

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30, 2016

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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, 2016**

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INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHOOL DISTRICT OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2016

BOARD OF EDUCATION

<u>Name</u>	<u>Term on Board Expires</u>	<u>Position</u>
Mark Karlsrud	12/31/19	Chairperson
Ben Leonard	12/31/19	Vice Chair
Charlie Potts	12/31/17	Clerk
Jon Carlson	12/31/17	Treasurer
Bob Meeks	12/31/19	Director
Drew Dixon	12/31/17	Director
Tim Lokensgard	12/31/19	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, 2016

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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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016, 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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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 Share 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

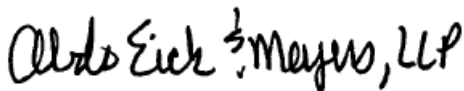
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and table are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the 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, 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 16, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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 16, 2016

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Management's Discussion and Analysis

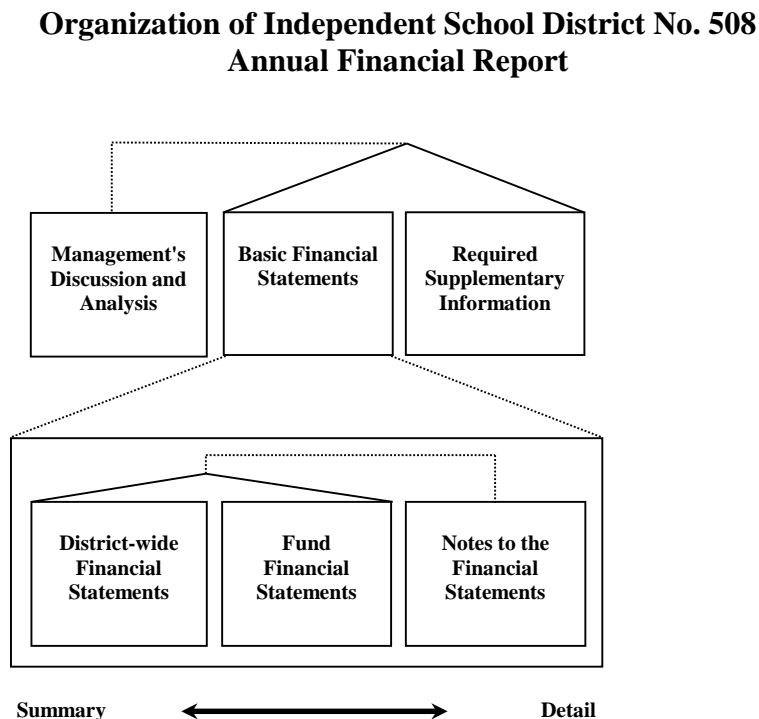
As management of the Independent School District No. 508 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016.

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 \$4,600,574 (*net position*). Of this amount, the deficit of \$9,736,886 (*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 \$764,662 as compared to an increase of \$1,342,556 in the prior year. The change in net position is due to an overall revenue increase of over \$2,700,000, mostly due to state general education aid and reimbursements related to the building project, with overall expenses increasing \$3,300,000, mostly due to elementary and regular instruction and interest costs on new debt issued for the building project.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$55,797,351, an increase of \$52,921,124 in comparison with the prior year. The major reasons causing the increase is the bond issuance of \$55,325,000 relating to the construction of the new high school building. Of the total fund balance, \$3,526,387 is *available for spending* at the District's discretion (*unassigned fund balance*). The majority of the remainder of fund balance is restricted for the building project.

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:



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, Debt Service fund and Capital Projects fund, which are considered to be major funds. Data from the other two 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. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Independent School District No. 508's share of net pension liabilities (assets) for defined benefits plans, schedules of contributions, and progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting 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 \$4,600,574 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 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)	
	2016	2015	Amounts	Percent
Current and other assets	\$ 66,478,881	\$ 8,722,250	\$ 57,756,631	662.2 %
Capital assets	23,586,539	16,582,536	7,004,003	42.2
Total assets	90,065,420	25,304,786	64,760,634	255.9
Deferred inflows of resources	2,549,089	1,957,152	591,937	30.2
Long-term liabilities outstanding	75,264,850	14,269,837	60,995,013	427.4
Other liabilities	5,946,233	2,603,046	3,343,187	128.4
Total liabilities	81,211,083	16,872,883	64,338,200	381.3
Deferred inflows of resources	6,802,852	6,553,143	249,709	3.8
Net position				
Net investment in capital assets	13,768,781	14,958,986	(1,190,205)	(8.0)
Restricted	568,679	448,619	120,060	26.8
Unrestricted	(9,736,886)	(11,571,693)	1,834,807	(15.9)
Total net position	\$ 4,600,574	\$ 3,835,912	\$ 764,662	19.9

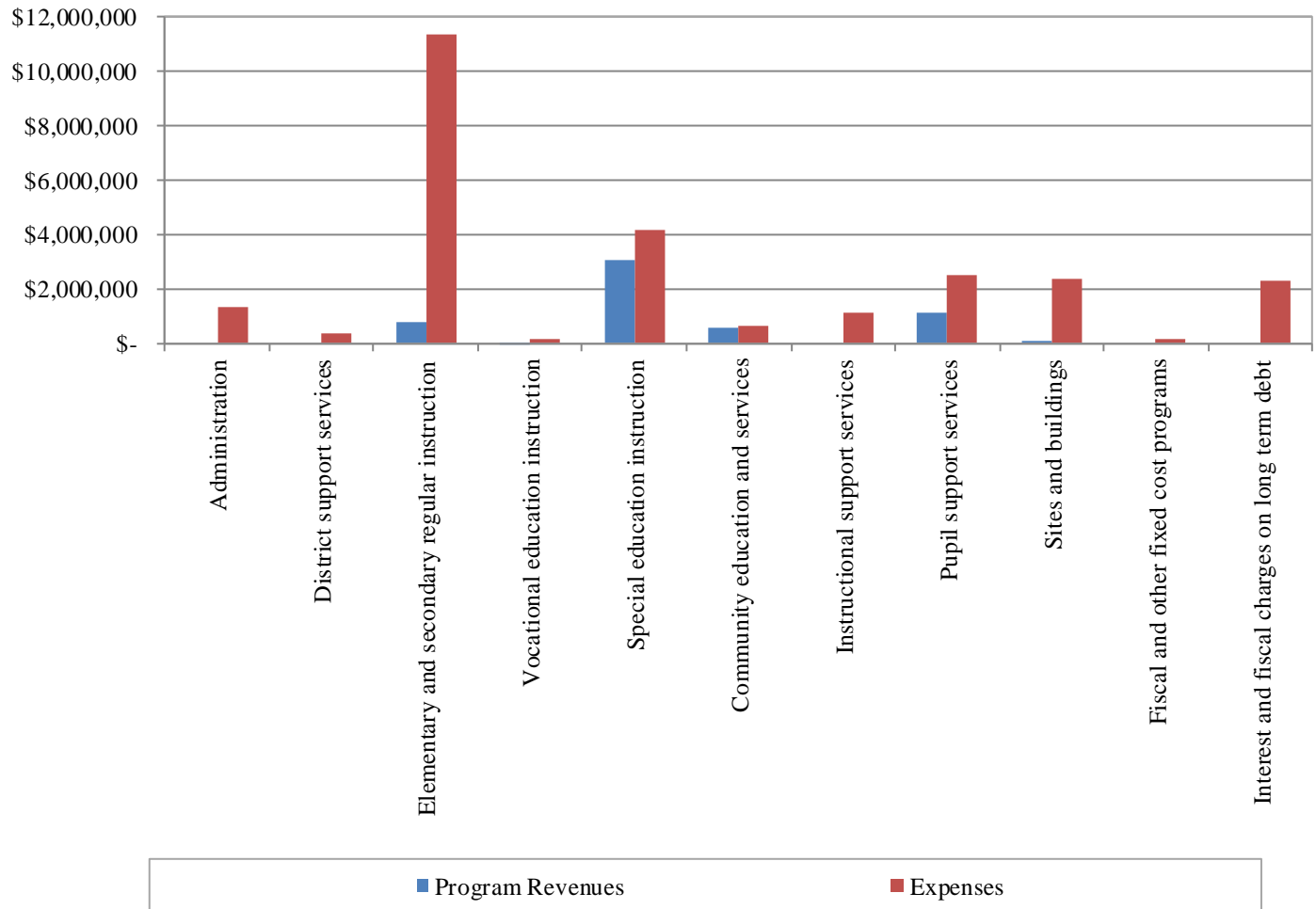
The balance of unrestricted net position is a deficit due to recognition of long-term pension liabilities in accordance with GASB Statement No. 68.

Governmental activities. Governmental activities increased the District's net position by \$764,662. Key elements of this increase are as follows:

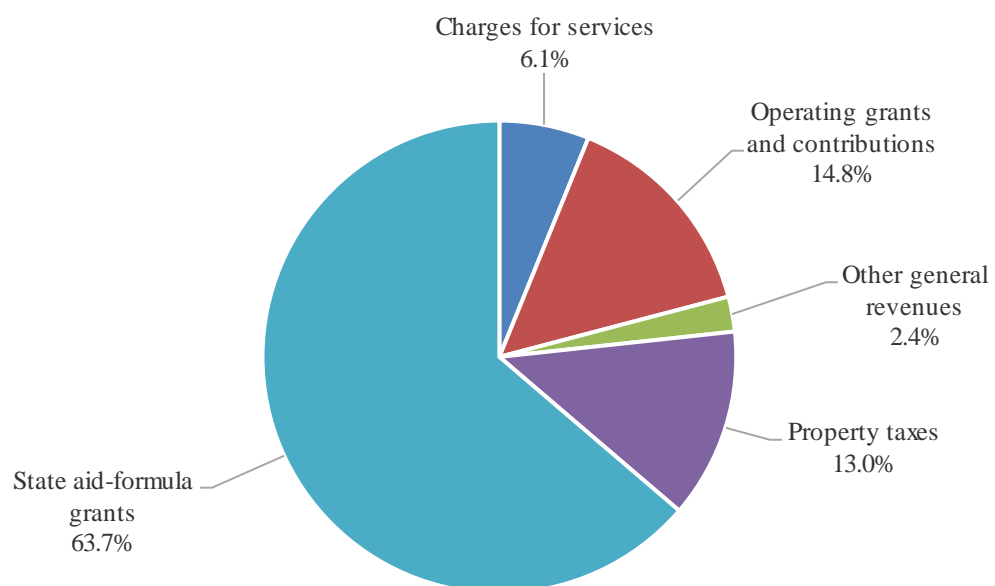
Independent School District No. 508's Changes in Net Position

	Governmental Activities		Increase (Decrease)	
	2016	2015	Amounts	Percent
Revenues				
Program revenues				
Charges for services	\$ 1,607,441	\$ 1,593,167	\$ 14,274	0.9 %
Operating grants and contributions	3,856,460	3,461,387	395,073	11.4
Capital grants and contributions	866,305	-	866,305	N/A
General revenues				
Property taxes	3,397,813	3,298,520	99,293	3.0
State aid-formula grants	16,678,554	15,683,789	994,765	6.3
Other general revenues	613,880	380,969	232,911	61.1
Investment earnings	166,683	1,294	165,389	12,781.2
Total revenues	<u>27,187,136</u>	<u>24,419,126</u>	<u>2,768,010</u>	11.3
Expenses				
Administration	1,304,849	1,254,860	49,989	4.0
District support services	382,044	418,057	(36,013)	(8.6)
Elementary and secondary regular instruction	11,401,048	10,651,776	749,272	7.0
Vocational education instruction	130,438	300,623	(170,185)	(56.6)
Special education instruction	4,176,464	3,888,597	287,867	7.4
Community education and services	644,954	597,895	47,059	7.9
Instructional support services	1,115,208	1,127,102	(11,894)	(1.1)
Pupil support services	2,501,519	2,311,757	189,762	8.2
Sites and buildings	2,339,503	2,258,649	80,854	3.6
Fiscal and other fixed cost programs	122,006	198,986	(76,980)	(38.7)
Interest and fiscal charges on long-term debt	2,304,441	68,268	2,236,173	3,275.6
Total expenses	<u>26,422,474</u>	<u>23,076,570</u>	<u>3,345,904</u>	14.5
Change in net position	764,662	1,342,556	(577,894)	(43.0)
Net position, July 1	<u>3,835,912</u>	<u>2,493,356</u>	<u>1,342,556</u>	53.8
Net position, June 30	<u>\$ 4,600,574</u>	<u>\$ 3,835,912</u>	<u>\$ 764,662</u>	19.9

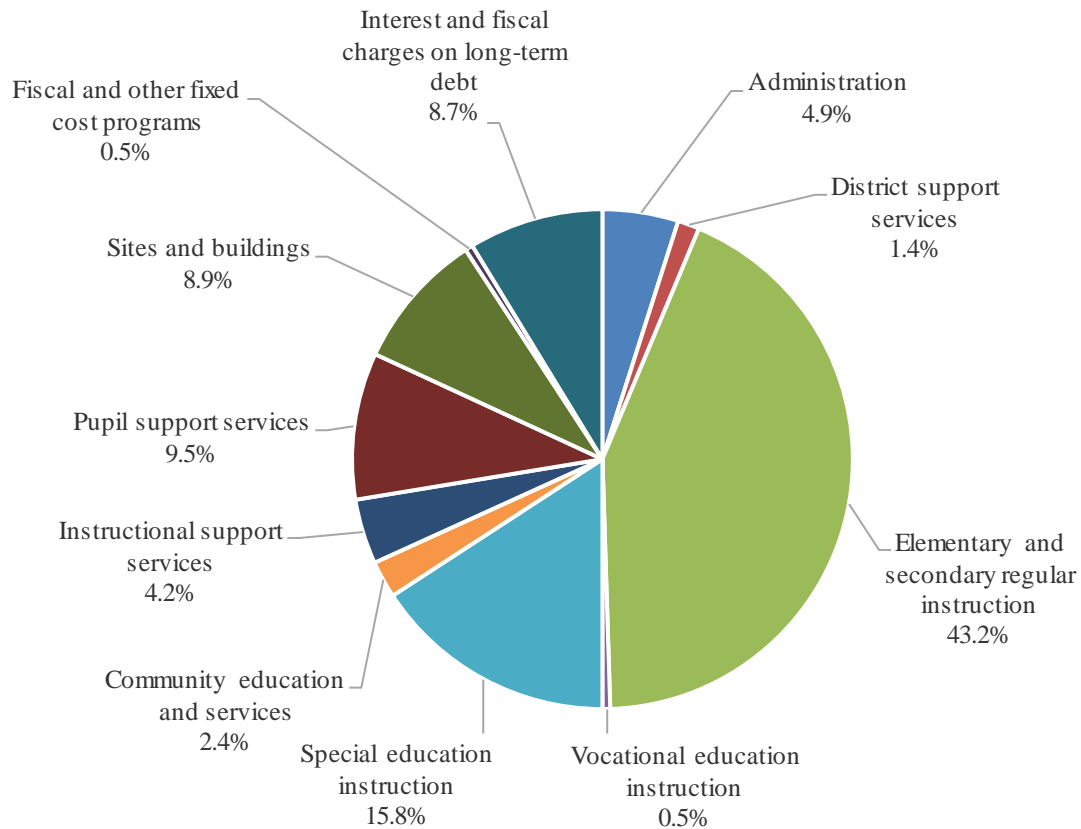
Expenses and Program Revenues - Governmental Activities



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 \$55,797,351, an increase of \$52,921,124 in comparison with the prior year. The General fund had a \$2,057,273 increase in fund balance in addition to an increase in the Capital Projects fund of \$50,584,786. Additionally, there were increases of \$45,386 in Community Service, \$32,251 in Food Service and \$201,428 in Debt Service during the year. The \$32,251 increase in Food Service fund balance was due to an increase in revenue from Federal sources compared to last year. The \$50,584,786 increase in Capital Projects was due to the District issuing bonds of \$55,325,000 for the new high school building. The \$45,386 increase in Community Service was due to an increase in State and other local revenues. The \$201,428 increase in Debt Service was due a transfer of funds to cover future debt service obligations. Of the total fund balance, \$3,526,387 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 \$3,698,532, while total fund balance reached \$5,287,691. 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 16.7 percent of total General fund expenditures, while total fund balance represents 23.9 percent of that same amount.

The fund balance of the District's General fund increased by \$2,057,273 during the current fiscal year. This increase in the General fund was due to revenues being \$887,828 more than budgeted combining with expenditures coming in \$222,016 under budget. The District had budgeted an increase in fund balance of \$947,429 in comparison to the actual increase of \$2,057,273 resulting in a positive variance of \$1,109,844.

General Fund Budgetary Highlights

The District adopted the annual revised operating budget in June of 2016. Actual revenue was higher than budgeted and actual expenditures were lower than the budget amount. This resulted in the District's final actual unassigned fund balance being higher than budgeted. The District ending the 2015-2016 school year with an unassigned fund balance of \$3,698,532 compared to \$2,272,061 in the prior year. The majority of the revenue above budget was attributable to special education revenue and some TRA revenue which came from the state which was not budgeted for and was offset by a similar TRA expenditure amount which was not budgeted for. The actual expenditures were below budget due to overall special education expenditures being below budget.

Capital Asset and Debt Administration

Capital assets. The District's investment in capital assets for its governmental activities as of June 30, 2016, amounts to \$23,586,539 (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 42.2 percent. The major additions to capital assets was building cost for the new school for \$7,538,785, the replacement of the windows for the South Elementary school for \$94,287 and the replacement of the chiller of \$245,785. The total depreciation expense for the year was \$710,497. The following is a schedule of capital assets as of June 30, 2016.

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

	Governmental Activities	
	2016	2015
Land	\$ 933,564	\$ 1,383,564
Construction work in progress	8,148,505	498,030
Land improvements	1,037,223	983,653
Buildings	12,947,030	13,225,864
Equipment	520,217	491,425
Total	<u>\$ 23,586,539</u>	<u>\$ 16,582,536</u>

Additional information on the District's capital assets can be found in Note 3C on page 49 of this report.

Long-term debt. At the end of the current fiscal year, the District had total general obligation bonds outstanding of \$55,710,000. Most of this amount is to finance capital projects relating to school buildings. The District also had capital lease and energy loans totaling \$1,764,808 reported as long-term debt at year end.

Independent School District No. 508's Outstanding Debt

	Governmental Activities	
	2016	2015
General obligation bonds payable	\$ 55,710,000	\$ 575,000
Energy loans payable	221,362	303,450
Capital leases payable	1,543,446	1,577,380
Total	<u>\$ 57,474,808</u>	<u>\$ 2,455,830</u>

The District's total long-term debt increased by \$55,018,978 or 2,240.3 percent during the current fiscal year due to additional borrowing of \$55,631,174 and retirement of debt of \$612,196.

Additional information on the District's long-term debt can be found in Note 3E starting on page 50 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 has increased the per pupil spending formula the past years and again for FY17. The District is experiencing enrollment increased equal to or above the one to two percent range, which was the projection from our latest demographic study. Both of these items have increased the District's revenue.
- The District is scheduled to complete the new high school in the summer/fall of 2017 and it is set to open with the new school year in September 2017.

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, 2016

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Cash and temporary investments	\$ 60,533,157
Receivables	
Taxes	3,371,199
Accounts	8,345
Due from other school districts	352,572
Intergovernmental	2,202,308
Inventories	11,300
Capital assets not being depreciated	9,082,069
Capital assets being depreciated (net of accumulated depreciation)	14,504,470
TOTAL ASSETS	90,065,420
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension resources	2,549,089
LIABILITIES	
Salaries and wages payable	1,005,270
Accounts and other payables	2,641,576
Accrued interest payable	990,028
Due to other school districts	144,496
Due to other governments	38,272
Accrued expenses	1,099,938
Unearned revenue	26,653
Noncurrent liabilities	
Due within one year	852,854
Due in more than one year	74,411,996
TOTAL LIABILITIES	81,211,083
DEFERRED INFLOWS OF RESOURCES	
Property taxes levied for subsequent year	5,440,710
Deferred pension resources	1,362,142
TOTAL DEFERRED INFLOWS OF RESOURCES	6,802,852
NET POSITION	
Net investment in capital assets	13,768,781
Restricted	
Food service	147,533
Educational purposes	421,146
Unrestricted	(9,736,886)
TOTAL NET POSITION	\$ 4,600,574

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, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Governmental activities					
Administration	\$ 1,304,849	\$ -	\$ -	\$ -	\$ (1,304,849)
District support services	382,044	-	-	-	(382,044)
Elementary and secondary regular instruction	11,401,048	384,426	364,937	-	(10,651,685)
Vocational education instruction	130,438	-	(1,124)	-	(131,562)
Special education instruction	4,176,464	570,383	2,477,480	-	(1,128,601)
Community education and services	644,954	241,310	289,202	-	(114,442)
Instructional support services	1,115,208	-	-	-	(1,115,208)
Pupil support services	2,501,519	410,780	703,689	-	(1,387,050)
Sites and buildings	2,339,503	542	22,276	866,305	(1,450,380)
Fiscal and other fixed cost programs	122,006	-	-	-	(122,006)
Interest and fiscal charges on long term debt	2,304,441	-	-	-	(2,304,441)
Total governmental activities	<u>\$ 26,422,474</u>	<u>\$ 1,607,441</u>	<u>\$ 3,856,460</u>	<u>\$ 866,305</u>	<u>(20,092,268)</u>
General revenues					
Taxes					
Property taxes, levied for general purposes					3,047,581
Property taxes, levied for community service					158,166
Property taxes, levied for debt service					192,066
State aid-formula grants					16,678,554
Other general revenues					613,880
Investment earnings					<u>166,683</u>
Total general revenues					<u>20,856,930</u>
Change in net position					764,662
Net position, July 1					<u>3,835,912</u>
Net position, June 30					<u><u>\$ 4,600,574</u></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, 2016

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and temporary investments	\$ 6,604,518	\$ 1,430,620	\$ 52,154,742	\$ 343,277	\$ 60,533,157
Receivables					
Taxes	2,105,489	1,176,296	-	89,414	3,371,199
Accounts	907	-	-	7,438	8,345
Due from other school districts	337,134	-	-	15,438	352,572
Intergovernmental	2,183,452	243	-	18,613	2,202,308
Inventories	-	-	-	11,300	11,300
TOTAL ASSETS	<u>\$ 11,231,500</u>	<u>\$ 2,607,159</u>	<u>\$ 52,154,742</u>	<u>\$ 485,480</u>	<u>\$ 66,478,881</u>
LIABILITIES					
Salaries and wages payable	\$ 962,589	\$ -	\$ -	\$ 42,681	\$ 1,005,270
Accounts and other payables	508,335	-	2,121,482	11,759	2,641,576
Due to other school districts	144,496	-	-	-	144,496
Due to other governments	35,672	-	-	2,600	38,272
Accrued expenses	1,099,938	-	-	-	1,099,938
Unearned revenue	-	-	-	26,653	26,653
TOTAL LIABILITIES	<u>2,751,030</u>	<u>-</u>	<u>2,121,482</u>	<u>83,693</u>	<u>4,956,205</u>
DEFERRED INFLOWS OF RESOURCES					
Property taxes levied for subsequent year	2,915,562	2,351,907	-	173,241	5,440,710
Unavailable revenue - delinquent property taxes	52,217	4,206	-	3,192	59,615
Unavailable revenue - intergovernmental	225,000	-	-	-	225,000
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,192,779</u>	<u>2,356,113</u>	<u>-</u>	<u>176,433</u>	<u>5,725,325</u>
FUND BALANCES					
Nonspendable	-	-	-	11,300	11,300
Restricted	167,988	251,046	50,033,260	386,199	50,838,493
Assigned	1,421,171	-	-	-	1,421,171
Unassigned	3,698,532	-	-	(172,145)	3,526,387
TOTAL FUND BALANCES	<u>5,287,691</u>	<u>251,046</u>	<u>50,033,260</u>	<u>225,354</u>	<u>55,797,351</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 11,231,500</u>	<u>\$ 2,607,159</u>	<u>\$ 52,154,742</u>	<u>\$ 485,480</u>	<u>\$ 66,478,881</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, 2016

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

Total fund balances - governmental funds	\$ 55,797,351
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	23,586,539
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	(55,710,000)
Unamortized premiums	(3,266,955)
Energy loan payable	(221,362)
Capital leases payable	(1,543,446)
Severance benefits payable	(251,220)
Compensated absences payable	(25,789)
Pension liability	(13,645,126)
OPEB liability	(600,952)
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	59,615
Long-term assets are not available to pay current-period expenditures and, therefore, are unavailable in the funds.	
Intergovernmental receivable	225,000
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	2,549,089
Deferred inflows of pension resources	(1,362,142)
Governmental funds do not report a liability for accrued interest until due and payable.	(990,028)
Total net position - governmental activities	<u><u>\$ 4,600,574</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, 2016

	General	Debt Service	Capital Projects	Other Governmental Funds	Total
REVENUES					
Local property tax levies	\$ 2,591,751	\$ 192,268	\$ 460,950	\$ 158,193	\$ 3,403,162
Other local and county revenue	1,466,862	-	986,330	291,824	2,745,016
Interest earned on investments	8,899	-	157,784	-	166,683
Revenue from State sources	19,130,464	2,351		296,799	19,429,614
Revenue from Federal sources	446,083	-		608,803	1,054,886
Sales and other conversion of assets	514	-		392,610	393,124
TOTAL REVENUES	23,644,573	194,619	1,605,064	1,748,229	27,192,485
EXPENDITURES					
Current					
Administration	1,275,233	-	-	-	1,275,233
District support services	374,905	-	-	-	374,905
Elementary and secondary regular instruction	11,074,823	-	-	-	11,074,823
Vocational education and instruction	128,853	-	-	-	128,853
Special education instruction	4,139,132	-	-	-	4,139,132
Community education and services	-	-	-	645,768	645,768
Instructional support services	795,269	-	-	-	795,269
Pupil support services	1,463,979	-	-	991,527	2,455,506
Sites and buildings	1,514,644	-	8,103,955	-	9,618,599
Fiscal and other fixed cost programs	220,433	-	-	-	220,433
Capital outlay	778,850	-		36,223	815,073
Debt service					
Principal	323,419	190,000	-	146	513,565
Interest and other costs	25,764	1,050,836	260,633	98	1,337,331
TOTAL EXPENDITURES	22,115,304	1,240,836	8,364,588	1,673,762	33,394,490
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	1,529,269	(1,046,217)	(6,759,524)	74,467	(6,202,005)
OTHER FINANCING SOURCES (USES)					
Transfers in	-	1,247,645	-	-	1,247,645
Sale of assets	225,000	-	-	-	225,000
Debt issued	-	-	55,325,000	-	55,325,000
Premium on debt issued	-	-	3,266,955	-	3,266,955
Capital leases issued	303,004	-	-	3,170	306,174
Transfers out	-	-	(1,247,645)	-	(1,247,645)
TOTAL OTHER FINANCING SOURCES (USES)	528,004	1,247,645	57,344,310	3,170	59,123,129
NET CHANGE IN FUND BALANCES	2,057,273	201,428	50,584,786	77,637	52,921,124
FUND BALANCES, JULY 1	3,230,418	49,618	(551,526)	147,717	2,876,227
FUND BALANCES, JUNE 30	\$ 5,287,691	\$ 251,046	\$ 50,033,260	\$ 225,354	\$ 55,797,351

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, 2016

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

Total net change in fund balances - governmental funds	\$ 52,921,124
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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	8,164,500
Depreciation expense	(710,497)

The statement of activities reports losses arising from sales or trade-in of existing capital assets to acquire new capital assets. Conversely, governmental funds do not report any gain or loss on a sale or trade-in of capital assets.	(225,000)
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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.

Debt issued	(55,631,174)
Premium on debt issued	(3,266,955)
Principal repayments	612,196

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.	(967,110)
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Long-term pension activity is not reported in governmental funds.	
Pension expense	(59,158)

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.	(5,349)
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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	(21,142)
OPEB costs	(46,773)

Change in net position - governmental activities	\$ 764,662
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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, 2016

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Local property tax levies	\$ 2,516,977	\$ 2,589,216	\$ 2,591,751	\$ 2,535
Other local and county revenue	1,244,733	1,027,630	1,466,862	439,232
Interest earned on investments	1,500	3,000	8,899	5,899
Revenue from State sources	17,858,719	18,737,656	19,130,464	392,808
Revenue from Federal sources	418,591	423,121	446,083	22,962
Sales and other conversions of assets	200	700	514	(186)
TOTAL REVENUES	22,040,720	22,781,323	23,644,573	863,250
EXPENDITURES				
Current				
Administration	1,266,314	1,317,791	1,275,233	42,558
District support services	467,544	393,193	374,905	18,288
Elementary and secondary regular instruction	10,943,720	10,801,685	11,074,823	(273,138)
Vocational education and instruction	132,164	297,947	128,853	169,094
Special education instruction	4,216,524	4,261,402	4,139,132	122,270
Instructional support services	812,411	865,207	795,269	69,938
Pupil support services	1,368,503	1,419,670	1,463,979	(44,309)
Sites, buildings and equipment	1,583,358	1,592,889	1,514,644	78,245
Fiscal and other fixed cost programs	214,785	224,277	220,433	3,844
Capital outlay				
Administration	19,038	31,537	18,120	13,417
District support services	4,000	4,000	-	4,000
Elementary and secondary regular instruction	261,359	261,359	249,736	11,623
Special education instruction	13,774	7,893	5,179	2,714
Instructional support services	7,500	285,926	311,275	(25,349)
Pupil support services	600	600	-	600
Sites, buildings and equipment	309,846	208,832	194,540	14,292
Debt service				
Principal	311,876	336,214	323,419	12,795
Interest and other costs	34,811	26,898	25,764	1,134
TOTAL EXPENDITURES	21,968,127	22,337,320	22,115,304	222,016
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	72,593	444,003	1,529,269	1,085,266
OTHER FINANCING SOURCES				
Capital leases issued	-	278,426	303,004	24,578
Sale of assets	-	225,000	225,000	-
TOTAL OTHER FINANCING SOURCES	-	503,426	528,004	24,578
NET CHANGE IN FUND BALANCES	72,593	947,429	2,057,273	1,109,844
FUND BALANCES, JULY 1	3,230,418	3,230,418	3,230,418	-
FUND BALANCES, JUNE 30	\$ 3,303,011	\$ 4,177,847	\$ 5,287,691	\$ 1,109,844

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, 2016

	Private Purpose Trust
ASSETS	
Cash and temporary investments	<u>\$ 710,717</u>
NET POSITION	
Held in trust for scholarships	<u>\$ 710,717</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, 2016

	Private Purpose Trust
REVENUES	
Interest earned on investments	\$ 50,659
Contributions	<u>(2,500)</u>
TOTAL REVENUES	48,159
EXPENDITURES	
Other expenditures	<u>20,000</u>
CHANGE IN NET POSITION	28,159
NET POSITION, JULY 1 AS RESTATED (NOTE 7)	<u>682,558</u>
NET POSITION, JUNE 30	<u><u>\$ 710,717</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, 2016

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, 2016

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, 2016

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.

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.

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.

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.

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, 2016

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.

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.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's recurring fair value measurements are listed in detail on page 47 and are valued using quoted market prices (Level 1 inputs).

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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 2016 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 2015 and collectible in 2016. 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, 2016

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 net 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, 2016, unpaid vacation pay totaling \$25,789 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, 2016

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 \$60,000 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 2016, total expenditures for severance and health insurance benefits were \$40,666 and \$449,388, respectively. At June 30, 2016, a liability for severance and 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, 2016

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. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in 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 three sources: delinquent property taxes, property taxes levied for subsequent year and intergovernmental receivables. 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, 2016

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 \$2,438,299 for the year ended June 30, 2016. The unassigned fund balance for the General fund at year end was \$3,698,532.

Net position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. 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, 2016

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.

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 \$5,035,540 and the bank balance was \$3,337,543. Of the bank balance, \$1,122,704 was covered by federal depository insurance. Of the remaining balance of \$2,214,839 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, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Balance	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled investments at amortized costs						
Minnesota School District Liquid						
Asset Fund (MSDLAF)	AAAm	less than 6 months	\$ 5,945,392			
Broker money funds	N/A	less than 6 months	49,784,724			
Non-pooled investments at fair value						
Taxable Municipal Bond	AA2/AA-	more than 3 years	118,293	\$ 118,293	\$ -	\$ -
Taxable Municipal Bond	AA2	more than 3 years	117,738	117,738	-	-
Taxable Municipal Bond	AA3/AA-	more than 3 years	92,804	92,804	-	-
Taxable Municipal Bond	AA2/AA	more than 3 years	149,153	149,153	-	-
Total investments			\$56,208,104	\$ 477,988	\$ -	\$ -

(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, 2016

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	5,035,540
Investments	<u>56,208,104</u>
Total	61,243,874
Less fiduciary fund cash and temporary investments	<u>(710,717)</u>
Total cash and temporary investments	<u><u>\$ 60,533,157</u></u>

B. Property taxes receivable

Current property taxes receivable is recorded for taxes levied in 2015 and payable in 2016. A portion of the current property taxes receivable is recognized as revenue in the fiscal year ended June 30, 2016 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:

	General	Debt Service	Nonmajor Governmental	Total
Current taxes	\$ 2,053,272	\$ 1,172,090	\$ 86,222	\$ 3,311,584
Delinquent taxes	<u>52,217</u>	<u>4,206</u>	<u>3,192</u>	<u>59,615</u>
Total taxes receivable	<u><u>\$ 2,105,489</u></u>	<u><u>\$ 1,176,296</u></u>	<u><u>\$ 89,414</u></u>	<u><u>\$ 3,371,199</u></u>
Property taxes levied for subsequent year	<u><u>\$ 2,915,562</u></u>	<u><u>\$ 2,351,907</u></u>	<u><u>\$ 173,241</u></u>	<u><u>\$ 5,440,710</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Capital assets

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,383,564	\$ -	\$ (450,000)	\$ 933,564
Construction work in progress	498,030	7,650,475	-	8,148,505
Total capital assets not being depreciated	<u>1,881,594</u>	<u>7,650,475</u>	<u>(450,000)</u>	<u>9,082,069</u>
Capital assets being depreciated				
Land improvements	1,881,661	114,030	-	1,995,691
Building	26,870,067	309,340	-	27,179,407
Equipment	1,684,694	90,655	-	1,775,349
Total capital assets being depreciated	<u>30,436,422</u>	<u>514,025</u>	<u>-</u>	<u>30,950,447</u>
Less accumulated depreciation				
Land improvements	(898,008)	(60,460)	-	(958,468)
Building	(13,644,203)	(588,174)	-	(14,232,377)
Equipment	(1,193,269)	(61,863)	-	(1,255,132)
Total accumulated depreciation	<u>(15,735,480)</u>	<u>(710,497)</u>	<u>-</u>	<u>(16,445,977)</u>
Total capital assets being depreciated, net	<u>14,700,942</u>	<u>(196,472)</u>	<u>-</u>	<u>14,504,470</u>
Governmental activities capital assets, net	<u><u>\$ 16,582,536</u></u>	<u><u>\$ 7,454,003</u></u>	<u><u>\$ (450,000)</u></u>	<u><u>\$ 23,586,539</u></u>

Depreciation expense was charged to governmental activities as follows:

Administration	\$ 677
Elementary and secondary regular instruction	33,404
Vocational education instruction	186
Special education instruction	6,183
Instructional support services	1,128
Pupil support services	10,508
Sites and buildings	658,207
Fiscal and other fixed cost programs	204
Total depreciation expense	<u><u>\$ 710,497</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Construction commitments

The District has active construction projects as of June 30, 2016. At year end the District's commitments are as follows:

Project	Spent-to-Date	Remaining Commitment
New high school - professional services	\$ 1,949,876	\$ 399,373
New high school - Construction services	652,802	2,395,663
New high school - Materials and Labor	5,215,346	33,182,942
Middle school - professional services	54,663	155,587
South elementary school renovations - professional services	101,268	180,032
High school refoof - professional services	22,891	15,809
Total	<u>\$ 7,818,024</u>	<u>\$ 35,977,978</u>

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	\$ 385,000
G.O. School Building						
Bonds of 2015A	55,325,000	4.00 - 5.00	08/19/15	02/01/41	-	55,325,000
Total Bonds					<u>\$ 190,000</u>	<u>\$ 55,710,000</u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

The annual requirements to amortize all bonds outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2017	\$ 190,000	\$ 2,329,890	\$ 2,519,890
2018	775,000	2,328,734	3,103,734
2019	580,000	2,299,100	2,879,100
2020	625,000	2,270,100	2,895,100
2021	835,000	2,238,850	3,073,850
2022 - 2026	6,515,000	10,418,500	16,933,500
2027 - 2031	12,970,000	8,266,750	21,236,750
2032 - 2036	15,820,000	5,428,600	21,248,600
2037 - 2041	17,400,000	2,088,000	19,488,000
Total	<u>\$55,710,000</u>	<u>\$37,668,524</u>	<u>\$ 93,378,524</u>

Capital leases

The District entered into various capital leases with Nicollet County Bank, First National Bank, Hometown Bank, Wells Fargo and Marco Finance for the purchase of computer and various other 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	\$ 98,513	3.25 %	06/22/12	12/15/16	\$ 20,652	\$ 20,652
Technology lease	228,234	1.79	06/20/13	12/15/17	46,032	92,904
Technology lease	420,938	1.91	06/18/14	12/15/18	92,727	236,666
Building addition lease	1,350,000	4.63	03/14/07	03/14/22	96,725	652,701
Computer lease	103,161	1.90	06/19/15	12/15/19	20,037	82,504
Technology lease	174,755	1.75	06/19/15	12/15/18	42,908	131,035
Band uniform lease	27,162	1.90	06/19/15	12/15/19	5,275	21,723
Technology lease	175,470	1.60	06/24/16	12/15/19	43,922	175,470
Technology lease	104,650	1.67	06/24/16	12/15/19	20,969	104,650
Copier lease	3,179	4.50	03/04/16	06/01/21	552	3,024
Copier lease	22,882	4.50	04/06/16	04/01/21	4,191	22,117
Total capital leases					<u>\$ 393,990</u>	<u>\$ 1,543,446</u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016 are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2017	\$ 393,990	\$ 43,588	\$ 437,578
2018	380,610	35,634	416,244
2019	295,966	25,691	321,657
2020	208,848	17,186	226,034
2021	142,432	10,146	152,578
2022	121,600	4,238	125,838
Total minimum lease payments	<u>\$ 1,543,446</u>	<u>\$ 136,483</u>	<u>1,679,929</u>

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

Asset	
Buildings	\$ 1,379,254
Less: accumulated depreciation	<u>(245,611)</u>
Total	<u>\$ 1,133,643</u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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>\$ 85,698</u>	<u>\$ 221,362</u>

The annual requirements to amortize all capital notes payable outstanding at June 30, 2016 are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
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>\$ 221,362</u>	<u>\$ 14,651</u>	<u>\$ 236,013</u>

Long-term liability activity for the year ended June 30, 2016 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 575,000	\$ 55,325,000	\$ (190,000)	\$ 55,710,000	\$ 190,000
Unamortized premium	-	3,266,955	-	3,266,955	-
Energy loans payable	303,450	-	(82,088)	221,362	85,698
Capital leases payable	1,577,380	306,174	(340,108)	1,543,446	393,990
Severance benefits payable	232,583	182,135	(163,498)	251,220	157,377
Compensated absences payable	23,284	43,171	(40,666)	25,789	25,789
Pension liability					
TRA	8,575,354	3,257,869	(686,071)	11,147,152	-
PERA	2,428,607	279,072	(209,705)	2,497,974	-
OPEB liability	<u>554,179</u>	<u>496,161</u>	<u>(449,388)</u>	<u>600,952</u>	<u>-</u>
Governmental activities					
Total long-term liabilities	<u>\$ 14,269,837</u>	<u>\$ 63,156,537</u>	<u>\$ (2,161,524)</u>	<u>\$ 75,264,850</u>	<u>\$ 852,854</u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

F. Components of fund balance

At June 30, 2016, 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	Debt Service	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds	Reconciling Items	UFARS Balance
Nonspendable							
Inventories	\$ -	\$ -	\$ -	\$ 11,300	\$ 11,300	\$ -	\$ 11,300
Total nonspendable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,300</u>	<u>\$ 11,300</u>	<u>\$ -</u>	<u>\$ 11,300</u>
Restricted for							
Health and safety	\$ 4,043	\$ -	\$ -	\$ -	\$ 4,043	\$ -	\$ 4,043
Operating capital	163,945	-	-	-	163,945	-	163,945
Food service	-	-	-	136,233	136,233	-	136,233
Community education	-	-	-	215,550	215,550	-	215,550
Early childhood and family education	-	-	-	29,245	29,245	-	29,245
School readiness	-	-	-	-	-	(172,145)	(172,145)
Community service	-	-	-	5,171	5,171	-	5,171
Debt service	-	251,046	-	-	251,046	-	251,046
Capital projects	-	-	50,033,260	-	50,033,260	12,854	50,046,114
Capital project levy	-	-	-	-	-	(12,854)	(12,854)
Total restricted	<u>\$ 167,988</u>	<u>\$ 251,046</u>	<u>\$50,033,260</u>	<u>\$ 386,199</u>	<u>\$ 50,838,493</u>	<u>\$ (172,145)</u>	<u>\$ 50,666,348</u>
Assigned for							
Severance	\$ 364,171	\$ -	\$ -	\$ -	\$ 364,171	\$ -	\$ 364,171
VEBA trust	162,000	-	-	-	162,000	-	162,000
Capital outlay	895,000	-	-	-	895,000	-	895,000
Total assigned	<u>\$ 1,421,171</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,421,171</u>	<u>\$ -</u>	<u>\$ 1,421,171</u>
Unassigned	<u>\$ 3,698,532</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (172,145)</u>	<u>\$ 3,526,387</u>	<u>\$ 172,145</u>	<u>\$ 3,698,532</u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED

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.

INDEPENDENT SCHOOL DISTRICT NO. 508
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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 city of St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

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

INDEPENDENT SCHOOL DISTRICT NO. 508
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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, 2015		Ending June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%
Coordinated	7.50%	7.50%	7.50%	7.50%

The District's contributions to TRA for the year ending June 30, 2016, 2015 and 2014 were \$697,588, \$686,071 and \$594,623. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

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NOTES TO THE FINANCIAL STATEMENTS
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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	\$ 340,207,590
Deduct employer contributions not related to future contribution efforts	(704,635)
Deduct TRA's contributions not included in allocation	<u>(435,999)</u>
 Total employer contributions	 339,066,956
Total non-employer contributions	<u>41,587,410</u>
 Total contributions reported in schedule of employer and non-employer pension allocations	 <u>\$ 380,654,366</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. Merger of Duluth Teacher's Retirement Fund Association (DTRFA)

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

	<u>6/30/2014 CAFR</u>	<u>Restated</u>
Total pension liability (a)	\$24,901,612,000	\$ 25,299,564,000
Plan fiduciary net position (b)	<u>20,293,684,000</u>	<u>20,519,756,000</u>
 Net pension liability (a-b)	 <u>\$ 4,607,928,000</u>	 <u>\$ 4,779,808,000</u>

INDEPENDENT SCHOOL DISTRICT NO. 508
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

5. Actuarial assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability		
Actuarial information		
Measurement date		June 30, 2015
Valuation date		July 1, 2015
Experience study		October 30, 2009
Actuarial cost method		Entry Age Normal
Actuarial assumptions		
Investment rate of return		8.00%
Wage inflation		3.00%
Projected salary increase	3.50 - 12.00% - based on years of service	
Cost of living adjustment		2.00%
Mortality assumption		
Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 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, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2004 to June 30, 2008 and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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>	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2015 is 5.73 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” use the amortization period of 5.73 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5.00 years as required by GASB 68. The “Changes in Proportion” uses a rounded amortization period of 5.0 years.

6. Discount rate

The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Net pension liability

At June 30, 2016, the District reported a liability of \$11,147,152 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.1802 percent at the end of the measurement period and 0.1861 percent for the beginning of the year.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

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	\$ 11,147,152
State's proportionate share of net pension liability associated with the District	1,367,283

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

For the year ended June 30, 2016 the District recognized pension expense of \$746,143. It also recognized \$241,718 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 589,533	\$ -
Changes in actuarial assumptions	838,625	-
Net difference between projected and actual earnings on plan investments	-	852,559
Changes in proportion	33,796	19,252
Contributions to TRA subsequent to the measurement date	<u>697,588</u>	<u>-</u>
Total	<u><u>\$ 2,159,542</u></u>	<u><u>\$ 871,811</u></u>

Deferred outflows of resources totaling \$697,588 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, 2017. 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>
2017	\$ (41,285)
2018	(41,285)
2019	(41,285)
2020	580,144
2021	133,854

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

8. Pension liability sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent as well as the liability measured using one percent lower and one percent higher.

District proportionate share of NPL		
1 Percent Decrease (7.00%)	Current (8.00%)	1 Percent Increase (9.00%)
\$ 16,967,409	\$ 11,147,152	\$ 6,289,980

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.

9. 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.

INDEPENDENT SCHOOL DISTRICT NO. 508
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

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.

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, in fiscal year 2016. In calendar year 2016, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.50 percent of Coordinated Plan members. The District's contributions to the GERF for the year ending June 30, 2016, 2015 and 2014 were \$210,750, \$208,972 and \$196,652. 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, 2016, the District reported a liability of \$2,497,974 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014 through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0482 percent which was a decrease of 0.0035 percent from its proportion measured as of June 30, 2014.

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$221,101 for its proportionate share of GERF's pension expense.

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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,915	\$ 125,940
Changes in actuarial assumptions	153,882	-
Net difference between projected and actual earnings on plan investments	-	222,365
Changes in proportion	-	142,026
Contributions to GERF subsequent to the measurement date.	210,750	-
Total	<u>\$ 389,547</u>	<u>\$ 490,331</u>

Deferred outflows of resources totaling \$210,750 related to pensions resulting from the District's contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>For the Year Ending June 30</u>	<u>Amount</u>
2017	\$ (93,751)
2018	(93,750)
2019	(183,149)
2020	59,116

5. Actuarial assumptions

The total pension liability in the June 30, 2015 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, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2015. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

INDEPENDENT SCHOOL DISTRICT NO. 508
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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%)
\$ 3,927,703	\$ 2,497,974	\$ 1,317,238

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
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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 has answered the complaint against it and has moved for summary judgment on all claims. The Court's decision is pending and the Court has Ordered the parties to mediation. The District will participate in the Court ordered mediation and denies any liability. The District's insurance provider will cover cost in excess of the District's deductible of \$5,000.

The District has been charged with a claim of discrimination to the Minnesota Department of Human Rights (MDHR). Our attorneys are anticipating the MDHR will issue a no probable cause finding and dismiss the matter based on lack of merit but it is possible the MDHR could decide otherwise.

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.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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 164 active participants and 41 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	60,000
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) 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, 2016

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 and payroll supervisor	50,000	Earlier of 9 years or age 65
Special programs assistant and technology director	200,000	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 65
Community education director	200,000	Earlier of 9 years or age 65

During the year ended June 30, 2016, the District had 50 receiving benefits totaling \$276,261 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	\$ 506,461
Interest on net OPEB obligation	20,782
Adjustment to annual required contribution	<u>(31,082)</u>
Annual OPEB cost (expense)	<u>496,161</u>
Contributions made	(273,543)
Implicit subsidy	<u>(175,845)</u>
Total contributions	<u>(449,388)</u>
Increase in net OPEB obligation	46,773
Net OPEB obligation - beginning of year	<u>554,179</u>
NET OPEB obligation - end of year	<u><u>\$ 600,952</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

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 2016 and the preceding two fiscal years follows:

Year Ending	Three Year Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
06/30/16	\$ 496,161	90.6 %	\$ 600,952
06/30/15	450,724	105.4	554,179
06/30/14	456,101	104.0	578,428

Funded status and funding progress

As of July 1, 2015 (the most recent actuarial valuation date), the District's share of the actuarial accrued liability for benefits was \$4,773,490 all of which was unfunded. The District's share of covered payroll (annual payroll of active employees covered by the plan) was \$12,750,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37.4 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, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.75 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 2.75 rate of inflation. The initial healthcare trend rate was 7.20 percent, reduced by decrements to an ultimate rate of 5.0 percent after seven 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, 2016 was 30 years.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 7: CHANGE IN ACCOUNTING STANDARDS

During fiscal year 2016, the District implemented a new accounting pronouncement issued by the Governmental Accounting Standards Board (GASB), Statement No. 72, *Fair Value Measurement and Application* for the year ended June 30, 2016. These standards required a retroactive implementation which resulted in the restatement of beginning balances in the June 30, 2015 financial statements.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported June 30, 2015 balances to the June 30, 2016 financial statements:

Fund	June 30, 2016		
	Net Position June 30, 2015 as Previously Reported	Prior Period Restatement (1)	Net Position July 1, 2015 as Restated
Private Purpose Trust	\$ 653,252	\$ 29,306	\$ 682,558

(1) To adjust beginning market value in accordance with GASB Statement No. 72.

**REQUIRED SUPPLEMENTARY
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2016

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

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 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
06/30/15	0.1802 %	\$ 11,147,152	\$ 1,367,283	\$ 12,514,435	\$ 9,147,613	121.9 %	76.8 %
06/30/14	0.1861	8,575,354	603,289	9,178,643	8,494,615	101.0	81.1

Schedule of employer's TRA contributions

Required Supplementary Information					
Fiscal Year Ending	Statutorily Required Contribution (a)	Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
06/30/16	\$ 697,588	\$ 697,588	\$ -	\$ 9,301,173	7.5 %
06/30/15	686,071	686,071	-	9,147,613	7.5

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

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
06/30/15	0.0482 %	\$ 2,497,974	\$ -	\$ 2,497,974	\$ 2,882,372	86.7 %	78.2 %
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)
06/30/16	\$ 210,750	\$ 210,750	\$ -	\$ 2,810,000	7.5 %
06/30/15	208,972	208,972	-	2,882,372	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)
07/01/15	\$ -	\$ 4,773,490	\$ 4,773,490	- %	\$ 12,750,000	37.4 %
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	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, 2016

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Special Revenue		
	Food Service	Community Service	Totals
ASSETS			
Cash and temporary investments	\$ 204,708	\$ 138,569	\$ 343,277
Receivables			
Taxes	-	89,414	89,414
Accounts	7,438	-	7,438
Due from other school districts	-	15,438	15,438
Intergovernmental	-	18,613	18,613
Inventories	11,300	-	11,300
 TOTAL ASSETS	 \$ 223,446	 \$ 262,034	 \$ 485,480
LIABILITIES			
Salaries and wages payable	\$ 41,855	\$ 826	\$ 42,681
Accounts and other payables	7,405	4,354	11,759
Due to other governments	-	2,600	2,600
Unearned revenue	26,653	-	26,653
 TOTAL LIABILITIES	 75,913	 7,780	 83,693
DEFERRED INFLOWS OF RESOURCES			
Property taxes levied for subsequent year	-	173,241	173,241
Unavailable revenue - delinquent property taxes	-	3,192	3,192
 TOTAL DEFERRED INFLOWS OF RESOURCES	 -	 176,433	 176,433
FUND BALANCES			
Nonspendable	11,300	-	11,300
Restricted			
Food service	136,233	-	136,233
Community education	-	215,550	215,550
Early childhood family education	-	29,245	29,245
Community service	-	5,171	5,171
Unassigned	-	(172,145)	(172,145)
 TOTAL FUND BALANCES	 147,533	 77,821	 225,354
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	 \$ 223,446	 \$ 262,034	 \$ 485,480

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, 2016

	Special Revenue		
	Food Service	Community Service	Totals
REVENUES			
Local property tax levies	\$ -	\$ 158,193	\$ 158,193
Other local and county revenue	-	291,824	291,824
Revenue from State sources	54,920	241,879	296,799
Revenue from Federal sources	608,803	-	608,803
Sales and other conversion of assets	392,610	-	392,610
TOTAL REVENUES	1,056,333	691,896	1,748,229
EXPENDITURES			
Current			
Community education and services	-	645,768	645,768
Pupil support services	991,527	-	991,527
Capital outlay			
Community education and services	-	3,668	3,668
Pupil support services	32,555	-	32,555
Debt service			
Principal	-	146	146
Interest and other costs	-	98	98
TOTAL EXPENDITURES	1,024,082	649,680	1,673,762
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	32,251	42,216	74,467
OTHER FINANCING SOURCES			
Capital leases issued	-	3,170	3,170
NET CHANGE IN FUND BALANCES	32,251	45,386	77,637
FUND BALANCES, JULY 1	115,282	32,435	147,717
FUND BALANCES, JUNE 30	\$ 147,533	\$ 77,821	\$ 225,354

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INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
GENERAL FUND
BALANCE SHEETS
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
Cash and temporary investments	\$ 6,604,518	\$ 3,967,744
Receivables		
Taxes	2,105,489	1,589,989
Accounts	907	1,197
Due from other school districts	337,134	396,646
Intergovernmental	2,183,452	2,306,594
Prepaid items	-	242,200
TOTAL ASSETS	<u><u>\$ 11,231,500</u></u>	<u><u>\$ 8,504,370</u></u>
LIABILITIES		
Salaries and wages payable	\$ 962,589	\$ 936,086
Accounts and other payables	508,335	313,204
Due to other school districts	144,496	67,440
Due to other governments	35,672	34,596
Accrued expenses	1,099,938	1,016,961
TOTAL LIABILITIES	<u>2,751,030</u>	<u>2,368,287</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes levied for subsequent year	2,915,562	2,848,328
Unavailable revenue - delinquent property taxes	52,217	57,337
Unavailable revenue - intergovernmental	225,000	-
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>3,192,779</u>	<u>2,905,665</u>
FUND BALANCES		
Nonspendable	-	242,200
Restricted		
Deferred maintenance	-	6,399
Health and safety	4,043	1,806
Operating capital	163,945	100,781
Assigned		
Severance	364,171	364,171
VEBA trust	162,000	123,000
Capital outlay	895,000	120,000
Unassigned	3,698,532	2,272,061
TOTAL FUND BALANCES	<u>5,287,691</u>	<u>3,230,418</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u><u>\$ 11,231,500</u></u>	<u><u>\$ 8,504,370</u></u>

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, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015	
	Budgeted Amounts		Variance With Final Budget	Actual	
	Original	Final			
REVENUES					
Local property tax levies	\$ 2,516,977	\$ 2,589,216	\$ 2,591,751	\$ 2,535	\$ 2,508,500
Interest earned on investments	1,500	3,000	8,899	5,899	1,239
Other local and county revenue	1,244,733	1,027,630	1,466,862	439,232	1,329,963
Revenue from State sources	17,858,719	18,737,656	19,130,464	392,808	17,859,559
Revenue from Federal sources	418,591	423,121	446,083	22,962	416,322
Sales and other conversion of assets	200	700	514	(186)	3,924
TOTAL REVENUES	22,040,720	22,781,323	23,644,573	863,250	22,119,507
EXPENDITURES					
Current					
Administration					
Salaries	887,990	938,739	880,547	58,192	879,254
Employee benefits	285,122	288,193	303,279	(15,086)	280,188
Purchased services	31,600	31,600	42,762	(11,162)	25,758
Supplies and materials	21,378	21,556	13,715	7,841	19,941
Other expenditures	40,224	37,703	34,930	2,773	38,724
Total administration	1,266,314	1,317,791	1,275,233	42,558	1,243,865
District support services					
Salaries	257,762	185,569	173,363	12,206	220,535
Employee benefits	99,114	79,235	75,473	3,762	89,687
Purchased services	74,050	85,597	84,194	1,403	66,478
Supplies and materials	7,901	13,575	12,304	1,271	8,773
Other expenditures	28,717	29,217	29,571	(354)	29,572
Total district support services	467,544	393,193	374,905	18,288	415,045
Elementary and secondary regular instruction					
Salaries	7,082,168	6,885,107	6,946,939	(61,832)	6,790,537
Employee benefits	2,632,818	2,626,079	2,758,971	(132,892)	2,570,142
Purchased services	688,697	753,963	725,151	28,812	715,732
Supplies and materials	459,278	455,027	457,991	(2,964)	419,351
Other expenditures	80,759	81,509	185,771	(104,262)	131,967
Total elementary and secondary regular instruction	10,943,720	10,801,685	11,074,823	(273,138)	10,627,729

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, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015	
	Budgeted Amounts		Variance With Final Budget	Actual	
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Vocational education instruction					
Salaries	\$ 58,770	\$ 182,191	\$ 89,062	\$ 93,129	\$ 186,092
Employee benefits	19,204	64,066	24,434	39,632	58,457
Purchased services	15,500	11,000	2,625	8,375	19,518
Supplies and materials	38,690	40,690	12,732	27,958	36,318
Total vocation education instruction	132,164	297,947	128,853	169,094	300,385
Special education instruction					
Salaries	2,534,032	2,617,240	2,518,635	98,605	2,452,327
Employee benefits	730,107	805,220	781,838	23,382	721,890
Purchased services	920,085	804,717	812,555	(7,838)	726,184
Supplies and materials	32,300	34,225	26,104	8,121	22,510
Total special education instruction	4,216,524	4,261,402	4,139,132	122,270	3,922,911
Instructional support services					
Salaries	455,777	490,468	453,732	36,736	482,972
Employee benefits	140,832	158,856	141,137	17,719	141,302
Purchased services	74,142	74,223	75,604	(1,381)	72,868
Supplies and materials	139,560	139,560	123,142	16,418	143,350
Other expenditures	2,100	2,100	1,654	446	2,166
Total instructional support services	812,411	865,207	795,269	69,938	842,658
Pupil support services					
Salaries	339,812	334,708	351,202	(16,494)	335,012
Employee benefits	97,692	102,176	108,739	(6,563)	96,804
Purchased services	909,143	949,970	974,962	(24,992)	886,561
Supplies and materials	21,856	32,816	29,076	3,740	22,306
Total pupil support services	1,368,503	1,419,670	1,463,979	(44,309)	1,340,683

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, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015	
	Budgeted Amounts		Variance With Final Budget	Actual	
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Sites and buildings					
Salaries	\$ 502,272	\$ 461,279	\$ 534,171	\$ (72,892)	\$ 508,131
Employee benefits	188,097	194,481	198,067	(3,586)	187,507
Purchased services	654,689	688,829	599,854	88,975	612,665
Supplies and materials	232,300	242,300	176,506	65,794	232,054
Other expenditures	6,000	6,000	6,046	(46)	5,059
Total sites and buildings	1,583,358	1,592,889	1,514,644	78,245	1,545,416
Fiscal and other fixed cost programs					
Employee benefits	105,033	109,045	105,201	3,844	84,687
Purchased services	109,752	115,232	115,232	-	114,095
Total fiscal and other fixed cost programs	214,785	224,277	220,433	3,844	198,782
Total current	21,005,323	21,174,061	20,987,271	186,790	20,437,474
Capital outlay					
Administration	19,038	31,537	18,120	13,417	23,017
District support services	4,000	4,000	-	4,000	4,682
Elementary and secondary regular instruction	261,359	261,359	249,736	11,623	127,163
Special education instruction	13,774	7,893	5,179	2,714	7,612
Instructional support services	7,500	285,926	311,275	(25,349)	284,857
Pupil support services	600	600	-	600	-
Sites and buildings	309,846	208,832	194,540	14,292	968,528
Total capital outlay	616,117	800,147	778,850	21,297	1,415,859
Debt service					
Principal	311,876	336,214	323,419	12,795	406,142
Interest and other costs	34,811	26,898	25,764	1,134	66,338
Total debt service	346,687	363,112	349,183	13,929	472,480
TOTAL EXPENDITURES	21,968,127	22,337,320	22,115,304	222,016	22,325,813
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	72,593	444,003	1,529,269	1,085,266	(206,306)
OTHER FINANCING SOURCES					
Capital leases issued	-	278,426	303,004	24,578	305,078
Sale of assets	-	225,000	225,000	-	-
TOTAL OTHER FINANCING SOURCES	-	503,426	528,004	24,578	305,078
NET CHANGE IN FUND BALANCES	72,593	947,429	2,057,273	1,109,844	98,772
FUND BALANCES, JULY 1	3,230,418	3,230,418	3,230,418	-	3,131,646
FUND BALANCES, JUNE 30	\$ 3,303,011	\$ 4,177,847	\$ 5,287,691	\$ 1,109,844	\$ 3,230,418

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, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015	
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
REVENUES					
Revenue from State sources	\$ 41,946	\$ 52,196	\$ 54,920	\$ 2,724	\$ 47,801
Revenue from Federal sources	545,467	561,667	608,803	47,136	528,118
Sales and other conversion of assets	433,400	411,550	392,610	(18,940)	399,224
TOTAL REVENUES	1,020,813	1,025,413	1,056,333	30,920	975,143
EXPENDITURES					
Current					
Pupil support services					
Salaries	283,968	299,382	295,677	3,705	274,338
Employee benefits	70,787	82,377	81,198	1,179	75,799
Purchased services	18,175	14,225	33,329	(19,104)	6,536
Supplies and materials	591,697	586,878	572,564	14,314	601,369
Other expenditures	9,000	9,500	8,759	741	6,650
Total current expenditures	973,627	992,362	991,527	835	964,692
Capital outlay					
Pupil support services	7,740	32,146	32,555	(409)	9,248
TOTAL EXPENDITURES	981,367	1,024,508	1,024,082	426	973,940
NET CHANGE IN FUND BALANCES	39,446	905	32,251	31,346	1,203
FUND BALANCES, JULY 1	115,282	115,282	115,282	-	114,079
FUND BALANCES, JUNE 30	\$ 154,728	\$ 116,187	\$ 147,533	\$ 31,346	\$ 115,282

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, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015
	Budgeted Amounts		Variance With	
	Original	Final	Final Budget	Actual
REVENUES				
Local property tax levies	\$ 144,828	\$ 157,672	\$ 158,193	\$ 144,285
Other local and county revenue	266,865	253,332	291,824	296,178
Interest earned on investments	-	-	-	27
Revenue from State sources	196,534	229,944	11,935	209,494
TOTAL REVENUES	608,227	640,948	50,948	649,984
EXPENDITURES				
Current				
Community education and services				
Salaries	377,396	393,481	418,366	375,826
Employee benefits	71,979	80,716	86,420	70,484
Purchased services	130,797	123,869	96,557	117,596
Supplies and materials	48,378	48,688	42,239	34,777
Other expenditures	1,125	2,425	2,186	1,143
Total current expenditures	629,675	649,179	3,411	599,826
Capital outlay				
Community education and services	1,729	1,729	(1,939)	1,015
Debt service				
Principal	-	-	146	-
Interest and other costs	-	-	98	-
Total debt service	-	-	244	-
TOTAL EXPENDITURES	631,404	650,908	1,228	600,841
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(23,177)	(9,960)	42,216	49,143
OTHER FINANCING SOURCES				
Capital leases issued	-	-	3,170	-
NET CHANGE IN FUND BALANCES	(23,177)	(9,960)	45,386	49,143
FUND BALANCES, JULY 1	32,435	32,435	32,435	(16,708)
FUND BALANCES, JUNE 30	\$ 9,258	\$ 22,475	\$ 77,821	\$ 32,435

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, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016			2015
	Budgeted Amounts		Actual	Actual
	Original	Final	Amounts	Amounts
REVENUES				
Local property tax levies	\$ 190,811	\$ 189,999	\$ 192,268	\$ 190,104
Revenue from State sources	1,539	2,351	2,351	1,440
TOTAL REVENUES	192,350	192,350	194,619	191,544
EXPENDITURES				
Debt service				
Principal	189,227	190,000	190,000	185,000
Interest and other costs	3,988	1,050,836	1,050,836	3,987
TOTAL EXPENDITURES	193,215	1,240,836	1,240,836	188,987
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(865)	(1,048,486)	(1,046,217)	2,557
OTHER FINANCING SOURCES (USES)				
Transfers in	-	1,247,645	1,247,645	-
NET CHANGE IN FUND BALANCES	(865)	199,159	201,428	2,557
FUND BALANCES, JULY 1	49,618	49,618	49,618	47,061
FUND BALANCES, JUNE 30	\$ 48,753	\$ 248,777	\$ 251,046	\$ 49,618

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
CAPITAL PROJECTS GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Capital Projects	High School Construction	Middle School Remodel	South Elementary Remodel	Totals
ASSETS					
Cash and temporary investments	<u>\$ 57,163,269</u>	<u>\$ (4,687,037)</u>	<u>\$ (125,230)</u>	<u>\$ (196,260)</u>	<u>\$ 52,154,742</u>
LIABILITIES					
Accounts and other payables	\$ 52,285	\$ 2,062,179	\$ 4,205	\$ 2,813	\$ 2,121,482
FUND BALANCES					
Restricted					
Capital projects	<u>57,110,984</u>	<u>(6,749,216)</u>	<u>(129,435)</u>	<u>(199,073)</u>	<u>50,033,260</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 57,163,269</u>	<u>\$ (4,687,037)</u>	<u>\$ (125,230)</u>	<u>\$ (196,260)</u>	<u>\$ 52,154,742</u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
CAPITAL PROJECTS GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Capital Projects	High School Construction	Middle School Remodel	South Elementary Remodel	Totals
REVENUES					
Local property tax levies	\$ 460,950	\$ -	\$ -	\$ -	\$ 460,950
Other local and county revenue	120,025	866,305	-	-	986,330
Interest earned on investments	157,784	-	-	-	157,784
TOTAL REVENUES	738,759	866,305	-	-	1,605,064
EXPENDITURES					
Capital outlay					
Sites and buildings	420,559	7,594,888	29,435	59,073	8,103,955
Debt service					
Interest and other costs	-	20,633	100,000	140,000	260,633
TOTAL EXPENDITURES	420,559	7,615,521	129,435	199,073	8,364,588
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	318,200	(6,749,216)	(129,435)	(199,073)	(6,759,524)
OTHER FINANCING SOURCES (USES)					
Debt issued	55,325,000	-	-	-	55,325,000
Premium on debt issued	3,266,955	-	-	-	3,266,955
Transfers out	(1,247,645)	-	-	-	(1,247,645)
TOTAL OTHER FINANCING SOURCES (USES)	57,344,310	-	-	-	57,344,310
NET CHANGE IN FUND BALANCES	57,662,510	(6,749,216)	(129,435)	(199,073)	50,584,786
FUND BALANCES, JULY 1	(551,526)	-	-	-	(551,526)
FUND BALANCES, JUNE 30	\$ 57,110,984	\$ (6,749,216)	\$ (129,435)	\$ (199,073)	\$ 50,033,260

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, 2016
(With Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016				2015
	Budgeted Amounts			Variance With	
	Original	Final	Actual	Final Budget	Actual
REVENUES					
Local property tax levies	\$ 460,950	\$ 460,950	\$ 460,950	\$ -	\$ 460,950
Interest earned on investments	-	157,000	157,784	784	28
Other local and county revenue	-	100,000	120,025	20,025	-
TOTAL REVENUES	460,950	717,950	738,759	20,809	460,978
EXPENDITURES					
Current					
Sites and buildings					
Salaries	50,460	46,758	-	46,758	-
Employee benefits	16,360	16,862	-	16,862	-
Purchased services	-	200	-	200	-
Capital outlay					
Sites and buildings	14,507,895	422,612	420,559	2,053	936,672
TOTAL EXPENDITURES	14,574,715	486,432	420,559	65,873	936,672
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(14,113,765)	231,518	318,200	86,682	(475,694)
OTHER FINANCING SOURCES (USES)					
Debt issued	58,595,000	58,595,000	55,325,000	(3,270,000)	-
Premium on debt issued	-	-	3,266,955	3,266,955	-
Transfers out	-	(1,247,645)	(1,247,645)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	58,595,000	57,347,355	57,344,310	(3,045)	-
NET CHANGE IN FUND BALANCES	44,481,235	57,578,873	57,662,510	83,637	(475,694)
FUND BALANCES, JULY 1	(551,526)	(551,526)	(551,526)	-	(75,832)
FUND BALANCES, JUNE 30	\$ 43,929,709	\$ 57,027,347	\$ 57,110,984	\$ 83,637	\$ (551,526)

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Fiscal Compliance Report - 6/30/2016
District: ST. PETER (508-1)

	Audit	UFARS	Audit - UFARS				
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$23,644,584	<u>\$23,644,577</u>	<u>\$7</u>	Total Revenue	\$1,605,064	<u>\$1,605,065</u>	<u>(\$1)</u>
Total Expenditures	\$22,115,315	<u>\$22,115,314</u>	<u>\$1</u>	Total Expenditures	\$8,364,588	<u>\$8,364,588</u>	<u>\$0</u>
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</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	(\$12,855)	<u>(\$12,855)</u>	<u>\$0</u>
4.05 Deferred Maintenance	\$0	<u>\$0</u>	<u>\$0</u>	4.09 Alternative Facility Program	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	\$4,044	<u>\$4,044</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>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	Restricted:			
4.09 Alternative Facility Program	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$50,046,114	<u>\$50,046,116</u>	<u>(\$2)</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>	Unassigned:			
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>				
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>	07 DEBT SERVICE			
4.23 Certain Teacher Programs	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$194,619	<u>\$194,619</u>	<u>\$0</u>
4.24 Operating Capital	\$163,945	<u>\$163,945</u>	<u>\$0</u>	Total Expenditures	\$1,240,836	<u>\$1,240,835</u>	<u>\$1</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Non Spendable:			
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	Restricted / Reserved:			
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	Restricted:			
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$251,046	<u>\$251,046</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	Unassigned:			
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.45 Career Tech Programs	\$0	<u>\$0</u>	<u>\$0</u>				
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	08 TRUST			
4.49 Safe School Crime - Crime Levy	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$48,160	<u>\$48,160</u>	<u>\$0</u>
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$20,000	<u>\$20,000</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$710,717	<u>\$710,717</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>				
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	20 INTERNAL SERVICE			
4.67 LTFM	\$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	\$1,421,171	<u>\$1,421,171</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
Unassigned:							
4.22 Unassigned Fund Balance	\$3,698,532	<u>\$3,698,530</u>	<u>\$2</u>	45 OPEB IRREVOCABLE TRUST			
				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
02 FOOD SERVICES				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
Total Revenue	\$1,056,333	<u>\$1,056,333</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$1,024,081	<u>\$1,024,081</u>	<u>\$0</u>				
Non Spendable:				47 OPEB DEBT SERVICE			
4.60 Non Spendable Fund Balance	\$11,300	<u>\$11,300</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Restricted / Reserved:				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Non Spendable:			
Restricted:							
4.64 Restricted Fund Balance	\$136,233	<u>\$136,233</u>	<u>\$0</u>				

Unassigned:

4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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04 COMMUNITY SERVICE

Total Revenue	\$691,896	<u>\$691,899</u>	<u>(\$3)</u>
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Total Expenditures	\$649,680	<u>\$649,682</u>	<u>(\$2)</u>
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Non Spendable:

4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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Restricted / Reserved:

4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
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4.31 Community Education	\$215,549	<u>\$215,549</u>	<u>\$0</u>
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4.32 E.C.F.E	\$29,243	<u>\$29,243</u>	<u>\$0</u>
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4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
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4.44 School Readiness	(\$172,145)	<u>(\$172,145)</u>	<u>\$0</u>
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4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
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4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
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Restricted:

4.64 Restricted Fund Balance	\$5,174	<u>\$5,174</u>	<u>\$0</u>
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Unassigned:

4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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Restricted:

4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
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4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
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Unassigned:

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, 2016

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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, 2016, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2016.

The *Minnesota Legal Compliance Audit Guide for School Districts*, 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 School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 16, 2016

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, 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 as item 2016-003 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 as items 2016-001 and 2016-002 to be significant deficiencies.

Compliance and Other Matters

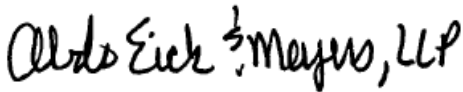
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or Minnesota statutes.

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. 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 16, 2016

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FEDERAL AWARD PROGRAMS

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2016

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

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 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

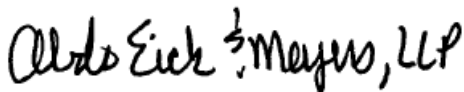
Report on Internal Control Over Compliance

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

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

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

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



ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
December 16, 2016

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Funding Source	Administering Department	Program Name	Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Program Clusters	Total Federal Expenditures
U.S. Department of Agriculture	Minnesota Department of Education	School Breakfast Program	10.553	1000003951	\$ 88,166	
U.S. Department of Agriculture	Minnesota Department of Education	National School Lunch Program	10.555	1000003951	414,076	
U.S. Department of Agriculture	Minnesota Department of Education	Special Milk Program for Children	10.556	1000003951	1,381	
U.S. Department of Agriculture	Minnesota Department of Education	Summer Food Service Program for Children	10.559	1000003951	<u>31,575</u>	
Total Child Nutrition Cluster						\$ 535,198
U.S. Department of Agriculture	Minnesota Department of Education	Commodity Supplemental Food Program	10.565	1000003951	73,606	
U.S. Department of Education	Minnesota Department of Education	Title I Grants to Local Educational	84.010	S010A150023A	235,538	
U.S. Department of Education	Minnesota Department of Education	Title I State Agency Program for Neglected and Delinquent Children	84.013	S010A150023A	38,093	
U.S. Department of Education	Minnesota Department of Education	English Language Acquisition Grants	84.365	S365A150023A	10,959	
U.S. Department of Education	Minnesota Department of Education	Improving Teacher Quality State Grants	84.367	S367A150022	80,073	
U.S. Department of Education	Minnesota Department of Education	Career and Technical Educati Basic Grants to States	84.048	unknown	4,990	
U.S. Department of Education	SW/WC Service Cooperatives Flow though payments	Special Education Grants to States	84.027	unknown	1,259	
U.S. Department of Education	Minnesota Department of Education	Vocational Rehabilitation Grants to States	84.126	unknown	<u>2,337</u>	
Total Other Programs						<u>446,855</u>
Total Expended						<u><u>\$ 982,053</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Note 1: Basis of presentation

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. The information in this schedule is presented in accordance with the requirement of the Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. All federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

Note 2: Summary of significant accounting policies for expenditures

Expenditures reported on this schedule are reported on the modified accrual basis of accounting.

Note 3: Pass-through entity identifying numbers

Pass-through entity identifying numbers, if any, are presented where available.

Note 4: Subrecipients

No federal expenditures presented in this schedule were provided to subrecipients.

Note 5: Indirect cost rate

During the year ended June 30, 2016, the District did not elect to use the 10% de minimis indirect cost rate.

INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF FINDINGS, RESPONSES AND
QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

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 the Uniform Guidance?	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	\$ 750,000
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 2016-003 is reported as a material weakness.

Section III - Major Federal Award Findings and Questioned Costs

There are no significant deficiencies, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported in accordance with the Uniform Guidance.

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 - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

2016-001 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. 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 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 - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

2016-002 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 - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

2016-003 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 year-end 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 changed a number of personnel over the past two 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.



2016-001 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, 2017.

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



2016-002 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, 2017.

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



2016-003 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, 2017.

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, 2016

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. 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 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, 2016

2015-002 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.

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INDEPENDENT SCHOOL DISTRICT NO. 508
ST. PETER, MINNESOTA
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED
FOR THE YEAR ENDED JUNE 30, 2016

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 year-end 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.

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.

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, 2016, all outstanding checks were less than three years old.