

Annual Financial Report

Independent School District No. 508

St. Peter, Minnesota

For the Year Ended
June 30, 2015

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ST. PETER, MINNESOTA
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ST. PETER, MINNESOTA
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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2015

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INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHOOL DISTRICT OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2015

BOARD OF EDUCATION

| <u>Name</u> | <u>Term on Board Expires</u> | <u>Position</u> |
|---------------|----------------------------------|-----------------|
| Mark Karlsrud | 12/31/15 | Chairperson |
| Ben Leonard | 12/31/15 | Vice Chair |
| Charlie Potts | 12/31/17 | Clerk |
| Jon Carlson | 12/31/17 | Treasurer |
| Bob Meeks | 12/31/15 | Director |
| Drew Dixon | 12/31/17 | Director |
| Sharon Fitch | 12/31/15 | Director |

ADMINISTRATION

| | |
|-------------------|------------------|
| Dr. Paul Peterson | Superintendent |
| Tim Regner | Business Manager |

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FINANCIAL SECTION

**INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA**

**FOR THE YEAR ENDED
JUNE 30, 2015**

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INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Independent School District No. 508
St. Peter, 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 the Independent School District No. 508, St. Peter, Minnesota, (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to 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, 2015, and the respective changes in financial position and the budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Change in Accounting Standards

As described in Note 7 to the financial statements, the School adopted the provisions of Governmental Accounting Standard Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. Adoption of the provisions of these statements results in significant change to the classifications of the components of the financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 15 and the Schedules of Employer's Shares of the Net Pension Liability and the Schedules of Employer's Contributions and the Schedule of Funding Progress for Other Post-Employment Benefits Plan starting on page 72 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.

Other Information

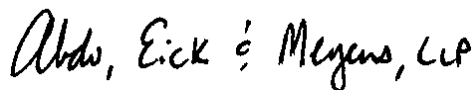
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and table are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules and 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 combining and individual fund financial statements and schedules and table and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2015, 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 results of that testing, and not to provide an opinion on the 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.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 7, 2015

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Management's Discussion and Analysis

As management of the Independent School District No. 508 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015.

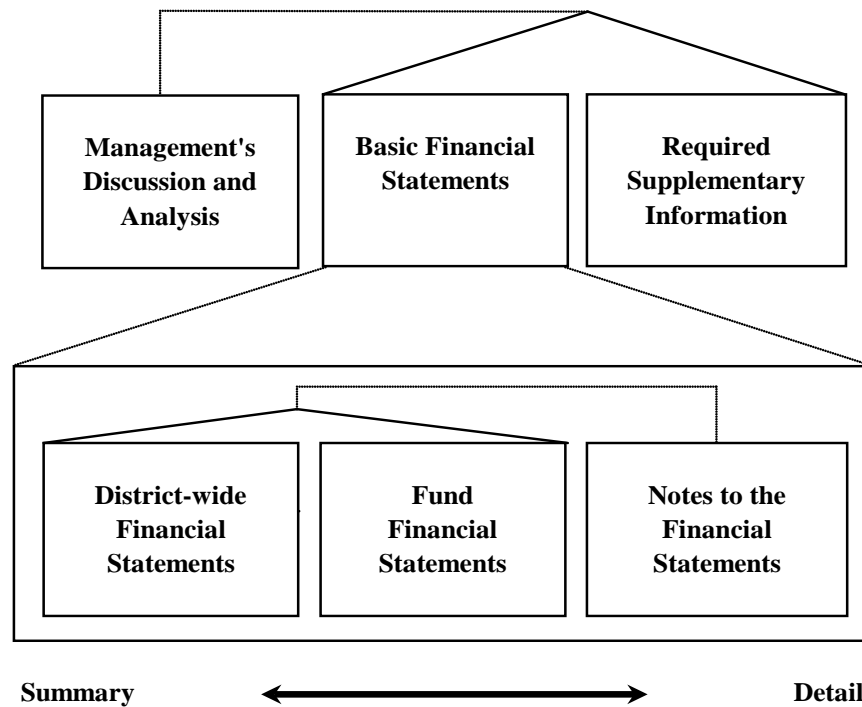
Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,835,912 (*net position*). Of this amount, the deficit of \$11,571,693 (*unrestricted net position*) is due to the recognition of the pension liability resulting from implementing GASB Statement No. 68.
- The District's total net position increased by \$1,342,556 as compared to an increase of \$119,069 in the prior year. The change in net position is due to an overall revenue increase of over \$800,000 with overall expenses decreasing \$387,115.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,876,227, a decrease of \$324,019 in comparison with the prior year. The major reasons causing the decrease were a \$475,694 decrease in the Capital Projects fund due to preliminary expenditures relating to the construction of the new high school building. Of the total fund balance, \$1,562,946 is *available for spending* at the District's discretion (*unassigned fund balance*).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:

Organization of Independent School District No. 508 Annual Financial Report



The following chart summarizes the major features of the District’s financial statements, including the portion of the District’s activities they cover and the types of information they contain. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements:

Major Features of the District-wide and Fund Financial Statements

| | District-wide Statements | Fund Financial Statements | |
|--|--|---|---|
| | | Governmental Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not fiduciary, such as special education and building maintenance | Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies |
| Required financial statements | <ul style="list-style-type: none"> Statement of net position Statement of activities | <ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures, and changes in fund balance | <ul style="list-style-type: none"> Statement of fiduciary net position Statement of changes in fiduciary net position |
| Accounting Basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| Type of deferred outflows/inflows of resources information | All deferred outflows/inflows of resources, regardless of when cash is received or paid. | Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included | All deferred outflows/inflows of resources, regardless of when cash is received or paid |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid |

District-wide financial statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District’s assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the District’s overall health, you need to consider additional non-financial indicators such as changes in the District’s property tax base and condition of school buildings and other facilities.

The *statement of activities* presents information showing how the District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

In the district-wide financial statements, the District activities are shown in one category titled “governmental activities”:

- *Governmental activities:* The District’s basic services are reported here, including regular and special education, transportation, administration, food services, and community education. Property taxes and State aids finance most of these activities.

The District-wide financial statements can be found starting on page 26 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact by the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, which is considered to be a major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 30 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of students within the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those activities that the assets belong. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found starting on page 35 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found starting on page 37 of this report.

Required supplementary information. The required supplementary information can be found on page 72 of this report.

Other information. Combining and individual fund financial statements and schedules and table can be found starting on page 76 of this report.

District-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$3,835,912 at the close of the most recent fiscal year.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another portion of the District's net position reflects amounts restricted for debt service, food service and educational purposes. These funds are to be used for the District's funded programs and activities.

Independent School District No. 508's Net Position

| | Governmental Activities | | Increase (Decrease) | |
|-----------------------------------|----------------------------|----------------------|------------------------|-----------|
| | 2015 | 2014 | Amounts | Percent |
| Current and other assets | \$ 8,722,250 | \$ 9,131,214 | \$ (408,964) | (4.5) % |
| Capital assets | 16,582,536 | 15,425,087 | 1,157,449 | 7.5 |
| Total assets | 25,304,786 | 24,556,301 | 748,485 | 3.0 |
| Deferred inflows of resources | 1,957,152 | - | 1,957,152 | 100.0 |
| Long-term liabilities outstanding | 14,269,837 | 3,529,746 | 10,740,091 | 304.3 |
| Other liabilities | 2,603,046 | 2,790,544 | (187,498) | (6.7) |
| Total liabilities | 16,872,883 | 6,320,290 | 10,552,593 | 167.0 |
| Deferred inflows of resources | 6,553,143 | 3,095,116 | 3,458,027 | 111.7 |
| Net position | | | | |
| Net investment in capital assets | 14,958,986 | 13,449,644 | 1,509,342 | 11.2 |
| Restricted | 448,619 | 426,088 | 22,531 | 5.3 |
| Unrestricted | (11,571,693) | 1,265,163 | (12,836,856) | (1,014.6) |
| Total net position | <u>\$ 3,835,912</u> | <u>\$ 15,140,895</u> | <u>\$ (11,304,983)</u> | (74.7) |

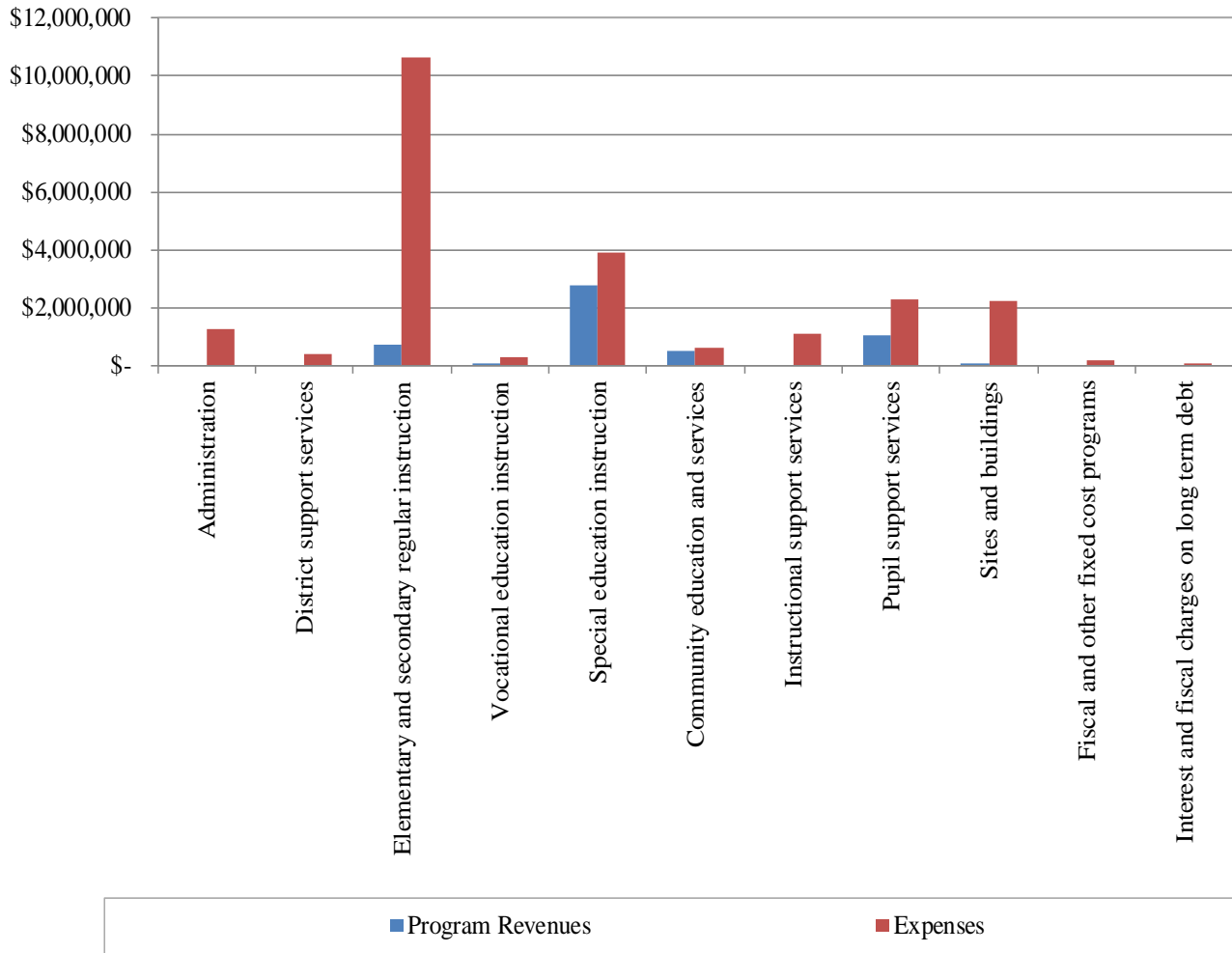
The balance of unrestricted net position is a deficit due to recognition of long-term pension liabilities in accordance with GASB Statement No. 68.

Governmental activities. Governmental activities increased the District's net position by \$1,342,556. Key elements of this increase are as follows:

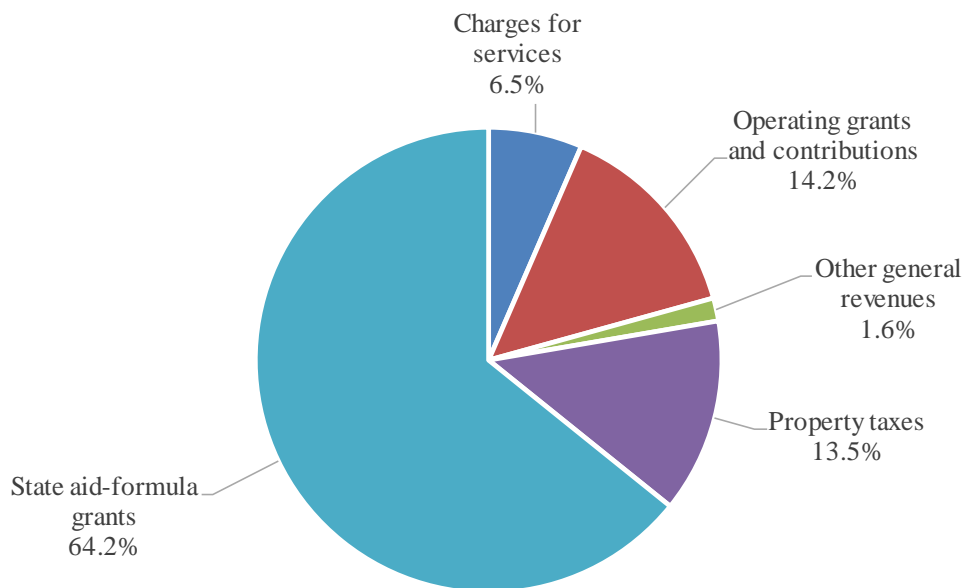
Independent School District No. 508's Changes in Net Position

| | Governmental Activities | | Increase (Decrease) | |
|---|----------------------------|----------------------|------------------------|----------|
| | 2015 | 2014 | Amounts | Percent |
| Revenues | | | | |
| Program revenues | | | | |
| Charges for services | \$ 1,593,167 | \$ 2,420,124 | \$ (826,957) | (34.2) % |
| Operating grants and contributions | 3,461,387 | 3,473,222 | (11,835) | (0.3) |
| General revenues | | | | |
| Property taxes | 3,298,520 | 1,993,030 | 1,305,490 | 65.5 |
| State aid-formula grants | 15,683,789 | 15,454,309 | 229,480 | 1.5 |
| Other general revenues | 380,969 | 240,042 | 140,927 | 58.7 |
| Investment earnings | 1,294 | 2,027 | (733) | (36.2) |
| Total revenues | <u>24,419,126</u> | <u>23,582,754</u> | <u>836,372</u> | 3.5 |
| Expenses | | | | |
| Administration | 1,254,860 | 1,266,324 | (11,464) | (0.9) |
| District support services | 418,057 | 352,257 | 65,800 | 18.7 |
| Elementary and secondary regular instruction | 10,651,776 | 10,131,310 | 520,466 | 5.1 |
| Vocational education instruction | 300,623 | 134,110 | 166,513 | 124.2 |
| Special education instruction | 3,888,597 | 4,872,154 | (983,557) | (20.2) |
| Community education and services | 597,895 | 626,894 | (28,999) | (4.6) |
| Instructional support services | 1,127,102 | 1,221,554 | (94,452) | (7.7) |
| Pupil support services | 2,311,757 | 2,272,944 | 38,813 | 1.7 |
| Sites and buildings | 2,258,649 | 2,272,613 | (13,964) | (0.6) |
| Fiscal and other fixed cost programs | 198,986 | 221,782 | (22,796) | (10.3) |
| Interest and fiscal charges on long-term debt | 68,268 | 91,743 | (23,475) | (25.6) |
| Total expenses | <u>23,076,570</u> | <u>23,463,685</u> | <u>(387,115)</u> | (1.6) |
| Change in net position | 1,342,556 | 119,069 | 1,223,487 | 1,027.5 |
| Net position, July 1 as restated (Note 7) | <u>2,493,356</u> | <u>15,021,826</u> | <u>(12,528,470)</u> | (83.4) |
| Net position, June 30 | <u>\$ 3,835,912</u> | <u>\$ 15,140,895</u> | <u>\$ (11,304,983)</u> | (74.7) |

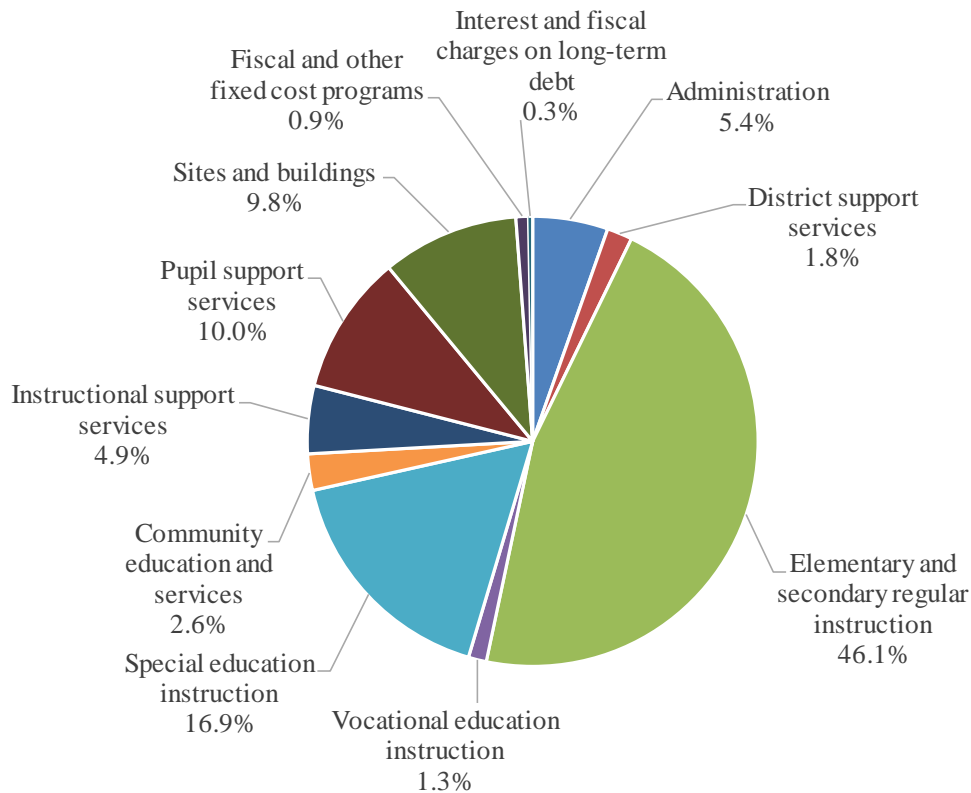
Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Expenditures by Program - Governmental Activities



Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,876,227, a decrease of \$324,019 in comparison with the prior year. The General fund had a \$98,772 increase in fund balance which was offset by an decrease in the Capital Projects fund of \$475,694. Additionally, there were increases of \$49,143 in Community Service, \$1,203 in Food Service and \$2,557 in Debt Service during the year. The \$1,203 increase in Food Service fund balance was due to a decrease in capital purchases compared to last year. The \$475,694 decrease in Capital Projects was due to the District starting preliminary planning on the new high school building. The \$49,143 increase in Community Service was due to a decrease in expenditures tied to the salaries and wages and an increase in property tax levies and other local revenues. The \$2,557 increase in Debt Service was due to revenue being over debt service obligations. Of the total fund balance, \$1,562,946 constitutes unassigned fund balance that is available for spending at the District's discretion.

The General fund is the chief operating fund of the District. At the end of the current year, unassigned fund balance of the General fund was \$2,273,089, while total fund balance reached \$3,230,418. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10.2 percent of total General fund expenditures, while total fund balance represents 14.5 percent of that same amount.

The fund balance of the District's General fund increased by \$98,772 during the current fiscal year. This increase in the General fund was due to revenues being \$334,740 more than budgeted combining with expenditures coming in \$462,420 under budget. The district had budgeted a decrease in fund balance of \$195,369 in comparison to the increase of \$98,772 a positive variance of \$324,322 resulted.

General Fund Budgetary Highlights

The District adopted the annual operation budget in May 2015. The budget to both revenues and expenditures resulted in the District ending the 2014-2015 school year with an unassigned fund balance of \$2,273,089 compared to \$1,856,593 in the prior year. The majority of the increase was attributable to the transferring of some of the assigned funds for the single point entry projects done in 2014, expenditures for the year being down and revenue being up.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2015, amounts to \$16,582,536 (net of accumulated depreciation). This investment in capital assets includes land, construction work in progress, land improvements, buildings and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 7.5 percent. The major additions to capital assets was the purchase of land for the new school for \$573,952, the replacement of the Davis Street roof for \$210,307 and pool and football parking lot improvements in the amount of \$182,123. The total depreciation expense for the year was \$678,000. The following is a schedule of capital assets as of June 30, 2015.

Independent School District No. 508's Capital Assets (net of depreciation)

| | Governmental Activities | |
|-------------------------------|-------------------------|----------------------|
| | 2015 | 2014 |
| Land | \$ 1,383,564 | \$ 809,612 |
| Construction work in progress | 498,030 | 74,419 |
| Land improvements | 983,653 | 686,373 |
| Buildings | 13,225,864 | 13,390,528 |
| Equipment | 491,425 | 464,155 |
| Total | <u>\$ 16,582,536</u> | <u>\$ 15,425,087</u> |

Additional information on the District's capital assets can be found in Note 3C on page 50 of this report.

Long-term debt. At the end of the current fiscal year, the District had total general obligation bonds outstanding of \$575,000. Most of this amount is to finance capital projects relating to school buildings. The District also had capital lease and energy loans totaling \$1,880,830 reported as long-term debt at year end.

Independent School District No. 508's Outstanding Debt

| | Governmental Activities | |
|----------------------------------|-------------------------|---------------------|
| | 2015 | 2014 |
| General obligation bonds payable | \$ 575,000 | \$ 760,000 |
| Energy loans payable | 303,450 | 382,080 |
| Capital leases payable | 1,577,380 | 1,599,814 |
| Total | <u>\$ 2,455,830</u> | <u>\$ 2,741,894</u> |

The District's total long-term debt decreased by \$286,064 or 10.4 percent during the current fiscal year due to additional capital leases of \$305,078 and retirement of debt of \$591,142.

Additional information on the District's long-term debt can be found in Note 3E starting on page 51 of this report.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the following circumstance that could significantly affect its financial health in the future.

- The State of Minnesota is financially healthy and increased the per pupil spending formula for the next two fiscal years. Also the District is experiencing enrollment increases equal to or above the one to two percent range, which was the projection from our latest demographic study.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be in written form and addressed to the Business Office, Independent School District No. 508, 100 Lincoln Drive, Suite 229, St. Peter, MN 56082.

DISTRICT-WIDE FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2015

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
STATEMENT OF NET POSITION
JUNE 30, 2015

| | Governmental Activities |
|--|----------------------------|
| ASSETS | |
| Cash and temporary investments | \$ 3,880,248 |
| Receivables | |
| Taxes | 1,776,615 |
| Accounts | 15,030 |
| Due from other school districts | 470,130 |
| Intergovernmental | 2,322,143 |
| Inventories | 15,884 |
| Prepaid items | 242,200 |
| Capital assets not being depreciated | 1,881,594 |
| Capital assets being depreciated (net of accumulated depreciation) | <u>14,700,942</u> |
| TOTAL ASSETS | <u>25,304,786</u> |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred pension resources | <u>1,957,152</u> |
| LIABILITIES | |
| Salaries and wages payable | 981,433 |
| Accounts and other payables | 477,603 |
| Accrued interest payable | 22,918 |
| Due to other school districts | 69,510 |
| Due to other governments | 34,621 |
| Accrued expenses | 1,016,961 |
| Noncurrent liabilities | |
| Due within one year | 742,190 |
| Due in more than one year | <u>13,527,647</u> |
| TOTAL LIABILITIES | <u>16,872,883</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Property taxes levied for subsequent year | 3,200,931 |
| Deferred pension resources | <u>3,352,212</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>6,553,143</u> |
| NET POSITION | |
| Net investment in capital assets | 14,958,986 |
| Restricted | |
| Food service | 115,282 |
| Educational purposes | 302,201 |
| Debt service | 31,108 |
| Unrestricted | <u>(11,571,693)</u> |
| TOTAL NET POSITION | <u>\$ 3,835,912</u> |

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) |
|---|----------------------|-------------------------|--|---|
| | | Charges for Services | Operating Grants and Contributions | Revenue and Changes in Net Position |
| | | | | Governmental Activities |
| Governmental activities | | | | |
| Administration | \$ 1,254,860 | \$ - | \$ - | \$ (1,254,860) |
| District support services | 418,057 | - | - | (418,057) |
| Elementary and secondary regular instruction | 10,651,776 | 355,155 | 360,027 | (9,936,594) |
| Vocational education instruction | 300,623 | - | 12,956 | (287,667) |
| Special education instruction | 3,888,597 | 603,137 | 2,152,452 | (1,133,008) |
| Community education and services | 597,895 | 223,736 | 280,839 | (93,320) |
| Instructional support services | 1,127,102 | - | - | (1,127,102) |
| Pupil support services | 2,311,757 | 410,471 | 624,046 | (1,277,240) |
| Sites and buildings | 2,258,649 | 668 | 31,067 | (2,226,914) |
| Fiscal and other fixed cost programs | 198,986 | - | - | (198,986) |
| Interest and fiscal charges on long term debt | 68,268 | - | - | (68,268) |
| Total governmental activities | <u>\$ 23,076,570</u> | <u>\$ 1,593,167</u> | <u>\$ 3,461,387</u> | <u>(18,022,016)</u> |
| General revenues | | | | |
| Taxes | | | | |
| Property taxes, levied for general purposes | | | | 2,965,270 |
| Property taxes, levied for community service | | | | 143,944 |
| Property taxes, levied for debt service | | | | 189,306 |
| State aid-formula grants | | | | 15,683,789 |
| Other general revenues | | | | 380,969 |
| Investment earnings | | | | <u>1,294</u> |
| Total general revenues | | | | <u>19,364,572</u> |
| Change in net position | | | | 1,342,556 |
| Net position, July 1 as restated (Note 7) | | | | <u>2,493,356</u> |
| Net position, June 30 | | | | <u>\$ 3,835,912</u> |

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

**INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA**

**FOR THE YEAR ENDED
JUNE 30, 2015**

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015

| | General | Other Governmental Funds | Total Governmental Funds |
|---|----------------------------|--------------------------------|--------------------------------|
| ASSETS | | | |
| Cash and temporary investments | \$ 3,967,744 | \$ (87,496) | \$ 3,880,248 |
| Receivables | | | |
| Taxes | 1,589,989 | 186,626 | 1,776,615 |
| Accounts | 1,197 | 13,833 | 15,030 |
| Due from other school districts | 396,646 | 73,484 | 470,130 |
| Intergovernmental | 2,306,594 | 15,549 | 2,322,143 |
| Inventories | - | 15,884 | 15,884 |
| Prepaid items | 242,200 | - | 242,200 |
| | <u>242,200</u> | <u>-</u> | <u>242,200</u> |
| TOTAL ASSETS | <u><u>\$ 8,504,370</u></u> | <u><u>\$ 217,880</u></u> | <u><u>\$ 8,722,250</u></u> |
| LIABILITIES | | | |
| Salaries and wages payable | \$ 936,086 | \$ 45,347 | \$ 981,433 |
| Accounts and other payables | 313,204 | 164,399 | 477,603 |
| Due to other school districts | 67,440 | 2,070 | 69,510 |
| Due to other governments | 34,596 | 25 | 34,621 |
| Accrued expenses | 1,016,961 | - | 1,016,961 |
| | <u>1,016,961</u> | <u>-</u> | <u>1,016,961</u> |
| TOTAL LIABILITIES | <u>2,368,287</u> | <u>211,841</u> | <u>2,580,128</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Property taxes levied for subsequent year | 2,848,328 | 352,603 | 3,200,931 |
| Unavailable revenue - delinquent property taxes | 57,337 | 7,627 | 64,964 |
| | <u>57,337</u> | <u>7,627</u> | <u>64,964</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>2,905,665</u> | <u>360,230</u> | <u>3,265,895</u> |
| FUND BALANCES | | | |
| Nonspendable | 242,200 | 15,884 | 258,084 |
| Restricted | 107,958 | 340,068 | 448,026 |
| Assigned | 607,171 | - | 607,171 |
| Unassigned | 2,273,089 | (710,143) | 1,562,946 |
| | <u>2,273,089</u> | <u>(710,143)</u> | <u>1,562,946</u> |
| TOTAL FUND BALANCES | <u>3,230,418</u> | <u>(354,191)</u> | <u>2,876,227</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u><u>\$ 8,504,370</u></u> | <u><u>\$ 217,880</u></u> | <u><u>\$ 8,722,250</u></u> |

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
JUNE 30, 2015

Amounts reported for governmental activities in the statement
of net position are different because

| | |
|--|----------------------------|
| Total fund balances - governmental funds | \$ 2,876,227 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds. | 16,582,536 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. | |
| Long-term liabilities at year-end consist of | |
| Bonds payable | (575,000) |
| Energy loan payable | (303,450) |
| Capital leases payable | (1,577,380) |
| Severance benefits payable | (232,583) |
| Compensated absences payable | (23,284) |
| Pension liability | (11,003,961) |
| OPEB liability | (554,179) |
| 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. | |
| Delinquent property taxes | 64,964 |
| Governmental funds do not report long-term amounts related to pensions. | |
| Deferred outflows of pension resources | 1,957,152 |
| Deferred inflows of pension resources | (3,352,212) |
| Governmental funds do not report a liability for accrued interest until due and payable. | <u>(22,918)</u> |
| Total net position - governmental activities | <u><u>\$ 3,835,912</u></u> |

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

| | General | Other Governmental Funds | Total |
|--|---------------------|--------------------------------|---------------------|
| REVENUES | | | |
| Local property tax levies | \$ 2,508,500 | \$ 795,339 | \$ 3,303,839 |
| Other local and county revenue | 1,329,963 | 296,178 | 1,626,141 |
| Interest earned on investments | 1,239 | 55 | 1,294 |
| Revenue from State sources | 17,859,559 | 258,735 | 18,118,294 |
| Revenue from Federal sources | 416,322 | 528,118 | 944,440 |
| Sales and other conversion of assets | 3,924 | 399,224 | 403,148 |
| | <u>22,119,507</u> | <u>2,277,649</u> | <u>24,397,156</u> |
| TOTAL REVENUES | | | |
| EXPENDITURES | | | |
| Current | | | |
| Administration | 1,243,865 | - | 1,243,865 |
| District support services | 415,045 | - | 415,045 |
| Elementary and secondary regular instruction | 10,627,729 | - | 10,627,729 |
| Vocational education and instruction | 300,385 | - | 300,385 |
| Special education instruction | 3,922,911 | - | 3,922,911 |
| Community education and services | - | 599,826 | 599,826 |
| Instructional support services | 842,658 | - | 842,658 |
| Pupil support services | 1,340,683 | 964,692 | 2,305,375 |
| Sites and buildings | 1,545,416 | - | 1,545,416 |
| Fiscal and other fixed cost programs | 198,782 | - | 198,782 |
| Capital outlay | 1,415,859 | 946,935 | 2,362,794 |
| Debt service | | | |
| Principal | 406,142 | 185,000 | 591,142 |
| Interest and other costs | 66,338 | 3,987 | 70,325 |
| | <u>22,325,813</u> | <u>2,700,440</u> | <u>25,026,253</u> |
| TOTAL EXPENDITURES | | | |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (206,306) | (422,791) | (629,097) |
| OTHER FINANCING SOURCES | | | |
| Capital leases issued | 305,078 | - | 305,078 |
| | <u>98,772</u> | <u>(422,791)</u> | <u>(324,019)</u> |
| NET CHANGE IN FUND BALANCES | | | |
| FUND BALANCES, JULY 1 | 3,131,646 | 68,600 | 3,200,246 |
| FUND BALANCES, JUNE 30 | <u>\$ 3,230,418</u> | <u>\$ (354,191)</u> | <u>\$ 2,876,227</u> |

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO STATEMENT OF ACTIVITIES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported for governmental activities in the statement
of activities are different because

| | |
|--|--------------|
| Total net change in fund balances - governmental funds | \$ (324,019) |
|--|--------------|

Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

| | |
|----------------------|-----------|
| Capital outlays | 1,835,449 |
| Depreciation expense | (678,000) |

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

| | |
|----------------------|-----------|
| Capital lease issued | (305,078) |
| Principal repayments | 591,142 |

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

2,057

Long-term pension activity is not reported in governmental funds.

| | |
|--------------------------|---------|
| Pension expense | 221,229 |
| Direct aid contributions | 27,289 |

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.

(5,319)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

| | |
|----------------------|----------|
| Compensated absences | (46,443) |
| OPEB costs | 24,249 |

| | |
|--|---------------------|
| Change in net position - governmental activities | \$ <u>1,342,556</u> |
|--|---------------------|

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

| | Budgeted Amounts | | Actual | Variance with |
|--|---------------------|---------------------|---------------------|-------------------|
| | Original | Final | Amounts | Final Budget |
| REVENUES | | | | |
| Local property tax levies | \$ 2,499,910 | \$ 2,499,910 | \$ 2,508,500 | \$ 8,590 |
| Other local and county revenue | 1,244,335 | 1,244,733 | 1,329,963 | 85,230 |
| Interest earned on investments | 1,500 | 1,500 | 1,239 | (261) |
| Revenue from State sources | 17,619,833 | 17,619,833 | 17,859,559 | 239,726 |
| Revenue from Federal sources | 418,591 | 418,591 | 416,322 | (2,269) |
| Sales and other conversions of assets | 200 | 200 | 3,924 | 3,724 |
| TOTAL REVENUES | 21,784,369 | 21,784,767 | 22,119,507 | 334,740 |
| EXPENDITURES | | | | |
| Current | | | | |
| Administration | 1,232,529 | 1,232,529 | 1,243,865 | (11,336) |
| District support services | 458,496 | 458,496 | 415,045 | 43,451 |
| Elementary and secondary regular instruction | 10,637,785 | 10,635,864 | 10,627,729 | 8,135 |
| Vocational education and instruction | 129,953 | 129,953 | 300,385 | (170,432) |
| Special education instruction | 4,124,411 | 4,124,411 | 3,922,911 | 201,500 |
| Instructional support services | 798,278 | 830,778 | 842,658 | (11,880) |
| Pupil support services | 1,475,841 | 1,475,841 | 1,340,683 | 135,158 |
| Sites, buildings and equipment | 1,612,260 | 1,612,260 | 1,545,416 | 66,844 |
| Fiscal and other fixed cost programs | 418,271 | 199,106 | 198,782 | 324 |
| Capital outlay | | | | |
| Administration | 24,732 | 24,732 | 23,017 | 1,715 |
| District support services | 4,000 | 4,000 | 4,682 | (682) |
| Elementary and secondary regular instruction | 109,126 | 109,126 | 127,163 | (18,037) |
| Special education instruction | 13,774 | 13,774 | 7,612 | 6,162 |
| Instructional support services | 285,416 | 285,416 | 284,857 | 559 |
| Pupil support services | 600 | 600 | - | 600 |
| Sites, buildings and equipment | 959,657 | 959,657 | 968,528 | (8,871) |
| Debt service | | | | |
| Principal | 400,140 | 400,140 | 406,142 | (6,002) |
| Interest and other costs | 72,385 | 72,385 | 66,338 | 6,047 |
| TOTAL EXPENDITURES | 22,757,654 | 22,569,068 | 22,325,813 | 243,255 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(973,285)</u> | <u>(784,301)</u> | <u>(206,306)</u> | <u>577,995</u> |
| OTHER FINANCING SOURCES | | | | |
| Capital leases issued | 277,916 | 277,916 | 305,078 | 27,162 |
| Sale of assets | 500,000 | 500,000 | - | (500,000) |
| TOTAL OTHER FINANCING SOURCES | 777,916 | 777,916 | 305,078 | (472,838) |
| NET CHANGE IN FUND BALANCES | (195,369) | (6,385) | 98,772 | 105,157 |
| FUND BALANCES, JULY 1 | <u>3,131,646</u> | <u>3,131,646</u> | <u>3,131,646</u> | <u>-</u> |
| FUND BALANCES, JUNE 30 | <u>\$ 2,936,277</u> | <u>\$ 3,125,261</u> | <u>\$ 3,230,418</u> | <u>\$ 105,157</u> |

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

| | Private Purpose Trust |
|--------------------------------|-----------------------------|
| ASSETS | |
| Cash and temporary investments | <u>\$ 653,252</u> |
| NET POSITION | |
| Held in trust for scholarships | <u>\$ 653,252</u> |

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

| | Private Purpose Trust |
|--------------------------------|-----------------------------|
| REVENUES | |
| Interest earned on investments | \$ 23,848 |
| Contributions | <u>500</u> |
| TOTAL REVENUES | 24,348 |
| EXPENDITURES | |
| Other expenditures | <u>21,600</u> |
| CHANGE IN NET POSITION | 2,748 |
| NET POSITION, JULY 1 | <u>650,504</u> |
| NET POSITION, JUNE 30 | <u><u>\$ 653,252</u></u> |

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Independent School District No. 508, (the District) was incorporated under the laws of the State of Minnesota, (the State). The District operates under a School Board form of government for the purpose of providing educational services to individuals within the area. The District is governed by an elected School Board of seven members, who are responsible for legislative and fiscal control of the District. A superintendent is appointed by the School Board and is responsible for administrative control of the District.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

In accordance with Minnesota statutes, the District's School Board has elected to control or be financially accountable for extracurricular student activities. Accordingly, the account and transactions are included in the financial statements within the General fund.

B. District-wide and fund financial statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

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. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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

C. Measurement focus, basis of accounting and basis of presentation

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the 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 advanced, which are recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. State revenue is recognized in the year to which it applies according to Minnesota statutes and accounting principles generally accepted in the United States of America. Minnesota statutes include State aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure was made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

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

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Description of funds

The various District funds have been established by the State of Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major governmental funds:

The *General fund* is the District's primary operating fund. It accounts for all financial resources of the District, 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 capital related activities such as maintenance of facilities, equipment purchases, health and safety projects and disabled accessibility projects.

Non-major governmental funds:

The *Food Service special revenue fund* is used to account for food service revenue and expenditures.

The *Community Service special revenue fund* accounts for services provided to residents in the areas of recreation, civic activities, non-public pupils, adult or early childhood programs, or other similar services.

The *Debt Service fund* accounts for the resources accumulated and payments made for principal, interest and related costs on long-term general obligation debt of governmental funds.

The *Capital Projects fund* accounts for all resources used for the acquisition and/or construction of major capital facilities.

Fiduciary funds:

The *private-purpose trust fund* is used to account for trust arrangements under which the income benefits individuals. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor. All resources of the fund, including any earnings on invested resources, may be used to support the activities.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

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

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position/fund balance

Deposits and investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments or equity investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company 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.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Investments for the District are reported at fair value. The Minnesota School District Liquid Asset Fund Investment Pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7 and operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property taxes

The School Board annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property owners in two installments generally due on May 15 and October 15. The taxes are collected by the County Treasurer and tax settlements are made to the District three or four times throughout the year.

Statutory funding formulas determine the majority of the District revenue in the General and special revenue funds. This revenue is divided between property 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 a "tax shift". The remaining portion of taxes collectible in 2015 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

Taxes payable on qualifying property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the District by the State in lieu of taxes levied against homestead property.

Current property taxes receivable is recorded for taxes levied in 2014 and collectible in 2015. The remaining portion of the current tax levy is reported as a liability, property taxes levied for subsequent year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts receivable

All trade and property tax receivables are shown net of an allowance for uncollectibles. No allowance for uncollectibles have been recorded. The only receivable not expected to be collected within one year are current property taxes receivable.

Inventories and prepaid items

Food Service fund inventories include items purchased by the District and commodities donated by the U.S. Department of Agriculture (USDA). Commodities are valued using a standard price list furnished by the USDA and purchased inventory is valued at the lower of cost or market on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Capital assets

Capital assets include property, plant and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

| Assets | Years |
|-----------------------------------|---------|
| Buildings | 20 - 50 |
| Land improvements | 20 - 50 |
| Equipment, machinery and vehicles | 5 - 15 |

Deferred outflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

Accrued employee benefits

Compensated absences payable

Vacation is earned under the terms of the superintendent, custodial group office support group, and food service employee contracts. Annual vacation pay rates are dependent upon employee group labor contracts. At June 30, certain employee groups may carry forward up to 10 days of unpaid vacation for up to one year. At June 30, 2015, unpaid vacation pay totaling \$23,284 is recorded in the statement of net position.

Substantially all District employees are entitled to sick leave at various rates. For certain eligible employees, unused sick leave is used to calculate severance pay upon termination.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Severance and health insurance benefits

Severance and health insurance benefits consist of severance payments and post-employment healthcare benefits. Accounting policies for severance and health benefits are described as follows:

1. Severance Payment - Educational Assistants

A severance payment is available to paraprofessionals who have completed at least 10 consecutive years of service with the District and are at least age 55. An eligible individual will receive an amount equal to \$4,375 per hour to a maximum of \$6,125.

2. Severance Payment - Custodial Personnel

A severance payment is available to custodial personnel who are at least age 55. An eligible individual will receive an amount equal to \$35 per unused sick leave day to a maximum of 180 days or \$6,300.

3. Severance Payment - Principals

A severance payment is available to principals who have completed at least 10 consecutive years of service with the District and are at least age 55. An eligible individual will receive pay for a maximum of 310 unused sick leave days. The first 75 days are paid at the full daily salary and the additional 235 days are at least an amount equal to \$40 per day.

4. Severance Payment - Food Service Personnel

A severance payment is available to food service personnel who have been employed by the District for 10 consecutive years of full-time employment at the District and are at least age 55. An eligible individual will receive an amount equal to \$25 per unused sick leave day to a maximum of 160 days.

5. Severance Payment - Teachers

A severance payment is available to teachers who have taught a minimum of 10 consecutive years in the District and are at least 55 years of age. An eligible individual will receive an amount equal to \$45 per unused sick leave a day at a maximum of one contract year. An eligible individual with more than 185 unused sick leave days will receive \$100 for each day over 185 to a maximum of ten days. This additional amount will be added to cap of \$52,000 paid by the District for medical insurance after retirement.

6. Severance Payment - Superintendent

A severance payment is available to the superintendent after 20 years of fulltime employment at the District and upon retirement to receive an amount for unused sick leave. The severance amount is equal to 75 days at the daily rate of pay. Sick leave pay is an amount equal to \$40 per day up to a maximum of 235 unused sick leave days. Vacation leave pay is an amount equal to \$40 a day.

7. Health Insurance Benefits

Under the terms of employee contracts, employees that retire are eligible for health insurance benefits if they are at a minimum 56 years of age and have 10 years of service within the District. Based on this criteria when the superintendent, business manager, principals, buildings and grounds supervisor, and teachers that retire; the District must provide \$52,000 towards the purchase of any of the District's medical insurance plans. For accountants and the superintendent's assistant that retire with the above criteria; the District must provide \$25,000 towards the purchase of any of the District's medical insurance plans. For office support and the custodial group that retire with the above criteria; the District must provide \$15,000 towards the purchase of any of the District's medical insurance plans. For teacher's assistants that retire with the above criteria; the District must provide \$7,800 towards the purchase of any of the District's medical insurance plans.

During fiscal year 2015, total expenditures for severance and health insurance benefits were approximately \$131,439 and \$474,973, respectively. At June 30, 2015, a \$232,583 liability for severance and \$554,179 for health benefits (OPEB liability) is recorded on the statement of net position. Severance and health benefits payable are being paid by mainly the General and Food Service funds.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Long-term obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as an expense in the period incurred.

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

Pensions

Teachers Retirement Association (TRA)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in Note 4.

Public Employees Retirement Association (PERA)

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

Deferred inflows of resources

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, 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 of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: delinquent property taxes and property taxes levied for subsequent year. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Furthermore, the District has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the School Board (the Board), which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority. The Board has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the Business Manager.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District has formally set of a goal of a minimum unassigned fund balance in the General fund of \$1,981,569 for the year ended June 30, 2015. The unassigned fund balance for the General fund at year end was \$2,273,089.

Net position

Net position represents the difference between assets and liabilities and deferred inflows. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Budgets are prepared for District governmental funds on the same basis and using the same accounting practices that are used in accounting and preparing financial statements for the funds.

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

1. Prior to July 1, the budget is prepared by the Superintendent to be adopted by the School Board.
2. Budgets for the General, special revenue, Debt Service and Capital Projects funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
3. Budgeted amounts are as originally adopted, or as amended.
4. Budget appropriations lapse at year end.
5. The District does not use encumbrance accounting.
6. The legal level of budgetary control is the fund level.

B. Excess of actual expenditures over appropriations

For the year ended June 30, 2015, expenditures exceeded appropriations in the following funds:

| <u>Fund</u> | <u>Budget</u> | <u>Actual</u> | <u>Excess</u> |
|------------------|---------------|---------------|---------------|
| Food Service | \$ 926,366 | \$ 973,940 | \$ 47,574 |
| Capital Projects | 546,799 | 936,672 | 389,873 |

The excess expenditures in the Food Service fund were funded by available fund balance. The excess expenditures in the Capital Projects fund increased the deficit that will be funded by future bond proceeds.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

C. Deficit fund balances

The following fund had a fund balance deficit as of June 30, 2015:

| Fund | Amount |
|------------------|------------|
| Capital Projects | \$ 551,526 |

The above fund deficit will be funded through future bond proceeds.

Note 3: DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the District's deposits and investments may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the School Board, the District maintains deposits at those depository banks which are members of the Federal Reserve System.

Minnesota statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other State or local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral.

At year end, the District's carrying amount of deposits was \$2,239,532 and the bank balance was \$2,937,043. Of the bank balance, \$1,280,216 was covered by federal depository insurance. Of the remaining balance of \$1,656,827 was collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

As of June 30, 2015, the District had the following investments:

| <u>Types of Investments</u> | <u>Fair Value and Carrying Amount</u> | <u>Cost</u> | <u>Credit Quality/ Ratings (1)</u> | <u>Segmented Time Distribution (2)</u> |
|---|---|---------------------|--|--|
| Pooled investments | | | | |
| Minnesota School District Liquid Asset Fund (MSDLAF) | \$ 1,685,838 | \$ 1,685,838 | AAAm | less than 6 months |
| Broker money funds | <u>156,685</u> | <u>156,685</u> | N/A | less than 6 months |
| Total pooled investments | <u>1,842,523</u> | <u>1,842,523</u> | | |
| Non-pooled investments | | | | |
| Taxable Municipal Bond | 105,429 | 102,358 | AA2/AA- | more than 3 years |
| Taxable Municipal Bond | 112,502 | 101,880 | AA2 | more than 3 years |
| Taxable Municipal Bond | 86,705 | 78,005 | AA3/AA- | more than 3 years |
| Taxable Municipal Bond | <u>146,579</u> | <u>139,668</u> | AA2/AA | more than 3 years |
| Total non-pooled investments | <u>451,215</u> | <u>421,911</u> | | |
| Total investments | <u>\$ 2,293,738</u> | <u>\$ 2,264,434</u> | | |

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

N/A indicates not applicable or available.

(2) Interest rate risk is disclosed using the segmented time distribution method.

The Minnesota School District Liquid Asset Fund (MSDLAF) is a trust organized and existing under the laws of the State of Minnesota and the Minnesota Joint Powers Act, as amended. The trust was established for the purpose of allowing Minnesota school districts to pool their investment funds to obtain a competitive investment yield, while maintaining liquidity and preserving capital. The credit rating for the MSDLAF is AAAm. The weighted average days to maturity are less than six months. The District's investment in the MSDLAF is equal to the value of pool shares.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

A reconciliation of cash and temporary investments as shown on the statement of net position for the District follows:

| | |
|--|----------------------------|
| Petty cash | \$ 230 |
| Deposits | 2,239,532 |
| Investments | <u>2,293,738</u> |
| Total | 4,533,500 |
| Less fiduciary fund cash and temporary investments | <u>(653,252)</u> |
| Total cash and temporary investments | <u><u>\$ 3,880,248</u></u> |

B. Property taxes receivable

Current property taxes receivable is recorded for taxes levied in 2014 and payable in 2015. A portion of the current property taxes receivable is recognized as revenue in the fiscal year ended June 30, 2015 in accordance with Minnesota statutes and the remaining balance is recorded as a deferred inflow of resources for subsequent years' operations.

Delinquent property taxes receivable represents uncollected taxes from the previous six years' property tax levies. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Taxes receivable by fund type is comprised of the following components:

| | <u>General</u> | <u>Nonmajor Governmental</u> | <u>Total</u> |
|--|----------------------------|----------------------------------|----------------------------|
| Current taxes | \$ 1,532,652 | \$ 178,999 | \$ 1,711,651 |
| Delinquent taxes | <u>57,337</u> | <u>7,627</u> | <u>64,964</u> |
| Total taxes receivable | <u><u>\$ 1,589,989</u></u> | <u><u>\$ 186,626</u></u> | <u><u>\$ 1,776,615</u></u> |
| Property taxes levied for subsequent year | <u><u>\$ 2,848,328</u></u> | <u><u>\$ 352,603</u></u> | <u><u>\$ 3,200,931</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Capital assets

Capital asset activity for the District for the year ended June 30, 2015 was as follows:

| | Balance Beginning of Year | Additions | Deletions | Balance End of Year |
|---|---------------------------------|---------------------|--------------------|---------------------------|
| Governmental activities | | | | |
| Capital assets not being depreciated | | | | |
| Land | \$ 809,612 | \$ 573,952 | \$ - | \$ 1,383,564 |
| Construction work in progress | 74,419 | 498,030 | (74,419) | 498,030 |
| Total capital assets not being depreciated | 884,031 | 1,071,982 | (74,419) | 1,881,594 |
| Capital assets being depreciated | | | | |
| Land improvements | 1,533,423 | 348,238 | - | 1,881,661 |
| Building | 26,464,189 | 405,878 | - | 26,870,067 |
| Equipment | 1,600,924 | 83,770 | - | 1,684,694 |
| Total capital assets being depreciated | 29,598,536 | 837,886 | - | 30,436,422 |
| Less accumulated depreciation | | | | |
| Land improvements | (847,050) | (50,958) | - | (898,008) |
| Building | (13,073,661) | (570,542) | - | (13,644,203) |
| Equipment | (1,136,769) | (56,500) | - | (1,193,269) |
| Total accumulated depreciation | (15,057,480) | (678,000) | - | (15,735,480) |
| Total capital assets being depreciated, net | 14,541,056 | 159,886 | - | 14,700,942 |
| Governmental activities capital assets, net | <u>\$ 15,425,087</u> | <u>\$ 1,231,868</u> | <u>\$ (74,419)</u> | <u>\$ 16,582,536</u> |

Depreciation expense was charged to governmental activities as follows:

| | |
|--|-------------------|
| Administration | \$ 677 |
| Elementary and secondary regular instruction | 32,669 |
| Vocational education instruction | 186 |
| Special education instruction | 5,977 |
| Instructional support services | 2,256 |
| Pupil support services | 10,347 |
| Sites and buildings | 625,684 |
| Fiscal and other fixed cost programs | 204 |
| Total depreciation expense | <u>\$ 678,000</u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Construction commitments

The District has active construction projects as of June 30, 2015. At year end the District's commitments are as follows:

| Project | Spent-to-Date | Remaining Commitment |
|---|---------------|-------------------------|
| New high school - professional services | \$ 442,335 | \$ 1,906,946 |

E. Long-term debt

General obligation bonds

The District issues general obligation bonds to provide financing for the acquisition, construction and betterment of major capital school facilities. In addition, general obligation bonds have been issued to refund general obligation bonds. Assets of the Debt Service fund, together with scheduled future ad valorem tax levies are dedicated to retire these bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds currently outstanding are as follows:

| | Original Issue | Interest Rate | Issue Date | Final Maturity | Principal Outstanding | |
|---|-------------------|------------------|---------------|-------------------|------------------------|------------|
| | | | | | Due Within One Year | Total |
| G.O. Alternative Facilities Refunding Bonds of 2012A | \$ 760,000 | 0.40 - 0.65 % | 12/13/12 | 08/01/17 | \$ 190,000 | \$ 575,000 |

The annual requirements to amortize all bonds outstanding at June 30, 2015 are as follows:

| Year Ending June 30, | Principal Payments | Interest Payments | Total |
|-------------------------|-----------------------|----------------------|------------|
| 2016 | \$ 190,000 | \$ 2,740 | \$ 192,740 |
| 2017 | 190,000 | 1,790 | 191,790 |
| 2018 | 195,000 | 634 | 195,634 |
| Total | \$ 575,000 | \$ 5,164 | \$ 580,164 |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Capital leases

The District entered into various capital leases with Nicollet County Bank for the purchase of computer equipment. The capital assets are individually less than the District's \$2,500 capitalization threshold and are not recorded as capital assets. The District also entered into a lease purchase agreement with Wells Fargo Bank in the amount of \$1,350,000 to construct the building addition to North Intermediate. The details are as follows:

| | Original Issue | Interest Rate | Issue Date | Final Maturity | Principal Outstanding | |
|-------------------------|-------------------|------------------|---------------|-------------------|------------------------|---------------------|
| | | | | | Due Within One Year | Total |
| Computer lease | \$ 98,608 | 3.68 % | 06/23/11 | 12/15/15 | \$ 20,782 | \$ 20,782 |
| Computer lease | 98,513 | 3.25 | 06/22/12 | 12/15/16 | 19,995 | 40,647 |
| Technology lease | 228,234 | 1.79 | 06/20/13 | 12/15/17 | 45,216 | 138,121 |
| Technology lease | 420,938 | 1.91 | 06/18/14 | 12/15/18 | 90,989 | 327,655 |
| Building addition lease | 1,350,000 | 4.63 | 03/14/07 | 03/14/22 | 92,397 | 745,100 |
| Computer lease | 103,161 | 1.90 | 06/19/15 | 12/15/19 | 20,656 | 103,160 |
| Technology lease | 174,755 | 1.75 | 06/19/15 | 12/15/18 | 43,719 | 174,754 |
| Band uniform lease | 27,162 | 1.90 | 06/19/15 | 12/15/19 | 5,438 | 27,161 |
| | | | | | <u>\$ 339,192</u> | <u>\$ 1,577,380</u> |
| Total capital leases | | | | | | |

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015 are as follows:

| Year Ending June 30 | Principal Payments | Interest Payments | Total |
|------------------------------|-----------------------|----------------------|------------------|
| 2016 | \$ 339,192 | \$ 47,062 | \$ 386,254 |
| 2017 | 324,356 | 40,352 | 364,708 |
| 2018 | 312,107 | 31,267 | 343,374 |
| 2019 | 226,190 | 22,597 | 248,787 |
| 2020 | 137,773 | 15,393 | 153,166 |
| 2021 - 2022 | <u>237,762</u> | <u>13,916</u> | <u>251,678</u> |
| Total minimum lease payments | <u>\$ 1,577,380</u> | <u>\$ 170,587</u> | <u>1,747,967</u> |

Assets related to the above outstanding lease obligations are as follows:

| | |
|--------------------------------|---------------------|
| Asset | |
| Buildings | \$ 1,379,254 |
| Less: accumulated depreciation | <u>(215,551)</u> |
| Total | <u>\$ 1,163,703</u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Capital notes payable

The District has a loan agreement with Wells Fargo. The proceeds of the loan were used to finance energy saving improvements at various sites within the District. Assets of the General fund will be dedicated to retire this loans. The details are as follows:

| | Original Issue | Interest Rate | Issue Date | Final Maturity | Principal Outstanding | |
|-------------------------|-------------------|------------------|---------------|-------------------|------------------------|-------------------|
| | | | | | Due Within One Year | Total |
| Wells Fargo Energy Loan | \$ 1,032,166 | 4.35 % | 07/30/03 | 07/30/18 | <u>\$ 82,088</u> | <u>\$ 303,450</u> |

The annual requirements to amortize all capital notes payable outstanding at June 30, 2015 are as follows:

| Year Ending June 30, | Principal Payments | Interest Payments | Total |
|-------------------------|-----------------------|----------------------|-------------------|
| 2016 | \$ 82,088 | \$ 12,317 | \$ 94,405 |
| 2017 | 85,698 | 8,707 | 94,405 |
| 2018 | 89,466 | 4,939 | 94,405 |
| 2019 | <u>46,198</u> | <u>1,005</u> | <u>47,203</u> |
| Total | <u>\$ 303,450</u> | <u>\$ 26,968</u> | <u>\$ 330,418</u> |

Long-term liability activity for the year ended June 30, 2015 is as follows:

| | Beginning Balance | Additions | Deductions | Ending Balance | Amounts Due Within One Year |
|------------------------------|----------------------|----------------------|-----------------------|----------------------|-----------------------------------|
| Governmental activities | | | | | |
| Bonds payable | | | | | |
| General obligation bonds | \$ 760,000 | \$ - | \$ (185,000) | \$ 575,000 | \$ 190,000 |
| Energy loans payable | 382,080 | - | (78,630) | 303,450 | 82,088 |
| Capital leases payable | 1,599,814 | 305,078 | (327,512) | 1,577,380 | 339,192 |
| Severance benefits payable | 193,255 | 170,767 | (131,439) | 232,583 | 107,626 |
| Compensated absences payable | 16,169 | 41,107 | (33,992) | 23,284 | 23,284 |
| Pension liability | | | | | |
| TRA | - | 10,675,858 * | (2,100,504) | 8,575,354 | - |
| PERA | - | 2,814,586 * | (385,979) | 2,428,607 | - |
| OPEB liability | <u>578,428</u> | <u>450,724</u> | <u>(474,973)</u> | <u>554,179</u> | <u>-</u> |
| Governmental activities | | | | | |
| Total long-term liabilities | <u>\$ 3,529,746</u> | <u>\$ 14,458,120</u> | <u>\$ (3,718,029)</u> | <u>\$ 14,269,837</u> | <u>\$ 742,190</u> |

* Includes July 1, 2014 pension liability balance related to GASB Statement No. 68 implementation. See Note 4 for further details.

INDEPENDENT SCHOOL DISTRICT NO. 508
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Short-term indebtedness

The District has a line of credit available with First National Bank. The maximum amount was \$600,000 with a rate of 4.25 percent and an expiration date of April 22, 2015. The District did not draw on the line of credit during the year ended June 30, 2015.

G. Components of fund balance

At June 30, 2015, portions of the District's fund balance are not available for appropriation due to not being in spendable form (nonspendable), legal restrictions (restricted), District School Board action (committed), policy and/or intent (assigned). The following is a summary of the components of fund balance:

| | General | Other Governmental Funds | Total Governmental Funds | Reconciling Items | UFARS Balance |
|---|---------------------|--------------------------------|--------------------------------|----------------------|---------------------|
| Nonspendable | | | | | |
| Inventories | \$ - | \$ 15,884 | \$ 15,884 | \$ - | \$ 15,884 |
| Prepaid items | 242,200 | - | 242,200 | - | 242,200 |
| Total nonspendable | <u>\$ 242,200</u> | <u>\$ 15,884</u> | <u>\$ 258,084</u> | <u>\$ -</u> | <u>\$ 258,084</u> |
| Restricted for | | | | | |
| Deferred maintenance | \$ 6,399 | \$ - | \$ 6,399 | \$ - | \$ 6,399 |
| Health and safety | 778 | - | 778 | - | 778 |
| Operating capital | 100,781 | - | 100,781 | - | 100,781 |
| Food service | - | 99,398 | 99,398 | - | 99,398 |
| Community education | - | 168,986 | 168,986 | - | 168,986 |
| Early childhood and family education | - | 18,846 | 18,846 | - | 18,846 |
| School readiness | - | - | - | (158,589) | (158,589) |
| Community service | - | 3,192 | 3,192 | - | 3,192 |
| Debt service | - | 49,618 | 49,618 | - | 49,618 |
| Capital projects | - | 28 | 28 | - | 28 |
| Capital project levy | - | - | - | (53,524) | (53,524) |
| Total restricted | <u>\$ 107,958</u> | <u>\$ 340,068</u> | <u>\$ 448,026</u> | <u>\$ (212,113)</u> | <u>\$ 235,913</u> |
| Assigned for | | | | | |
| Severance | \$ 364,171 | \$ - | \$ 364,171 | \$ - | \$ 364,171 |
| VEBA trust | 123,000 | - | 123,000 | - | 123,000 |
| Capital outlay | 120,000 | - | 120,000 | - | 120,000 |
| Total assigned | <u>\$ 607,171</u> | <u>\$ -</u> | <u>\$ 607,171</u> | <u>\$ -</u> | <u>\$ 607,171</u> |
| Unassigned | <u>\$ 2,273,089</u> | <u>\$ (710,143)</u> | <u>\$ 1,562,946</u> | <u>\$ 212,113</u> | <u>\$ 1,775,059</u> |

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Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

Restricted for Deferred Maintenance - This amount represents available resources to be used for those approved activities having a useful life of five years or more. Under Minnesota statute, this reserve may have a deficit in anticipation of aid/levy receipts.

Restricted for Health and Safety - This amount represents available resources to be used only to provide for the removal of hazardous substances and other State approved life/health safety projects. Under Minnesota statute, a deficit in this reserve generates specific future levy authority.

Restricted for Operating Capital - This amount represents available resources dedicated for capital expenditure building projects, equipment purchases, vehicles and computer hardware and software. Revenues are derived from tax levies and State aids and expenditures are for repair and restoration of existing facilities and construction of new facilities, purchase of equipment, computers, software, textbooks and library books.

Restricted for Food Service - This amount represents available resources available for Food Services. Revenues are derived from State, Federal, local and county sources along with sales and other conversion of assets and expenditures are primarily for salaries, benefits, supplies and materials.

Restricted for Community Education - This amount represents accumulated resources available to provide general community education programming.

Restricted for Early Childhood Family Education (ECFE) - This amount represents accumulated resources available to provide services for early childhood family education programming.

Restricted for School Readiness - This amount represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

Restricted for Community Service - This amount represents available resources available for Community Services. Revenues are derived from tax levies, State, Federal, local and county sources along with sales and other conversion of assets and expenditures are primarily for salaries, benefits, purchased services supplies and materials.

Restricted for Debt Service - This amount represents available resources dedicated exclusively for debt service payments. Revenues are derived from tax levies and expenditures are for principal, interest and paying agent fees.

Restricted for Capital Projects - This amount represents resources available for future capital project expenditures not identified by a specific levy.

Restricted for Capital Project Levy - This amount represents the available resources from the capital projects levy to be used for building construction. Revenues are derived from property taxes while expenditures are primarily for capital outlay.

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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE

Substantially all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

A. Teachers retirement association (TRA)

1. Plan description

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

Teachers employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the State (except those teachers employed by the cities of Duluth and 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.

2. Benefits provided

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

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

| Tier I: | <u>Step Rate Formula</u> | <u>Percentage</u> |
|----------------|---|----------------------|
| Basic | 1st ten years of service | 2.2 percent per year |
| | All years after | 2.7 percent per year |
| Coordinated | 1st ten years if service years are prior to July 1, 2006 | 1.2 percent per year |
| | 1st ten years if service years are July 1, 2006 or after | 1.4 percent per year |
| | All other years of service if service years are prior to July 1, 2006 | 1.7 percent per year |
| | All other years of service if service years are July 1, 2006 or after | 1.9 percent per year |

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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

With these provisions:

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

or

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans, which 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 also eligible for a refund of their employee contributions plus interest.

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

3. Contribution rate

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

| Plan | Ending June 30, 2014 | | Ending June 30, 2015 | |
|-------------|----------------------|----------|----------------------|----------|
| | Employee | Employer | Employee | Employer |
| Basic | 10.50% | 11.00% | 11.00% | 11.50% |
| Coordinated | 7.00% | 7.00% | 7.50% | 7.50% |

The District's contributions to TRA for the year ending June 30, 2015 were \$648,805. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in schedule of employer and non-employer pension allocations.

| | |
|--|----------------------------------|
| Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position | \$ 299,299,837 |
| Deduct employer contributions not related to future contribution efforts | (398,798) |
| Deduct TRA's contributions not included in allocation | <u>(370,701)</u> |
| Employer contributions reported in schedule of employer and non-employer pension allocations | <u><u>\$ 298,530,338</u></u> |

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

4. Actuarial assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

| Key Methods and Assumptions Used in Valuation of Total Pension Liability | |
|--|---|
| Actuarial information | |
| Measurement date | June 30, 2014 |
| Valuation date | July 1, 2014 |
| Experience study | October 30, 2009 |
| Actuarial cost method | Entry Age Normal |
| Actuarial assumptions | |
| Investment rate of return | 8.25% |
| Wage inflation | 3.00% |
| Projected salary increase | 3.50 - 12.00% - based on years of service |
| Cost of living adjustment | 2.00% until year 2034, 2.50% thereafter |
| Mortality assumption | |
| Pre-retirement | RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years. |
| Post-retirement | RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years. |
| Post-disability | RP 2000 disabled retiree mortality, without adjustment. |

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

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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

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

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|----------------------|----------------------|--|
| Domestic stocks | 45.00 % | 5.50 % |
| International stocks | 15.00 | 6.00 |
| Bonds | 18.00 | 1.45 |
| Alternative assets | 20.00 | 6.40 |
| Unallocated cash | 2.00 | 0.50 |
| Total | <u>100.00 %</u> | |

5. Discount rate

The discount rate used to measure the total pension liability was 8.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2015 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

6. Net pension liability

At June 30, 2015, the District reported a liability of \$1,806,308 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0392 percent at the end of the measurement period and 0.0396 percent for the beginning of the year.

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

| | |
|---|--------------|
| District's proportionate share of net pension liability | \$ 8,575,354 |
| State's proportionate share of net pension liability associated with the District | 603,289 |

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. Section 3 above contains the rate information.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

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

For the year ended June 30, 2015 the District recognized pension expense of \$449,497. It also recognized \$26,317 as an increase to pension expense for the support provided by direct aid.

On June 30, 2015 the District had deferred resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 731,710 | \$ - |
| Net difference between projected and actual earnings on plan investments | - | 2,696,005 |
| Changes in proportion | 42,713 | - |
| Contributions to TRA subsequent to the measurement date | 686,071 | - |
| Total | <u>\$ 1,460,494</u> | <u>\$ 2,696,005</u> |

Deferred outflows of resources totaling \$686,071 related to pensions resulting from the District's 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, 2016. Other deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

| <u>For the Year Ending June, 30</u> | <u>Amount</u> |
|---|---------------|
| 2016 | \$ (512,326) |
| 2017 | (512,326) |
| 2018 | (512,326) |
| 2019 | (512,326) |
| 2020 | 813,793 |

7. Pension liability sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.25 percent as well as the liability measured using one percent lower and one percent higher.

| District proportionate share of NPL | | |
|---------------------------------------|------------------------|---------------------------------------|
| <u>1 Percent Decrease (7.25%)</u> | <u>Current (8.25%)</u> | <u>1 Percent Increase (9.25%)</u> |
| \$ 14,172,124 | \$ 8,585,354 | \$ 3,909,583 |

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

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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

8. *Pension plan fiduciary net position*

Detailed information about the plan'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, Suite 400, St. Paul, MN, 55103-4000; or by calling (651-296-2409 or 800-657-3669).

B. Public Employees Retirement Association (PERA)

1. *Plan description*

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan (GERF)

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. *Benefits provided*

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent increases.

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

GERF Benefits

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

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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

3. Contributions

Minnesota statutes, chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.50 percent of pay in 2015. In calendar year 2014, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.25 percent of Coordinated Plan members. In 2015, employer rates increased to 7.5 percent in the Coordinated Plan. The District's contributions to the GERF for the year ending June 30, 2015 were \$209,904. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

4. Pension costs

At June 30, 2015, the District reported a liability of \$2,428,607 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013 through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.0517 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$180,288 for its proportionate share of GERF's pension expense.

At June 30, 2015, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

PERA Deferred Resources

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 37,272 | \$ - |
| Changes in actuarial assumptions | 250,292 | |
| Net difference between projected and actual earnings on plan investments | - | 656,207 |
| Changes in proportion | - | - |
| Contributions to GERF subsequent to the measurement date. | 209,094 | - |
| | <hr/> | <hr/> |
| Total | <u>\$ 496,658</u> | <u>\$ 656,207</u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
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NOTES TO THE FINANCIAL STATEMENTS
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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

Deferred outflows of resources totaling \$209,094 related to pensions resulting from the District's contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

| <u>For the Year Ending June, 30</u> | <u>Amount</u> |
|---|---------------|
| 2016 | \$ (277,291) |
| 2017 | (68,197) |
| 2018 | (68,197) |
| 2019 | 254,136 |
| 2020 | - |

5. Actuarial assumptions

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions:

| | |
|------------------------------|----------------|
| Inflation | 2.75% per year |
| Active Member Payroll Growth | 3.50% per year |
| Investment Rate of Return | 7.90% |

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

The following changes in actuarial assumptions occurred in 2014:

- GERP: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0 percent to 2.5 percent on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0 percent to 2.5 percent on January 1, 2031.

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Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

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

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|----------------------|----------------------|--|
| Domestic stocks | 45.00 % | 5.50 % |
| International stocks | 15.00 | 6.00 |
| Bonds | 18.00 | 1.45 |
| Alternative assets | 20.00 | 6.40 |
| Cash | 2.00 | 0.50 |
| Total | <u>100.00 %</u> | |

6. Discount rate

The discount rate used to measure the total pension liability was 7.9 percent. 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.

7. 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

| District Proportionate Share of NPL | | |
|-------------------------------------|-----------------|-------------------------------|
| 1 Percent Decrease (6.90%) | Current (7.90%) | 1 Percent Increase (8.90%) |
| \$ 3,915,012 | \$ 2,428,607 | \$ 1,205,645 |

8. Pension plan fiduciary net position

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

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 5: OTHER INFORMATION

A. Risk management

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance coverage for such risks. The District acquires Property and Casualty Insurance from Riverport Insurance Company - Minnesota Public School Program.

The District has joined together with other school districts in South-Central Minnesota in the South Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

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.

B. Contingent liabilities

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

The District is a defendant in an employment related lawsuit that is in excess of \$50,000. The outcome of this lawsuit is not presently determinable. The District's counsel and management intend to vigorously defend its position. The District's insurance provider will cover cost in excess of the District's deductible of \$5,000.

C. Jointly covered organization

The Minnesota Valley Education District was established for the primary objective of providing specialized services for special education students as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The Cooperative was established by seven separate member districts, of which Independent School District No. 508 is a member. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its program through the previously mentioned revenue sources. The joint venture's financial statements are audited and available for inspection.

D. Subsequent events

On August 19, 2015 the District issued the 2015A General Obligation School Building Bond for \$55,325,000 at interest rates of 4.0 - 5.0 percent. The bond will mature on February 1, 2039. This bond was issued for the construction of the new high school and remodeling of the other facilities.

On September 21, 2015 the District entered in to a contract in the amount of \$1,971,335 for the preliminary site work for the new school.

On November 2, 2015 the district sold land, adjacent to the new school site, to the City in the amount of \$450,000. The agreement requires payment of \$225,000 upfront with the remainder to be paid when the subdivided lots are sold.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

A. Plan description

The District administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. There are 167 active participants and 46 retired participants. Benefit provisions are established through negotiations between the District and the unions representing District employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

B. Funding policy

The District has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the District and union representatives on a per contract basis. The District's employment agreement for certain administrative officials provides for the District to pay the following premium costs for family health, dental and life insurance coverage.

C. Medical benefits

| Employee Groups | District Contribution to Medical Premium |
|--|---|
| Education assistants | \$ 7,800 |
| Custodians and support staff | 15,000 |
| Administrative assistant, payroll supervisor and payroll specialist | 25,000 |
| Business manager, community education, special programs administrator, Dean/athletic director and technology director | 52,000 |
| Principals | 52,000 (1) |
| Teachers | 52,000 (2) |
| Superintendent | 52,000 |

To be eligible for the District paid premium, retirees must be at least 56 years old with at least 10 years of service.

Food service and computer technician can continue coverage on the District's plan but must pay their own premium. Retirees in these groups must be at least 55 years old with 10 years of service to qualify for this benefit.

Certain retirees receive fully paid premiums from the District until age 65.

- 1) Principals who retire before June 30, 2008 and are enrolled in Double Gold coverage will have their single premiums paid by the District until the age of 65.
- 2) Teachers receive an additional \$100 per day of unused sick leave in excess of 185 days up to ten days.

D. Dental benefits

Teachers, principals, the superintendent, administrative assistant, payroll supervisor, payroll specialist, accountant, special programs administrator, business manager, business consultant, athletic director, technology director, community education director and buildings and grounds can continue coverage in the District dental plan but must pay their own premium. Retirees in these groups must be at least 56 years old with 10 years of service to qualify for this benefit.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS – CONTINUED

E. Life insurance

Retirees age 56 and with 10 years of service receive District paid life insurance premiums as follows:

| Employee Groups | Death Benefit | Coverage Period |
|---|---------------|------------------------------|
| Custodians | \$ 50,000 | Earlier of 5 years or age 65 |
| Support staff, administrative assistant, and payroll specialist | 50,000 | Earlier of 7 years or age 65 |
| Teachers, education assistants and payroll supervisor | 50,000 | Earlier of 9 years or age 65 |
| Special programs assistant and technology director | 100,000 | Earlier of 9 years or age 65 |
| Principals, business manager, business consultant and Dean/athletic director | 200,000 | Until age 65 |
| Superintendent | 200,000 | Until age 66 |
| Community education director | 200,000 | Earlier of 9 years or age 65 |

During the year ended June 30, 2015, the District had 52 receiving benefits totaling \$305,399 paid toward retired member premiums.

F. 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 of the employer (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 to amortize any unfunded actuarial liabilities (or funding excess) 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 contributed to the plan, and changes in the District's net OPEB obligation:

| | |
|--|--------------------------|
| Annual required contribution | \$ 462,108 |
| Interest on net OPEB obligation | 23,137 |
| Adjustment to annual required contribution | <u>(34,521)</u> |
| Annual OPEB cost (expense) | <u>450,724</u> |
| Contributions made | (293,979) |
| Implicit subsidy | <u>(180,994)</u> |
| Total contributions | <u>(474,973)</u> |
| Decrease in net OPEB obligation | (24,249) |
| Net OPEB obligation - beginning of year | <u>578,428</u> |
| NET OPEB obligation - end of year | <u><u>\$ 554,179</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the preceding two fiscal years follows:

| Year Ending | Three Year Trend Information | | |
|----------------|------------------------------|--|------------------------|
| | Annual OPEB Cost | Percentage Annual OPEB Contributed | Net OPEB Obligation |
| 06/30/15 | \$ 450,724 | 105.4 % | \$ 554,179 |
| 06/30/14 | 456,101 | 104.0 | 578,428 |
| 06/30/13 | 461,995 | 106.4 | 596,696 |

Funded status and funding progress

As of July 1, 2012 (the most recent actuarial valuation date), the District's share of the actuarial accrued liability for benefits was \$4,676,410 all of which was unfunded. The District's share of covered payroll (annual payroll of active employees covered by the plan) was \$8,010,365, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 58.4 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. 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 multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 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, 2012 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 4.0 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments and a 3.0 rate of inflation. The initial healthcare trend rate was 10 percent, reduced by decrements to an ultimate rate of 5.0 percent after ten years for medical and an ultimate rate of 5 percent for dental. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015 was 30 years.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Note 7: CHANGE IN ACCOUNTING STANDARDS

During fiscal year 2015, the District implemented several new accounting pronouncements issued by the Governmental Accounting Standards Board (GASB), including Statement No. 68, *Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, for the year ended June 30, 2015. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the June 30, 2014 financial statements. Changes related to these standards are reflected in the financial statements and schedules and related disclosures are included in Note 4.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported June 30, 2014 balances to the June 30, 2015 financial statements:

| Fund | June 30, 2015 | | |
|-------------------------|--|---------------------------------|---|
| | Net Position June 30, 2014 as Previously Reported | Prior Period Restatement (1) | Net Position July 1, 2014 as Restated |
| Governmental activities | <u>\$ 15,140,895</u> | <u>\$ (12,647,539)</u> | <u>\$ 2,493,356</u> |

(1) To record beginning net pension liability and deferred outflows of resources at June 30, 2014.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2015

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of employer's share of TRA net pension liability

| Required Supplementary Information | | | | | | | |
|------------------------------------|---|--|--|----------------|---|--|---|
| Fiscal Year Ending | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the District (b) | Total (a+b) | District's Covered Payroll (c) | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
| 06/30/14 | 0.1861 % | \$ 8,575,354 | \$ 603,289 | \$ 9,178,643 | \$ 8,494,615 | 101.0 % | 81.5 % |

Schedule of employer's TRA contributions

| Required Supplementary Information | | | | | |
|------------------------------------|--|---|---|---|---|
| Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | District's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) |
| 06/30/15 | \$ 686,071 | \$ 686,071 | \$ - | \$ 9,801,014 | 7.0 % |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of employer's share of PERA net pension liability

| Required Supplementary Information | | | | | | | |
|------------------------------------|--|---|---|--------------|--------------------------------|--|--|
| Fiscal Year Ending | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability (a) | State's Proportionate Share of the Net Pension Liability Associated with the District (b) | Total (a+b) | District's Covered Payroll (c) | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
| 06/30/14 | 0.0517 % | \$ 2,428,607 | \$ - | \$ 2,428,607 | \$ 2,712,441 | 89.5 % | 78.7 % |

Schedule of employer's PERA contributions

| Required Supplementary Information | | | | | |
|------------------------------------|---------------------------------------|--|--|--------------------------------|--|
| Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | District's Covered Payroll (c) | Contributions as a Percentage of Covered Payroll (b/c) |
| 06/30/15 | \$ 136,012 | \$ 136,012 | \$ - | \$ 1,876,028 | 7.3 % |

Schedule of funding progress for other post-employment benefit plan

| Required Supplementary Information | | | | | | |
|------------------------------------|-------------------------------|--|---|--------------------|---------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability - Simplified Entry Age (b) | Unfunded Actuarial Accrued Liability (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
| 07/01/12 | \$ - | \$ 4,676,410 | \$ 4,676,410 | - % | \$ 8,010,365 | 58.4 % |
| 07/01/10 | - | 5,325,277 | 5,325,277 | - | 10,183,692 | 52.3 |
| 07/01/07 | - | 5,861,195 | 5,861,195 | - | 9,113,678 | 64.3 |

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**COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES AND TABLE**

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2015

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015
(With Comparative Totals for June 30, 2014)

| | Special Revenue | | | |
|---|-------------------|----------------------|-------------------|---------------------|
| | Food Service | Community Service | Debt Service | Capital Projects |
| ASSETS | | | | |
| Cash and temporary investments | \$ 146,497 | \$ 25,540 | \$ 144,297 | \$ (403,830) |
| Receivables | | | | |
| Taxes | - | 84,326 | 102,300 | - |
| Accounts | 13,833 | - | - | - |
| Due from other school districts | - | 73,484 | - | - |
| Intergovernmental | 2,170 | 13,225 | 154 | - |
| Inventories | 15,884 | - | - | - |
| TOTAL ASSETS | \$ 178,384 | \$ 196,575 | \$ 246,751 | \$ (403,830) |
| LIABILITIES | | | | |
| Salaries and wages payable | \$ 45,347 | \$ - | \$ - | \$ - |
| Accounts and other payables | 15,685 | 1,018 | - | 147,696 |
| Due to other school districts | 2,070 | - | - | - |
| Due to other governments | - | 25 | - | - |
| TOTAL LIABILITIES | 63,102 | 1,043 | - | 147,696 |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Property taxes levied for subsequent year | - | 159,878 | 192,725 | - |
| Unavailable revenue - delinquent property taxes | - | 3,219 | 4,408 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | - | 163,097 | 197,133 | - |
| FUND BALANCES | | | | |
| Nonspendable | 15,884 | - | - | - |
| Restricted | | | | |
| Food service | 99,398 | - | - | - |
| Community education | - | 168,986 | - | - |
| Early childhood family education | - | 18,846 | - | - |
| Community service | - | 3,192 | - | - |
| Capital projects | - | - | - | 28 |
| Debt service | - | - | 49,618 | - |
| Unassigned | - | (158,589) | - | (551,554) |
| TOTAL FUND BALANCES | 115,282 | 32,435 | 49,618 | (551,526) |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | \$ 178,384 | \$ 196,575 | \$ 246,751 | \$ (403,830) |

| Totals | |
|-------------------|-------------------|
| 2015 | 2014 |
| \$ (87,496) | \$ 281,236 |
| 186,626 | 172,719 |
| 13,833 | 54,996 |
| 73,484 | - |
| 15,549 | 13,359 |
| 15,884 | 8,080 |
| <u>\$ 217,880</u> | <u>\$ 530,390</u> |
| \$ 45,347 | \$ 35,902 |
| 164,399 | 79,355 |
| 2,070 | - |
| 25 | 1,945 |
| <u>211,841</u> | <u>117,202</u> |
| 352,603 | 335,822 |
| 7,627 | 8,766 |
| <u>360,230</u> | <u>344,588</u> |
| 15,884 | 8,080 |
| 99,398 | 105,999 |
| 168,986 | 119,266 |
| 18,846 | - |
| 3,192 | 8,869 |
| 28 | - |
| 49,618 | 47,061 |
| <u>(710,143)</u> | <u>(220,675)</u> |
| <u>(354,191)</u> | <u>68,600</u> |
| <u>\$ 217,880</u> | <u>\$ 530,390</u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Totals for the Year Ended June 30, 2014)

| | Special Revenue | | | |
|--|-------------------|----------------------|------------------|---------------------|
| | Food Service | Community Service | Debt Service | Capital Projects |
| REVENUES | | | | |
| Local property tax levies | \$ - | \$ 144,285 | \$ 190,104 | \$ 460,950 |
| Other local and county revenue | - | 296,178 | - | - |
| Interest earned on investments | - | 27 | - | 28 |
| Revenue from State sources | 47,801 | 209,494 | 1,440 | - |
| Revenue from Federal sources | 528,118 | - | - | - |
| Sales and other conversion of assets | 399,224 | - | - | - |
| TOTAL REVENUES | 975,143 | 649,984 | 191,544 | 460,978 |
| EXPENDITURES | | | | |
| Current | | | | |
| Community education and services | - | 599,826 | - | - |
| Pupil support services | 964,692 | - | - | - |
| Capital outlay | | | | |
| Community education and services | - | 1,015 | - | - |
| Pupil support services | 9,248 | - | - | - |
| Sites and buildings | - | - | - | 936,672 |
| Debt service | | | | |
| Principal | - | - | 185,000 | - |
| Interest and other costs | - | - | 3,987 | - |
| TOTAL EXPENDITURES | 973,940 | 600,841 | 188,987 | 936,672 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 1,203 | 49,143 | 2,557 | (475,694) |
| OTHER FINANCING USES | | | | |
| Payment to refunded bond escrow agent | - | - | - | - |
| NET CHANGE IN FUND BALANCES | 1,203 | 49,143 | 2,557 | (475,694) |
| FUND BALANCES, JULY 1 | 114,079 | (16,708) | 47,061 | (75,832) |
| FUND BALANCES, JUNE 30 | \$ 115,282 | \$ 32,435 | \$ 49,618 | \$ (551,526) |

| Totals | |
|--------------|------------|
| 2015 | 2014 |
| \$ 795,339 | \$ 648,581 |
| 296,178 | 266,199 |
| 55 | 631 |
| 258,735 | 268,216 |
| 528,118 | 542,780 |
| 399,224 | 378,560 |
| 2,277,649 | 2,104,967 |
| 599,826 | 626,026 |
| 964,692 | 883,448 |
| 1,015 | 1,040 |
| 9,248 | 35,441 |
| 936,672 | 412,101 |
| 185,000 | 105,000 |
| 3,987 | 20,998 |
| 2,700,440 | 2,084,054 |
| (422,791) | 20,913 |
| - | (725,000) |
| (422,791) | (704,087) |
| 68,600 | 772,687 |
| \$ (354,191) | \$ 68,600 |

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INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
GENERAL FUND
BALANCE SHEETS
JUNE 30, 2015 AND 2014

| | 2015 | 2014 |
|---|----------------------------|----------------------------|
| ASSETS | | |
| Cash and temporary investments | \$ 3,967,744 | \$ 4,045,834 |
| Receivables | | |
| Taxes | 1,589,989 | 1,503,125 |
| Accounts | 1,197 | 709 |
| Due from other school districts | 396,646 | 330,333 |
| Intergovernmental | 2,306,594 | 2,388,723 |
| Prepaid items | 242,200 | 332,100 |
| TOTAL ASSETS | <u><u>\$ 8,504,370</u></u> | <u><u>\$ 8,600,824</u></u> |
| LIABILITIES | | |
| Salaries and wages payable | \$ 936,086 | \$ 984,799 |
| Accounts and other payables | 313,204 | 348,938 |
| Due to other school districts | 67,440 | 206,532 |
| Due to other governments | 34,596 | 35,867 |
| Accrued expenses | 1,016,961 | 1,072,231 |
| TOTAL LIABILITIES | <u>2,368,287</u> | <u>2,648,367</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Property taxes levied for subsequent year | 2,848,328 | 2,759,294 |
| Unavailable revenue - delinquent property taxes | 57,337 | 61,517 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>2,905,665</u> | <u>2,820,811</u> |
| FUND BALANCES | | |
| Nonspendable | 242,200 | 332,100 |
| Restricted | | |
| Deferred maintenance | 6,399 | 153,022 |
| Health and safety | 778 | - |
| Operating capital | 100,781 | - |
| Assigned | | |
| Severance | 364,171 | 364,171 |
| VEBA trust | 123,000 | 58,000 |
| Capital outlay | 120,000 | 367,760 |
| Unassigned | 2,273,089 | 1,856,593 |
| TOTAL FUND BALANCES | <u>3,230,418</u> | <u>3,131,646</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | <u><u>\$ 8,504,370</u></u> | <u><u>\$ 8,600,824</u></u> |

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INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

| | 2015 | | | | 2014 |
|--|------------------|--------------|--------------|---------------|--------------|
| | Budgeted Amounts | | | Variance With | |
| | Original | Final | Actual | Final Budget | Actual |
| REVENUES | | | | | |
| Local property tax levies | \$ 2,499,910 | \$ 2,499,910 | \$ 2,508,500 | \$ 8,590 | \$ 1,364,110 |
| Interest earned on investments | 1,500 | 1,500 | 1,239 | (261) | 1,396 |
| Other local and county revenue | 1,244,335 | 1,244,733 | 1,329,963 | 85,230 | 2,093,338 |
| Revenue from State sources | 17,619,833 | 17,619,833 | 17,859,559 | 239,726 | 17,639,920 |
| Revenue from Federal sources | 418,591 | 418,591 | 416,322 | (2,269) | 398,015 |
| Sales and other conversion of assets | 200 | 200 | 3,924 | 3,724 | 669 |
| TOTAL REVENUES | 21,784,369 | 21,784,767 | 22,119,507 | 334,740 | 21,497,448 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Administration | | | | | |
| Salaries | 862,292 | 862,292 | 879,254 | (16,962) | 934,060 |
| Employee benefits | 277,835 | 277,835 | 280,188 | (2,353) | 250,385 |
| Purchased services | 31,600 | 31,600 | 25,758 | 5,842 | 32,231 |
| Supplies and materials | 21,578 | 21,578 | 19,941 | 1,637 | 15,448 |
| Other expenditures | 39,224 | 39,224 | 38,724 | 500 | 37,807 |
| Total administration | 1,232,529 | 1,232,529 | 1,243,865 | (11,336) | 1,269,931 |
| District support services | | | | | |
| Salaries | 250,944 | 250,944 | 220,535 | 30,409 | 190,158 |
| Employee benefits | 96,884 | 96,884 | 89,687 | 7,197 | 63,487 |
| Purchased services | 74,050 | 74,050 | 66,478 | 7,572 | 65,648 |
| Supplies and materials | 7,901 | 7,901 | 8,773 | (872) | 5,027 |
| Other expenditures | 28,717 | 28,717 | 29,572 | (855) | 29,075 |
| Total district support services | 458,496 | 458,496 | 415,045 | 43,451 | 353,395 |
| Elementary and secondary regular instruction | | | | | |
| Salaries | 6,877,389 | 6,876,889 | 6,790,537 | 86,352 | 6,361,574 |
| Employee benefits | 2,571,861 | 2,571,861 | 2,570,142 | 1,719 | 2,348,467 |
| Purchased services | 663,647 | 663,647 | 715,732 | (52,085) | 625,437 |
| Supplies and materials | 441,303 | 441,303 | 419,351 | 21,952 | 490,306 |
| Other expenditures | 83,585 | 82,164 | 131,967 | (49,803) | 149,432 |
| Total elementary and secondary regular instruction | 10,637,785 | 10,635,864 | 10,627,729 | 8,135 | 9,975,216 |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

| | 2015 | | | 2014 | |
|--------------------------------------|------------------|-----------|------------|-------------------------------|-----------|
| | Budgeted Amounts | | Actual | Variance With Final Budget | Actual |
| | Original | Final | | | |
| EXPENDITURES - CONTINUED | | | | | |
| Current - continued | | | | | |
| Vocational education instruction | | | | | |
| Salaries | \$ 57,067 | \$ 57,067 | \$ 186,092 | \$ (129,025) | \$ 73,641 |
| Employee benefits | 18,696 | 18,696 | 58,457 | (39,761) | 24,585 |
| Purchased services | 15,500 | 15,500 | 19,518 | (4,018) | 21,278 |
| Supplies and materials | 38,690 | 38,690 | 36,318 | 2,372 | 14,452 |
| Total vocation education instruction | 129,953 | 129,953 | 300,385 | (170,432) | 133,956 |
| Special education instruction | | | | | |
| Salaries | 2,460,698 | 2,460,698 | 2,452,327 | 8,371 | 2,329,494 |
| Employee benefits | 710,628 | 710,628 | 721,890 | (11,262) | 653,392 |
| Purchased services | 920,085 | 920,085 | 726,184 | 193,901 | 1,897,708 |
| Supplies and materials | 33,000 | 33,000 | 22,510 | 10,490 | 33,590 |
| Other expenditures | - | - | - | - | (38,792) |
| Total special education instruction | 4,124,411 | 4,124,411 | 3,922,911 | 201,500 | 4,875,392 |
| Instructional support services | | | | | |
| Salaries | 441,644 | 474,144 | 482,972 | (8,828) | 500,004 |
| Employee benefits | 137,134 | 137,134 | 141,302 | (4,168) | 135,906 |
| Purchased services | 71,790 | 71,790 | 72,868 | (1,078) | 78,841 |
| Supplies and materials | 145,610 | 145,610 | 143,350 | 2,260 | 163,573 |
| Other expenditures | 2,100 | 2,100 | 2,166 | (66) | 6,059 |
| Total instructional support services | 798,278 | 830,778 | 842,658 | (11,880) | 884,383 |
| Pupil support services | | | | | |
| Salaries | 329,974 | 329,974 | 335,012 | (5,038) | 325,977 |
| Employee benefits | 95,137 | 95,137 | 96,804 | (1,667) | 89,609 |
| Purchased services | 1,029,174 | 1,029,174 | 886,561 | 142,613 | 928,180 |
| Supplies and materials | 21,556 | 21,556 | 22,306 | (750) | 30,420 |
| Total pupil support services | 1,475,841 | 1,475,841 | 1,340,683 | 135,158 | 1,374,186 |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

| | 2015 | | | | 2014 |
|--|------------------|--------------|--------------|---------------|--------------|
| | Budgeted Amounts | | | Variance With | |
| | Original | Final | Actual | Final Budget | Actual |
| EXPENDITURES - CONTINUED | | | | | |
| Current - continued | | | | | |
| Sites and buildings | | | | | |
| Salaries | \$ 487,737 | \$ 487,737 | \$ 508,131 | \$ (20,394) | \$ 513,738 |
| Employee benefits | 183,084 | 183,084 | 187,507 | (4,423) | 179,691 |
| Purchased services | 683,139 | 683,139 | 612,665 | 70,474 | 639,342 |
| Supplies and materials | 252,300 | 252,300 | 232,054 | 20,246 | 266,570 |
| Other expenditures | 6,000 | 6,000 | 5,059 | 941 | 4,955 |
| Total sites and buildings | 1,612,260 | 1,612,260 | 1,545,416 | 66,844 | 1,604,296 |
| Fiscal and other fixed cost programs | | | | | |
| Employee benefits | 308,519 | 89,354 | 84,687 | 4,667 | 111,788 |
| Purchased services | 109,752 | 109,752 | 114,095 | (4,343) | 109,790 |
| Total fiscal and other fixed cost programs | 418,271 | 199,106 | 198,782 | 324 | 221,578 |
| Total current | 20,887,824 | 20,699,238 | 20,437,474 | 261,764 | 20,692,333 |
| Capital outlay | | | | | |
| Administration | 24,732 | 24,732 | 23,017 | 1,715 | 16,387 |
| District support services | 4,000 | 4,000 | 4,682 | (682) | 1,329 |
| Elementary and secondary regular instruction | 109,126 | 109,126 | 127,163 | (18,037) | 154,784 |
| Special education instruction | 13,774 | 13,774 | 7,612 | 6,162 | 9,826 |
| Instructional support services | 285,416 | 285,416 | 284,857 | 559 | 337,560 |
| Pupil support services | 600 | 600 | - | 600 | 200 |
| Sites and buildings | 959,657 | 959,657 | 968,528 | (8,871) | 717,272 |
| Total capital outlay | 1,397,305 | 1,397,305 | 1,415,859 | (18,554) | 1,237,358 |
| Debt service | | | | | |
| Principal | 400,140 | 400,140 | 406,142 | (6,002) | 322,359 |
| Interest and other costs | 72,385 | 72,385 | 66,338 | 6,047 | 85,388 |
| Total debt service | 472,525 | 472,525 | 472,480 | 45 | 407,747 |
| TOTAL EXPENDITURES | 22,757,654 | 22,569,068 | 22,325,813 | 243,255 | 22,337,438 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | (973,285) | (784,301) | (206,306) | 577,995 | (839,990) |
| OTHER FINANCING SOURCES | | | | | |
| Capital leases issued | 277,916 | 277,916 | 305,078 | 27,162 | 420,938 |
| Sale of assets | 500,000 | 500,000 | - | (500,000) | - |
| TOTAL OTHER FINANCING SOURCES | 777,916 | 777,916 | 305,078 | (472,838) | 420,938 |
| NET CHANGE IN FUND BALANCES | (195,369) | (6,385) | 98,772 | 105,157 | (419,052) |
| FUND BALANCES, JULY 1 | 3,131,646 | 3,131,646 | 3,131,646 | - | 3,550,698 |
| FUND BALANCES, JUNE 30 | \$ 2,936,277 | \$ 3,125,261 | \$ 3,230,418 | \$ 105,157 | \$ 3,131,646 |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
FOOD SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

| | 2015 | | | 2014 |
|--------------------------------------|------------------|------------|---------------|------------|
| | Budgeted Amounts | | Variance With | |
| | Original | Final | Final Budget | Actual |
| REVENUES | | | | |
| Revenue from State sources | \$ 41,946 | \$ 41,946 | \$ 47,801 | \$ 36,861 |
| Revenue from Federal sources | 519,467 | 519,467 | 528,118 | 542,780 |
| Sales and other conversion of assets | 419,400 | 419,400 | 399,224 | 378,560 |
| TOTAL REVENUES | 980,813 | 980,813 | 975,143 | 958,201 |
| EXPENDITURES | | | | |
| Current | | | | |
| Pupil support services | | | | |
| Salaries | 283,968 | 283,968 | 274,338 | 259,735 |
| Employee benefits | 49,533 | 49,533 | 75,799 | 76,327 |
| Purchased services | 18,175 | 18,175 | 6,536 | 28,010 |
| Supplies and materials | 557,950 | 557,950 | 601,369 | 517,733 |
| Other expenditures | 9,000 | 9,000 | 6,650 | 1,643 |
| Total current expenditures | 918,626 | 918,626 | 964,692 | 883,448 |
| Capital outlay | | | | |
| Pupil support services | 7,740 | 7,740 | 9,248 | 35,441 |
| TOTAL EXPENDITURES | 926,366 | 926,366 | 973,940 | 918,889 |
| NET CHANGE IN FUND BALANCES | 54,447 | 54,447 | 1,203 | 39,312 |
| FUND BALANCES, JULY 1 | 114,079 | 114,079 | 114,079 | 74,767 |
| FUND BALANCES, JUNE 30 | \$ 168,526 | \$ 168,526 | \$ 115,282 | \$ 114,079 |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
COMMUNITY SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

| | 2015 | | | | 2014 |
|----------------------------------|--------------------|--------------------|------------------|------------------|--------------------|
| | Budgeted Amounts | | | Variance With | |
| | Original | Final | Actual | Final Budget | Actual |
| REVENUES | | | | | |
| Local property tax levies | \$ 144,828 | \$ 144,828 | \$ 144,285 | \$ (543) | \$ 76,569 |
| Other local and county revenue | 266,852 | 266,852 | 296,178 | 29,326 | 266,199 |
| Interest earned on investments | - | - | 27 | 27 | 4 |
| Revenue from State sources | 196,534 | 196,534 | 209,494 | 12,960 | 230,202 |
| TOTAL REVENUES | 608,214 | 608,214 | 649,984 | 41,770 | 572,974 |
| EXPENDITURES | | | | | |
| Current | | | | | |
| Community education and services | | | | | |
| Salaries | 372,914 | 381,990 | 375,826 | 6,164 | 392,401 |
| Employee benefits | 71,979 | 71,979 | 70,484 | 1,495 | 74,224 |
| Purchased services | 132,583 | 132,583 | 117,596 | 14,987 | 110,732 |
| Supplies and materials | 45,378 | 45,378 | 34,777 | 10,601 | 47,239 |
| Other expenditures | 1,125 | 1,125 | 1,143 | (18) | 1,430 |
| Total current expenditures | 623,979 | 633,055 | 599,826 | 33,229 | 626,026 |
| Capital outlay | | | | | |
| Community education and services | 1,729 | 1,729 | 1,015 | 714 | 1,040 |
| TOTAL EXPENDITURES | 625,708 | 634,784 | 600,841 | 33,943 | 627,066 |
| NET CHANGE IN FUND BALANCES | (17,494) | (26,570) | 49,143 | 75,713 | (54,092) |
| FUND BALANCES, JULY 1 | (16,708) | (16,708) | (16,708) | - | 37,384 |
| FUND BALANCES, JUNE 30 | <u>\$ (34,202)</u> | <u>\$ (43,278)</u> | <u>\$ 32,435</u> | <u>\$ 75,713</u> | <u>\$ (16,708)</u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

| | 2015 | | | 2014 |
|--|------------------|------------------|------------------|------------------|
| | Budgeted Amounts | | Actual | Actual |
| | Original | Final | Amounts | Amounts |
| REVENUES | | | | |
| Local property tax levies | \$ 189,059 | \$ 189,059 | \$ 190,104 | \$ 129,951 |
| Revenue from State sources | 1,539 | 1,539 | 1,440 | 1,153 |
| TOTAL REVENUES | 190,598 | 190,598 | 191,544 | 131,702 |
| EXPENDITURES | | | | |
| Debt service | | | | |
| Principal | 185,000 | 185,000 | 185,000 | 105,000 |
| Interest and other costs | 3,988 | 3,988 | 3,987 | 20,998 |
| TOTAL EXPENDITURES | 188,988 | 188,988 | 188,987 | 125,998 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 1,610 | 1,610 | 2,557 | 5,704 |
| OTHER FINANCING USES | | | | |
| Payment to refunded bond escrow agent | - | - | - | (725,000) |
| NET CHANGE IN FUND BALANCES | 1,610 | 1,610 | 2,557 | (719,296) |
| FUND BALANCES, JULY 1 | 47,061 | 47,061 | 47,061 | 766,357 |
| FUND BALANCES, JUNE 30 | <u>\$ 48,671</u> | <u>\$ 48,671</u> | <u>\$ 49,618</u> | <u>\$ 47,061</u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
CAPITAL PROJECTS FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015
(With Comparative Actual Amounts for the Year Ended June 30, 2014)

| | 2015 | | | 2014 |
|--------------------------------|-------------------|---------------------|---------------------|--------------------|
| | Budgeted Amounts | | Variance With | |
| | Original | Final | Final Budget | Actual |
| REVENUES | | | | |
| Local property tax levies | \$ 460,950 | \$ 460,950 | \$ - | \$ 442,061 |
| Interest earned on investments | - | - | 28 | 29 |
| TOTAL REVENUES | 460,950 | 460,950 | 28 | 442,090 |
| EXPENDITURES | | | | |
| Capital outlay | | | | |
| Sites and buildings | - | 546,799 | 936,672 | 412,101 |
| NET CHANGE IN FUND BALANCES | 460,950 | (85,849) | (475,694) | 29,989 |
| FUND BALANCES, JULY 1 | (75,832) | (75,832) | - | (105,821) |
| FUND BALANCES, JUNE 30 | <u>\$ 385,118</u> | <u>\$ (161,681)</u> | <u>\$ (551,526)</u> | <u>\$ (75,832)</u> |

Fiscal Compliance Report - 6/30/2015

District: ST. PETER (508-1) [Back](#) [Print](#)

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| | Audit | UFARS | Audit - UFARS | | Audit | UFARS | Audit - UFARS |
|---|--------------|---------------------|------------------|---|------------|--------------------|------------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenue | \$22,119,507 | <u>\$22,119,478</u> | <u>\$29</u> | Total Revenue | \$460,978 | <u>\$460,979</u> | <u>(\$1)</u> |
| Total Expenditures | \$22,325,813 | <u>\$22,325,780</u> | <u>\$33</u> | Total Expenditures | \$936,672 | <u>\$936,673</u> | <u>(\$1)</u> |
| Non Spendable: | | | | Non Spendable: | | | |
| 4.60 Non Spendable Fund Balance | \$242,200 | <u>\$242,200</u> | <u>\$0</u> | 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| Restricted / Reserved: | | | | Restricted / Reserved: | | | |
| 4.03 Staff Development | \$0 | <u>\$0</u> | <u>\$0</u> | 4.07 Capital Projects Levy | (\$53,524) | <u>(\$53,525)</u> | <u>\$1</u> |
| 4.05 Deferred Maintenance | \$6,399 | <u>\$6,399</u> | <u>\$0</u> | 4.09 Alternative Facility Program | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.06 Health and Safety | \$778 | <u>\$778</u> | <u>\$0</u> | 4.13 Project Funded by COP | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.07 Capital Projects Levy | \$0 | <u>\$0</u> | <u>\$0</u> | Restricted: | | | |
| 4.08 Cooperative Revenue | \$0 | <u>\$0</u> | <u>\$0</u> | 4.64 Restricted Fund Balance | \$28 | <u>\$29</u> | <u>(\$1)</u> |
| 4.09 Alternative Facility Program | \$0 | <u>\$0</u> | <u>\$0</u> | Unassigned: | | | |
| 4.13 Project Funded by COP | \$0 | <u>\$0</u> | <u>\$0</u> | 4.63 Unassigned Fund Balance (\$498,030) | | <u>(\$498,030)</u> | <u>\$0</u> |
| 4.14 Operating Debt | \$0 | <u>\$0</u> | <u>\$0</u> | | | | |
| 4.16 Levy Reduction | \$0 | <u>\$0</u> | <u>\$0</u> | 07 DEBT SERVICE | | | |
| 4.17 Taconite Building Maint | \$0 | <u>\$0</u> | <u>\$0</u> | Total Revenue | \$191,544 | <u>\$191,544</u> | <u>\$0</u> |
| 4.23 Certain Teacher Programs | \$0 | <u>\$0</u> | <u>\$0</u> | Total Expenditures | \$188,987 | <u>\$188,988</u> | <u>(\$1)</u> |
| 4.24 Operating Capital | \$100,781 | <u>\$100,781</u> | <u>\$0</u> | Non Spendable: | | | |
| 4.26 \$25 Taconite | \$0 | <u>\$0</u> | <u>\$0</u> | 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.27 Disabled Accessibility | \$0 | <u>\$0</u> | <u>\$0</u> | Restricted / Reserved: | | | |
| 4.28 Learning & Development | \$0 | <u>\$0</u> | <u>\$0</u> | 4.25 Bond Refundings | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.34 Area Learning Center | \$0 | <u>\$0</u> | <u>\$0</u> | 4.51 QZAB Payments | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.35 Contracted Alt. Programs | \$0 | <u>\$0</u> | <u>\$0</u> | Restricted: | | | |
| 4.36 State Approved Alt. Program | \$0 | <u>\$0</u> | <u>\$0</u> | 4.64 Restricted Fund Balance | \$49,618 | <u>\$49,617</u> | <u>\$1</u> |
| 4.38 Gifted & Talented | \$0 | <u>\$0</u> | <u>\$0</u> | Unassigned: | | | |
| 4.40 Teacher Development and Evaluation | \$0 | <u>\$0</u> | <u>\$0</u> | 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.41 Basic Skills Programs | \$0 | <u>\$0</u> | <u>\$0</u> | | | | |
| 4.45 Career Tech Programs | \$0 | <u>\$0</u> | <u>\$0</u> | 08 TRUST | | | |
| 4.48 Achievement and Integration | \$0 | <u>\$0</u> | <u>\$0</u> | Total Revenue | \$24,348 | <u>\$24,348</u> | <u>\$0</u> |
| 4.49 Safe School Crime - Crime Levy | \$0 | <u>\$0</u> | <u>\$0</u> | Total Expenditures | \$21,600 | <u>\$21,600</u> | <u>\$0</u> |
| 4.50 Pre-Kindergarten | \$0 | <u>\$0</u> | <u>\$0</u> | 4.22 Unassigned Fund Balance (Net Assets) | \$653,252 | <u>\$653,252</u> | <u>\$0</u> |
| 4.51 QZAB Payments | \$0 | <u>\$0</u> | <u>\$0</u> | | | | |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | <u>\$0</u> | 20 INTERNAL SERVICE | | | |
| 4.53 Unfunded Sev & Retirement Levy | \$0 | <u>\$0</u> | <u>\$0</u> | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Restricted: | | | | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> | 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |
| Committed: | | | | | | | |
| 4.18 Committed for Separation | \$0 | <u>\$0</u> | <u>\$0</u> | 25 OPEB REVOCABLE TRUST | | | |
| 4.61 Committed Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Assigned: | | | | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.62 Assigned Fund Balance | \$607,171 | <u>\$607,171</u> | <u>\$0</u> | 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |
| Unassigned: | | | | | | | |
| 4.22 Unassigned Fund Balance | \$2,273,089 | <u>\$2,273,094</u> | <u>(\$5)</u> | 45 OPEB IRREVOCABLE TRUST | | | |
| 02 FOOD SERVICES | | | | Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| | | | | Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---------------------------------|-----------|------------------|------------|
| Total Revenue | \$975,143 | <u>\$975,140</u> | <u>\$3</u> |
| Total Expenditures | \$973,940 | <u>\$973,938</u> | <u>\$2</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$15,884 | <u>\$15,884</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$99,398 | <u>\$99,398</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

04 COMMUNITY SERVICE

| | | | |
|---|-------------|--------------------|--------------|
| Total Revenue | \$649,984 | <u>\$649,982</u> | <u>\$2</u> |
| Total Expenditures | \$600,841 | <u>\$600,839</u> | <u>\$2</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i> | | | |
| 4.26 \$25 Taconite | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.31 Community Education | \$168,986 | <u>\$168,985</u> | <u>\$1</u> |
| 4.32 E.C.F.E | \$18,846 | <u>\$18,845</u> | <u>\$1</u> |
| 4.40 Teacher Development and Evaluation | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.44 School Readiness | (\$158,589) | <u>(\$158,589)</u> | <u>\$0</u> |
| 4.47 Adult Basic Education | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.64 Restricted Fund Balance | \$3,192 | <u>\$3,194</u> | <u>(\$2)</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

| | | | |
|---|-----|------------|------------|
| 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | <u>\$0</u> |
|---|-----|------------|------------|

47 OPEB DEBT SERVICE

| | | | |
|---------------------------------|-----|------------|------------|
| Total Revenue | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i> | | | |
| 4.25 Bond Refundings | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | <u>\$0</u> |

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OTHER REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

Members of the School Board
Independent School District No. 508
St. Peter, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 508 (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2015.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the accompanying Schedule of Findings, Responses and Questioned Costs/Corrective Action Plans as item 2015-004. 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 District's response to the finding identified in our audit is described in the accompanying Schedule of Findings, Responses and Questioned Costs/Corrective Action Plans. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

Abdo, Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 7, 2015

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

Members of the School Board
Independent School District No. 508
St. Peter, 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 the Independent School District No. 508, Minnesota (the District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2015.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings, Responses and Questioned Costs/Corrective Action Plans as item 2015-003 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings, Responses and Questioned Costs/Corrective Action Plans as items 2015-001 and 2015-002 to be significant deficiencies.

Compliance and Other Matters

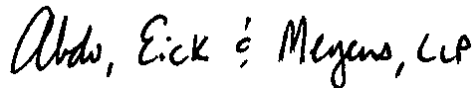
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings, Responses and Questioned Costs/Corrective Action Plans as item 2015-004.

The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses and Questioned Costs/Corrective Action Plans. We did not audit the District's responses and, accordingly, we express no opinion on them.

Purpose of this Report

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



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 7, 2015

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FEDERAL AWARD PROGRAMS

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY *OMB CIRCULAR A-133*

Members of the School Board
Independent School District No. 508
St. Peter, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 508's, St. Peter, Minnesota (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 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, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs/Corrective Action Plans.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

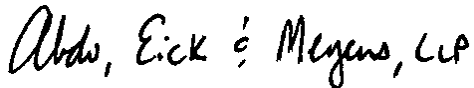
Report on Internal Control Over Compliance

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 7, 2015

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

| Federal Funding Source | Administering Department | Program Name | Federal Domestic Assistance Number | Federal Program Clusters | Total Federal Expenditures |
|-----------------------------------|--------------------------------------|---|---|--------------------------------|----------------------------------|
| U.S. Department of Agriculture | Minnesota Department of Education | School Breakfast Program | 10.553 | \$ 76,729 | |
| U.S. Department of Agriculture | Minnesota Department of Education | National School Lunch Program | 10.555 | 367,904 | |
| U.S. Department of Agriculture | Minnesota Department of Education | Special Milk Program for Children | 10.556 | 1,447 | |
| U.S. Department of Agriculture | Minnesota Department of Education | Summer Food Service Program for Children | 10.559 | <u>30,105</u> | |
| | | | Total Child Nutrition Cluster | | \$ 476,185 |
| U.S. Department of Agriculture | Minnesota Department of Education | Commodity Supplemental Food Program | 10.565 | 51,933 | |
| U.S. Department of Education | Minnesota Department of Education | Title I Grants to Local Educational | 84.010 | 212,274 | |
| U.S. Department of Education | Minnesota Department of Education | Title I State Agency Program for Neglected and Delinquent Children | 84.013 | 48,832 | |
| U.S. Department of Education | Minnesota Department of Education | English Language Acquisition Grants | 84.365 | 13,428 | |
| U.S. Department of Education | Minnesota Department of Education | Improving Teacher Quality State Grants | 84.367 | 80,493 | |
| U.S. Department of Education | Minnesota Department of Education | Career and Technical Education Basic Grants to States | 84.048 | 5,670 | |
| U.S. Department of Education | Minnesota Department of Education | Race to the Top - Early Learning Challenge | 84.412 | <u>5,000</u> | |
| | | | Total Other Programs | | <u>417,630</u> |
| | | | Total Expended | | <u><u>\$ 893,815</u></u> |

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

1. General

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of the Independent School District No. 508, St. Peter, Minnesota (the District). The District's reporting entity is defined in Note 1A to the District's financial statements. All Federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

2. Basis of accounting

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1C to the District's financial statements.

3. Noncash assistance - commodities

Of the amount reported in the accompanying Schedule of Expenditures of Federal Awards for commodities distribution, \$51,796 represents noncash assistance comprised of the value of commodities issued to the District for the year.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF FINDINGS, RESPONSES AND
QUESTIONED COSTS/CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2015

Section I - Summary of Auditor's Results

Financial Statements

| | |
|---|------------|
| Type of auditor's report issued | Unmodified |
| Internal control over financial reporting | |
| Material weaknesses identified? | Yes |
| Significant deficiencies identified not considered to be material weaknesses? | Yes |
| Noncompliance material to financial statements noted? | No |

Federal Awards

| | |
|--|---------------|
| Internal control over major programs | |
| Material weaknesses identified? | No |
| Significant deficiencies identified not considered to be material weaknesses? | 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 section 510(a) of OMB Circular A-133? | No |

Identification of Major Programs/Projects

| | <u>CFDA No.</u> |
|---|------------------------|
| School Breakfast Program | 10.553 |
| National School Lunch Program | 10.555 |
| Special Milk Program for Children | 10.556 |
| Summer Food Service Program for Children | 10.559 |
| Dollar threshold used to distinguish between Type A and Type B Programs | \$ 300,000 |
| Auditee qualified as low-risk auditee? | No |

Section II - Financial Statement Findings

A material weakness and two significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. Finding 2015-003 is reported as a material weakness.

Section IV - Schedule of Prior Year Audit Findings

There were prior year audit findings that are attached.

Other Issues

A Corrective Action Plan is not required because there were no findings required to be reported under the Federal Single Audit Act.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF FINDINGS, RESPONSES AND
QUESTIONED COSTS/CORRECTIVE ACTION PLANS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

2015-001 Annual financial report preparation

Condition: As in prior years, the auditor was requested to draft the audited financial statements and related footnote disclosures as part of their regular audit services. Recent auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process. The District has adopted an internal control to review the financial statements prepared by the auditors. This control includes review of a draft copy of the financial statements by the business manager and superintendent, along with comparing UFARS guidelines and additional financial reports to the draft prepared by auditors. However, the District has not adopted a control over disclosures included in the annual financial report therefore, the potential exists that a material misstatement related to the disclosures in the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Criteria: The District should have controls in place to provide reasonable assurance over financial reporting and be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Questioned costs: None.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size. The District has not adopted an internal control policy over the annual financial reporting; however, they have reviewed and approved the annual financial statement drafts as prepared by the audit firm.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting, including footnote disclosures.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, the audit firm has instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the District is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the District should agree its financial software to the numbers reported in the financial statements.

Management response:

Management is aware of the control deficiency. The Business Manager is attending a training program dealing with UFARS financial/accounting practices. The District does not have an internal control policy in place over annual financial reporting under GAAP and that they do not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF FINDINGS, RESPONSES AND
QUESTIONED COSTS/CORRECTIVE ACTION PLANS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

2015-002 Limited segregation of duties within food service

- Condition:* One employee has the primary responsibility of entering deposits into student accounts and collecting and counting the money. As a result, certain aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing.
- Criteria:* There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.
The District should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner.
- Questioned costs:* None.
- Effect:* The existence of this limited segregation of duties increases the risk of fraud.
- Cause:* As a result of the small staff, the District has not established controls for adequate segregation of duties within food service to ensure that all accounts are adjusted to their appropriate monthly and year end balances in accordance with GAAP.
- Recommendation:* We recommend the District continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP. Specific controls might include separation of the handling of cash from the entering of data into the Infinite Campus system, reconciling the Infinite Campus system to the general ledger monthly, and reviewing adjustments to student accounts for propriety.

Management response:

The District will separate the food service financial duties between two or more personnel. Management will also reconcile the student account balances and meals served to the general ledger monthly and review adjustments to student accounts.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF FINDINGS, RESPONSES AND
QUESTIONED COSTS/CORRECTIVE ACTION PLANS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

2015-003 Year-end audit/accounting adjustments

Condition: During our audit, adjustments were needed to record several accounting and audit adjustments.

Criteria: The financial statements are the responsibility of the District's management.

Questioned costs: None.

Cause: District staff has not prepared a year-end trial balance reflecting all necessary accruals and yearend adjustments without auditor assistance.

Effect: It is likely that if a misstatement were to occur, it would not be detected by the District's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

Management response:

The business office has a changed a number of personnel over the past 2 years and is beginning to work on the office organization. This will allow the shifting of projects from the Business Manager to other staff, which will then give the Business Manager the time needed to have a firm understanding of the proper year-end adjustments.

2015-004 Unclaimed property

Condition: Auditing for legal compliance requires a review of the District's deposits and investments. Our study indicated an instance of non-compliance that we believe is required to be remedied.

Criteria: In accordance with Minnesota statute, section 345.38-43, the District is required to report and deliver to the State Commissioner of Commerce any unclaimed or uncashed checks held for more than three years (or one year for unpaid compensation).

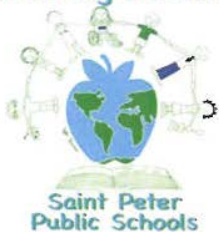
Cause: The District had a number of checks in excess of the three year limitation.

Effect: The District is in violation of this statute.

Recommendation: We recommend that the District review their outstanding checks and notify the State Commissioner of Commerce. This will not result in any additional cost and will ensure that the District complies with the applicable statute.

Management response:

The District is aware of the situation and plans to monitor more closely in the future.



2015-001 Annual financial report preparation

CORRECTIVE ACTION PLAN (CAP):

1. Actions Planned in Response to Finding:

The Business Manager will attend financial statement training offered by MASBO or other sources, as they become available.

2. Official Responsible for Ensuring CAP:

Tim Regner, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

3. Planned Completion Date for CAP:

The planned completion date is June 30, 2016.

4. Plan to Monitor Completion of CAP:

The School Board of ISD No. 508 will be monitoring this corrective action plan.

Sincerely,

Paul Peterson
Superintendent



2015-002 Limited segregation of duties within food service

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The District will separate the food service financial duties between two or more personnel. Management will reconcile the student account balance and meals served to the general ledger monthly and review adjustments to student accounts.

3. Official Responsible for Ensuring CAP:

Tim Regner, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP:

The planned completion date is June 30, 2016.

5. Plan to Monitor Completion of CAP:

The School Board of ISD No. 508 will be monitoring this corrective action plan.

Sincerely,

Paul Peterson
Superintendent



2015-003 Year-end audit/accounting adjustments

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The District will review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

3. Official Responsible for Ensuring CAP:

Tim Regner, Business Manager, is the official responsible for ensuring corrective action of the material weakness.

4. Planned Completion Date for CAP:

The planned completion date is June 30, 2016.

5. Plan to Monitor Completion of CAP:

The School Board of ISD No. 508 will be monitoring this corrective action plan through the District Finance Committee on a twice a year basis.

Sincerely,

Paul Peterson
Superintendent



2015-004 Unclaimed property

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The District will review their outstanding checks and notify the State Commissioner of Commerce.

3. Official Responsible for Ensuring CAP:

Tim Regner, Business Manager, is the official responsible for ensuring corrective action of the material weakness.

4. Planned Completion Date for CAP:

The planned completion date is June 30, 2016.

5. Plan to Monitor Completion of CAP:

The School Board of ISD No. 508 will be monitoring this corrective action plan through the District Finance Committee on a twice a year basis.

Sincerely,

Paul Peterson
Superintendent

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

2014-001 Annual financial report preparation

Condition: As in prior years, the auditor was requested to draft the audited financial statements and related footnote disclosures as part of their regular audit services. Recent auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on recent auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process. The District has adopted an internal control to review the financial statements prepared by the auditors. This control includes review of a draft copy of the financial statements by the business manager and superintendent, along with comparing UFARS guidelines and additional financial reports to the draft prepared by auditors. However, the District has not adopted a control over disclosures included in the annual financial report therefore, the potential exists that a material misstatement related to the disclosures in the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Criteria: The District should have controls in place to provide reasonable assurance over financial reporting and be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Questioned costs: None.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size. The District has not adopted an internal control policy over the annual financial reporting; however, they have reviewed and approved the annual financial statement drafts as prepared by the audit firm.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting, including footnote disclosures.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, the audit firm has instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the District is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the District should agree its financial software to the numbers reported in the financial statements.

Management response:

Management is aware of the control deficiency. The Business Manager is attending a training program dealing with UFARS financial/accounting practices. The District does not have an internal control policy in place over annual financial reporting under GAAP and that they do not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

Updated progress since prior year:

No changes have been made in addressing this finding in the current year.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

2014-002 Limited segregation of duties within food service

Condition: One or two employees have the primary responsibility of entering deposits into student accounts, collecting and counting the money, and taking the deposit to the bank. As a result, certain aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities. The District should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner.

Questioned costs: None.

Effect: The existence of this limited segregation of duties increases the risk of fraud.

Cause: As a result of the small staff, the District has not established controls for adequate segregation of duties within food service to ensure that all accounts are adjusted to their appropriate monthly and year end balances in accordance with GAAP.

Recommendation: We recommend the District continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP. Specific controls might include separation of the handling of cash from the entering of data into the PCS system, reconciling the PCS system to the general ledger monthly, and reviewing adjustments to student accounts for propriety.

Management response:

The District will separate the food service financial duties between two or more personnel. Management will also reconcile the student account balances and meals served to the general ledger monthly and review adjustments to student accounts.

Updated progress since prior year:

No changes have been made in addressing this finding in the current year.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

2014-003 Year-end audit/accounting adjustments

Condition: During our audit, adjustments were needed to record several accounting and audit adjustments.

Criteria: The financial statements are the responsibility of the District's management.

Questioned costs: None.

Cause: District staff has not prepared a year-end trial balance reflecting all necessary accruals and yearend adjustments without auditor assistance.

Effect: It is likely that if a misstatement were to occur, it would not be detected by the District's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

Management response:

The Business Office is currently one and a half years into a reorganization plan and has hired office staff with a strong accounting background. This person will be expected to take a number of projects from the Business Manager, which will give the Business Manager the time needed to have a firm understanding of the proper year-end adjustments.

Updated progress since prior year:

No changes have been made in addressing this finding in the current year.

2014-004 Unclaimed property

Condition: Auditing for legal compliance requires a review of the District's deposits and investments. Our study indicated an instance of non-compliance that we believe is required to be remedied.

Criteria: In accordance with Minnesota statute, section 345.38-43, the District is required to report and deliver to the State Commissioner of Commerce any unclaimed or uncashed checks held for more than three years (or one year for unpaid compensation).

Cause: The District had a number of checks in excess of the three year limitation.

Effect: The District is in violation of this statute.

Recommendation: We recommend that the District review their outstanding checks and notify the State Commissioner of Commerce. This will not result in any additional cost and will ensure that the District complies with the applicable statute.

Management response:

The District is aware of the situation and plans to monitor more closely in the future.

Updated progress since prior year:

The District has made considerable progress on remitting outstanding checks to the State Commissioner of Commerce. As of June 30, 2015 only three such checks existed.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2015

2014-005 Collateral coverage

Condition: The District had uncollateralized deposits on June 30, 2014 of \$238,235.

Criteria: In accordance with Minnesota statute, section 118A.03, the District is required to have pledged collateral equal to 110 percent of the deposit not covered with insurance.

Cause: The market value of pledged collateral was significantly lower than in years past.

Effect: At year end, the District did not have sufficient collateral coverage.

Recommendation: We recommend that the District review their coverage to ensure compliance is met.

Management response:

The District is aware of the situation and plans to monitor the coverage to ensure compliance.

Updated progress since prior year:

The District has resolved this finding in the current year.