2,567,905</u>
EXPENDITURES				
Current				
Salaries	1,612,057	1,797,710	185,653	1,539,393
Employee Benefits	558,870	513,734	(45,136)	447,533
Purchased Services	82,590	81,942	(648)	75,743
Supplies and Materials	259,130	328,605	69,475	271,347
Other Expenditures	1,500	1,275	(225)	-
Capital Outlay	17,700	30,496	12,796	14,830
Total Expenditures	<u>2,531,847</u>	<u>2,753,762</u>	<u>221,915</u>	<u>2,348,846</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(112,747)	156,077	268,824	219,059
OTHER FINANCING SOURCES				
Transfer In	19,695	18,207	(1,488)	13,699
NET CHANGE IN FUND BALANCE	<u>\$ (93,052)</u>	174,284	<u>\$ 267,336</u>	232,758
FUND BALANCE				
Beginning of Year		<u>1,255,730</u>		<u>1,022,972</u>
END OF YEAR		<u>\$ 1,430,014</u>		<u>\$ 1,255,730</u>

**BRAINERD PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 181
 BALANCE SHEET
 BUILDING CONSTRUCTION FUND
 JUNE 30, 2016
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
ASSETS		
Cash and Investments	\$ 199,274	\$ 199,006
Cash Held by Fiscal Agent	-	1,258,044
Total Assets	\$ 199,274	\$ 1,457,050
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts and Contracts Payable	\$ -	\$ 579,123
Fund Balances		
Restricted		
Projects Funded by Certificates of Lease Purchase	-	678,921
Alternative Facilities Program	199,274	199,006
Total Fund Balances	199,274	877,927
Total Liabilities and Fund Balances	\$ 199,274	\$ 1,457,050

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BUILDING CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
REVENUES		
Local Sources		
Earnings on Investments	\$ 268	\$ 103
EXPENDITURES		
Capital Outlay	<u>678,921</u>	<u>2,565,025</u>
Deficiency of Revenues Over Expenditures	(678,653)	(2,564,922)
OTHER FINANCING SOURCES		
Proceeds from Capital Lease	<u>-</u>	<u>1,835,000</u>
NET CHANGE IN FUND BALANCE	(678,653)	(729,922)
Fund Balance - Beginning of Year	<u>877,927</u>	<u>1,607,849</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 199,274</u></u>	<u><u>\$ 877,927</u></u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
ASSETS		
Cash and Investments	\$ 6,607,951	\$ 5,995,062
Receivables		
Current Property Taxes	4,294,226	4,819,762
Delinquent Property Taxes	280,523	309,308
Due from Minnesota Department of Education	5,779	4,328
Total Assets	\$ 11,188,479	\$ 11,128,460
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Years	\$ 9,099,972	\$ 9,014,596
Deferred Revenue - Delinquent Taxes	280,523	309,338
Total Deferred Inflows of Resources	9,380,495	9,323,934
Fund Balances		
Restricted		
Restricted for Debt Service	1,807,984	1,804,526
Total Deferred Inflows of Resources and Fund Balances	\$ 11,188,479	\$ 11,128,460

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	<u>2016</u>		<u>Over</u>	<u>2015</u>
	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>	<u>(Under) Final Budget</u>	<u>Actual Amounts</u>
REVENUES				
Local Sources				
Property Tax	\$ 8,967,740	\$ 8,976,334	\$ 8,594	\$ 8,810,385
Earnings on Investments	3,100	10,429	7,329	2,247
State Sources	46,282	57,790	11,508	43,293
Total Revenues	<u>9,017,122</u>	<u>9,044,553</u>	<u>27,431</u>	<u>8,855,925</u>
EXPENDITURES				
Debt Service				
Bond Principal	6,570,000	6,570,000	-	6,275,000
Bond Interest	2,470,995	2,471,095	100	2,671,485
Total Expenditures	<u>9,040,995</u>	<u>9,041,095</u>	<u>100</u>	<u>8,946,485</u>
NET CHANGE IN FUND BALANCE	<u>\$ (23,873)</u>	3,458	<u>\$ 27,331</u>	(90,560)
Fund Balance - Beginning of Year		<u>1,804,526</u>		<u>1,895,086</u>
FUND BALANCE - END OF YEAR		<u>\$ 1,807,984</u>		<u>\$ 1,804,526</u>

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**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2016**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenues	\$ 76,899,189	\$ 76,899,187	\$ 2	Total Revenues	\$ 268	\$ 268	\$ -
Total Expenditures	\$ 75,996,518	\$ 75,996,518	\$ -	Total Expenditures	\$ 678,921	\$ 678,921	\$ -
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
460 Non Spendable Fund Balance	\$ 179,587	\$ 179,587	\$ -	460 Non Spendable Fund Balance			
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
403 Staff Development	\$ 1,015,391	\$ 1,015,391	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 207,901	\$ 207,901	\$ -	409 Alternative Fac. Program	\$ 199,274	\$ 199,274	\$ -
406 Health & Safety	\$ 41,109	\$ 41,109	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	<i>Restricted:</i>			
408 Cooperative Rev.	\$ -	\$ -	\$ -	464 Restricted Fund Balance			\$ -
409 Deferred Maintenance	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
414 Operating Debt	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -				
419 Encumbrances	\$ -	\$ -	\$ -	07 DEBT SERVICE			
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Revenues	\$ 6,442,730	\$ 6,442,731	\$ (1)
424 Operating Capital	\$ 715,793	\$ 715,793	\$ -	Total Expenditures	\$ 6,491,930	\$ 6,491,930	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Non Spendable:</i>			
427 Disabled Accessibility	\$ -	\$ -	\$ -	460 Non Spendable Fund Balance			\$ -
428 Learning & Development	\$ 241,058	\$ 241,058	\$ -	<i>Restricted/Reserve:</i>			
434 Area Learning Center	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	<i>Restricted:</i>			
438 Gifted & Talented	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 1,326,291	\$ 1,326,292	\$ (1)
441 Basic Skills	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
443 Telecomm. Access Cost	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
446 First Grade Preparedness	\$ -	\$ -	\$ -				
449 Safe Schools Levy	\$ 276,968	\$ 276,968	\$ -	08 TRUST			
450 Pre-Kindergarten	\$ -	\$ -	\$ -	Total Revenues	\$ -	\$ -	\$ -
451 QZAB Payments	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	422 Net Position	\$ -	\$ -	\$ -
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -				
<i>Restricted:</i>				20 INTERNAL SERVICE			
464 Restricted Fund Balance	\$ -	\$ -	\$ -	Total Revenues	\$ 13,093,087	\$ 13,093,087	\$ -
<i>Assigned:</i>				Total Expenditures	\$ 12,708,927	\$ 12,708,927	\$ -
462 Assigned Fund Balance	\$ 424,430	\$ 424,430	\$ -	422 Net Position	\$ 5,987,271	\$ 5,987,271	\$ -
<i>Unassigned:</i>							
422 Unassigned Fund Balance	\$ 7,442,696	\$ 7,442,695	\$ 1	25 OPEB REVOCABLE TRUST			
				Total Revenues	\$ -	\$ -	\$ -
02 FOOD SERVICE				Total Expenditures	\$ -	\$ -	\$ -
Total Revenues	\$ 3,549,402	\$ 3,549,399	\$ 3	422 Net Position	\$ -	\$ -	\$ -
Total Expenditures	\$ 3,384,562	\$ 3,384,560	\$ 2				
<i>Non Spendable:</i>				45 OPEB IRREVOCABLE TRUST			
460 Non Spendable Fund Balance	\$ 107,650	\$ 107,650	\$ -	Total Revenues	\$ 360,339	\$ 360,339	\$ -
<i>Restricted:</i>				Total Expenditures	\$ 1,744,575	\$ 1,744,575	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	422 Net Position	\$ 24,566,200	\$ 24,566,200	\$ -
464 Restricted Fund Balance	\$ 148,238	\$ 148,238	\$ -				
<i>Unassigned:</i>				47 OPEB DEBT SERVICE			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -	Total Revenues	\$ 2,601,823	\$ 2,601,823	\$ -
				Total Expenditures	\$ 2,549,165	\$ 2,549,165	\$ -
04 COMMUNITY SERVICE				<i>Non Spendable:</i>			
Total Revenues	\$ 2,909,839	\$ 2,909,833	\$ 6	460 Non Spendable Fund Balance			
Total Expenditures	\$ 2,753,762	\$ 2,753,758	\$ 4	<i>Restricted:</i>			
<i>Non Spendable:</i>				425 Bond Refundings	\$ -	\$ -	\$ -
460 Non Spendable Fund Balance	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 481,693	\$ 481,693	\$ -
<i>Restricted/Reserve:</i>				<i>Unassigned:</i>			
426 \$25 Taconite	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
431 Community Education	\$ 963,729	\$ 963,729	\$ -				
432 E.C.F.E.	\$ 429,469	\$ 429,469	\$ -				
444 School Readiness	\$ 34,877	\$ 34,877	\$ -				
447 Adult Basic Education	\$ -	\$ -	\$ -				
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -				
<i>Restricted:</i>							
464 Restricted Fund Balance	\$ 1,939	\$ 1,939	\$ -				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	\$ -	\$ -	\$ -				

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

**INDEPENDENT AUDITORS' 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**

Board of Education
Independent School District No. 181
Brainerd Public Schools
Brainerd, 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. 181 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 19, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency 2016-001 described in the accompanying schedule of findings and questioned costs to be a material weakness.

Compliance and Other Matters

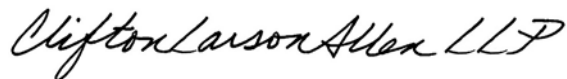
As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

The District’s Response to the Finding

The District’s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District’s response was not subjected to 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.



CliftonLarsonAllen LLP

Brainerd, Minnesota
October 19, 2016

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

Board of Education
Independent School District No. 181
Brainerd Public Schools
Brainerd, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 181's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
October 19, 2016

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**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

FEDERAL AGENCY/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Minnesota Department of Education:			
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	N/A	\$ 176,164
Cash Assistance:			
School Breakfast Program	10.553	N/A	357,972
National School Lunch Program	10.555	N/A	1,359,160
Special Milk Program for Children	10.556	N/A	1,153
Summer Food Service Program	10.559	N/A	69,687
Cash Assistance Subtotal			<u>1,787,972</u>
Total Child Nutrition Cluster and U. S. Department of Agriculture			1,964,136
U.S. DEPARTMENT OF LABOR			
Passed Through Minnesota Department of Education:			
Employment Service/Wagner-Peyser Funded Activities	17.207	N/A	1,193
U.S. DEPARTMENT OF EDUCATION			
Passed Through Minnesota Department of Education:			
Cash Assistance:			
Adult Basic Education Formula Revenue	84.002	N/A	3,671
Title II, Part A - Improving Teacher Quality	84.367	S367A140022	270,184
Carl Perkins Vocational and Applied Technology	84.048	N/A	16,919
Title I, Part A	84.010	S010A140023A	1,630,249
Passed Through Paul Bunyan Education Co-op			
Special Education Cluster:			
Special Education	84.027	H027A140087	\$ 354,205
Coordinated Early Intervening Services	84.027	H027A140087	2,410
Discretionary Professional Development	84.027	H027A140087	26,177
Special Education Cluster Subtotal			<u>382,792</u>
Total U.S. Department of Education			<u>2,303,815</u>
Total Federal Awards Expended			<u>\$ 4,269,144</u>

Notes to schedule of expenditures of federal awards:

Note 1:

The schedule of expenditures of federal awards presents the activity of federal award programs expended by Independent School District No. 181.

Note 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the basic financial statements of the District. The District has not elected to use the 10% de minimis indirect costs rate as allowed under Uniform Guidance.

Note 3:

N/A - The pass-through entity identifying number is unknown.

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 181
Brainerd Public Schools
Brainerd, 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 *Governmental Auditing Standards* issued by the Comptroller of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 181 (the District), Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents and have issued our report thereon dated October 19, 2016.

The *Minnesota Legal Compliance Audit Guide for School Districts* contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and uniform financial accounting and reporting standards.

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 relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Brainerd, Minnesota
October 19, 2016

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**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster
84.010	Title I, Part A Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2016-001 – Financial Statement Preparation

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition: The District does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

Cause/Context: Management has informed us that they do not have an internal control policy in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures. The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, management has reviewed and approved the annual financial statements and the related footnote disclosures.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings: There is no disagreement with the audit finding.

Actions Planned in Response to Finding: The District will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures and will review and approve these prior to the issuance of the annual financial statements.

Official Responsible for Ensuring CAP: The District's Director of Business & Personnel Services is the school official responsible for carrying out the corrective action plan.

Planned Completion Date for CAP: The corrective action plan will be implemented beginning with the audit for the year ended June 30, 2017.

Plan to Monitor Completion of CAP: The corrective action plan will be monitored each year by the District financial staff and Board of Education as a part of the process of developing the annual audit report.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None noted

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None noted

E. PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT

PREVIOUSLY REPORTED ITEMS

2015-001 Financial Statement Preparation

The District does not have an internal control policy over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with U.S. generally accepted accounting principles (GAAP).

RESOLUTION

The District is not able to resolve this finding due to the District relying on the audit firm to prepare the annual financial statements and related footnote disclosures. However, management has reviewed and approved the annual financial statements and related footnote disclosures.

See Finding 2016-001

2015-002 Signer on Bank Account

The District had two bank accounts with an employee as a signer who was no longer employed by the District.

RESOLUTION

The District was able to resolve this finding in the current year by ensuring all bank signers were current employees.

F. PRIOR YEAR FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

None noted