



Financial Statements
June 30, 2017



**Independent School
District No. 108**

Norwood Young America, Minnesota



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Independent School District No. 108
Norwood Young America, Minnesota
List of Elected School Officials (Unaudited)
June 30, 2017

School Board

Elroy Latzig	Chair
Dean Lind	Vice-Chair
Scott Knight	Treasurer
Rich Schug	Clerk
Nicole Evenski	Director
Craig Pexa	Director
Sara Eischens	Director



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Members of the School Board
Independent School District No. 108
Norwood Young America, 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. 108 (District), Norwood Young America, Minnesota, as of and for the year ended June 30, 2017, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Notes 1 and 7 to the financial statements, the District has adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets*, which has resulted in a restatement of the net position as of July 1, 2016. Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in supplemental benefits liability and supplemental benefits liability, budgetary comparison information, schedule of funding progress, schedule of Employer's share of net pension liability and schedule of Employer's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, 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 financial statements. The introductory section, combining fund schedules, the Uniform Financial Accounting and Reporting Standards Compliance Table and the student activity treasurer's report are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining fund schedules, the Uniform Financial Accounting and Reporting Standards Compliance Table and the student activity treasurer's report are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund schedules, the Uniform Financial Accounting and Reporting Standards Compliance Table and the student activity treasurer's report 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2017 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 solely 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 effectiveness of the District's 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.

Eide Sully LLP

Mankato, Minnesota
December 20, 2017

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

This section of Central Public Schools – District No. 108 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-2017 fiscal year include the following:

- Net position decreased by \$3,063,610 from June 30, 2016. This decrease is the result of changes in estimates for TRA/PERA's net pension liability related items that are required to be reported on the District's government-wide statements per GASB Statement No. 68.
- Overall total revenues were \$12,862,987 as compared to \$15,926,597 of expenses. The excess of expenditures over revenues is reflective of the TRA/PERA changes noted above.
- Total fund balance of the General Fund increased \$212,434 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), and Schedules of Funding Progress for Other Postemployment Benefit Plan and for Supplemental Pension Plan, the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

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

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

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

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

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

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

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

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was (\$914,836) on June 30, 2017 (see Table A-1).

**TABLE A-1
STATEMENT OF NET POSITION**

	2017	2016	Percentage Change
ASSETS			
Current assets	\$ 5,067,250	\$ 4,664,486	8.63%
Capital assets	16,343,888	16,983,084	-3.76%
Total assets	<u>21,411,138</u>	<u>21,647,570</u>	-1.09%
DEFERRED OUTFLOWS OF RESOURCES			
Pension plans	<u>14,387,828</u>	<u>1,585,977</u>	807.19%
LIABILITIES			
Other liabilities	548,843	643,020	-14.65%
Long-term liabilities	<u>33,426,690</u>	<u>17,558,082</u>	90.38%
Total liabilities	<u>33,975,533</u>	<u>18,201,102</u>	86.67%
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	2,196,499	2,033,789	8.00%
Pension plans	<u>541,770</u>	<u>452,920</u>	19.62%
Total deferred inflows of resources	<u>2,738,269</u>	<u>2,486,709</u>	10.12%
NET POSITION			
Net investment in capital assets	6,193,297	6,047,375	2.41%
Restricted for specific purposes	1,014,713	937,126	8.28%
Unrestricted	<u>(8,122,846)</u>	<u>(4,438,765)</u>	83.00%
Total net position	<u>\$ (914,836)</u>	<u>\$ 2,545,736</u>	-135.94%

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$12,862,987 for the year ended June 30, 2017 (see Table A-2). Property taxes and state and federal formula aid accounted for approximately 76% of total revenue for the year.

**TABLE A-2
STATEMENT OF ACTIVITIES**

	2017	2016	Percentage Change
REVENUES			
Program revenues			
Charges for service	\$ 1,106,656	\$ 1,100,241	0.58%
Operating grants and contributions	1,611,961	1,719,757	-6.27%
Capital grants and contributions	115,640	117,251	-1.37%
General			
Property taxes	2,299,077	2,340,629	-1.78%
Aids and payments from state and other	7,524,028	7,091,279	6.10%
Unrestricted investment earnings	13,105	2,922	348.49%
Miscellaneous revenues	192,520	190,760	0.92%
Total revenues	<u>12,862,987</u>	<u>12,562,839</u>	2.39%
EXPENSES			
District and school administration	805,797	743,980	8.31%
District support services	285,208	284,544	0.23%
Regular instruction	8,847,079	3,905,367	126.54%
Vocational instruction	121,685	106,237	14.54%
Special Education instruction	1,603,206	1,682,453	-4.71%
Community education and services	859,662	877,397	-2.02%
Instructional support services	381,164	339,447	12.29%
Pupil support services	1,337,701	1,303,811	2.60%
Site, buildings and equipment	1,443,960	1,384,485	4.30%
Fiscal and other fixed-cost programs	50,468	46,055	9.58%
Interest and fiscal charges on long-term debt	190,667	207,107	-7.94%
Total expenses	<u>15,926,597</u>	<u>10,880,883</u>	46.37%
CHANGE IN NET POSITION	(3,063,610)	1,681,956	-282.15%
NET POSITION - BEGINNING, AS RESTATED FOR 2017	<u>2,148,774</u>	<u>863,780</u>	148.76%
NET POSITION - ENDING	<u>\$ (914,836)</u>	<u>\$ 2,545,736</u>	-135.94%

The total cost of all programs and services less interest and fiscal charges was \$15,926,597. Total expenses exceeded revenues, decreasing net position \$3,063,610 from the prior year. The excess of expenditures over revenues is reflective of the change in the Net Pension Liability for TRA from the prior year to current year.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

The cost of all *governmental* activities this year was \$15,926,597.

- Some of the cost was paid by the users of the District's programs (\$1,106,656).
- The federal and state governments subsidized certain programs with grants and contributions (\$1,727,601).
- Most of the District's costs (\$9,823,105), however, were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$2,299,077 in property taxes and \$7,524,028 of state aid based on the statewide education aid formula.

All governmental funds includes not only funds received for the general operation of the District, which are used for classroom instruction, but also includes resources from the entrepreneurial-type funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction.

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2017	2016		2017	2016	
District and school administration	\$ 805,797	\$ 743,980	8.31%	\$ 805,797	\$ 743,980	8.31%
District support services	285,208	284,544	0.23%	285,208	284,544	0.23%
Regular instruction	8,847,079	3,905,367	126.54%	8,040,033	3,156,686	154.70%
Vocational instruction	121,685	106,237	14.54%	121,685	106,237	14.54%
Special Education instruction	1,603,206	1,682,453	-4.71%	958,259	883,107	8.51%
Community education and services	859,662	877,397	-2.02%	149,807	178,079	-15.88%
Instructional support services	381,164	339,447	12.29%	381,164	339,447	12.29%
Pupil support services	1,337,701	1,303,811	2.60%	801,752	751,713	6.66%
Site, buildings and equipment	1,443,960	1,384,485	4.30%	1,307,500	1,246,679	4.88%
Fiscal and other fixed-costs	50,468	46,055	9.58%	50,468	46,055	9.58%
Interest and fiscal charges on long-term debt	190,667	207,107	-7.94%	190,667	207,107	-7.94%
	<u>\$ 15,926,597</u>	<u>\$ 10,880,883</u>	46.37%	<u>\$ 13,092,340</u>	<u>\$ 7,943,634</u>	64.82%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$2,276,644 which is a \$327,834 increase from last year's ending fund balance.

Revenues for the District's governmental funds were \$12,890,080 while total expenditures were \$12,562,246.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND

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

Approximately 90% of General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 68% of personnel expenditures. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

General Fund Revenues

Total General Fund Revenue increased by \$273,731 from the previous year, due to an increase in state aids which resulted from the increase in student membership. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

General Fund Expenditures

Total General Fund Expenditures increased \$429,815 from the previous year. This is due to a variety of factors including Long Term Facility Maintenance projects such as roof repair and floor tile replacement and a 1:1 Chromebook device purchase for all high school students.

In 2016-2017, General Fund revenues were greater than expenditures by \$212,434. Total fund balance increased to \$1,603,328 at June 30, 2017. After deducting non-spendable, restricted and assigned fund balances, the unassigned fund balance increased from \$1,033,248 at June 30, 2016 to \$1,247,814 at June 30, 2017.

The unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance at June 30, 2017 represents 12.23% of annual expenditures or about 1.8 months of operations. The District has a Board approved fund policy requiring a minimum 7.7% or one month's operation be maintained.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the District revises the annual operating budget in mid-year.

Actual revenues were \$149,244 more than expected, due in part to increase in state funding sources.

The actual expenditures were \$114,181 over budget.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$177,371, the actual results for the year show revenues exceeding expenditures by \$212,434.

GOVERNMENTAL FUNDS

The activity in the District's other governmental funds for the year is as follows:

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other Financing Sources</u>	<u>Net Increase (Decrease)</u>	<u>Fund Balance As of 6/30/16</u>	<u>Fund Balance As of 6/30/17</u>
General Fund	\$ 10,415,100	\$ 10,202,666	\$ -	\$ 212,434	\$ 1,390,894	\$ 1,603,328
Food Service Fund	504,933	516,729	-	(11,796)	157,816	146,020
Community Service	978,688	859,662	-	119,026	261,789	380,815
Debt Service	991,359	983,189	-	8,170	138,311	146,481
	<u>\$ 12,890,080</u>	<u>\$ 12,562,246</u>	<u>\$ -</u>	<u>\$ 327,834</u>	<u>\$ 1,948,810</u>	<u>\$ 2,276,644</u>

ENROLLMENT

Enrollment is a critical factor in determining revenue with approximately 90% of General Fund revenue being determined by enrollment. The following chart shows the trend in enrollment for the previous 4 years and the current year:

Grade	2013	2014	2015	2016	2017
ECSE	16	14	13	19	18
Hcp. Kdgt.	10	10	10	7	10
Kdgt.	78	57	55	56	63
1-3	210	224	213	230	203
4-6	200	195	213	214	239
7-12	485	472	470	485	478
Total	999	972	974	1,011	1,011
ADM Change		(27)	2	37	0
% Change		-3%	0%	4%	0%

Overall student membership stayed consistent with fiscal year 2015-2016.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the District had invested nearly \$27 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see table below). (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was \$739,397.

	2017	2016	Percentage Change
Land	\$ 83,710	\$ 83,710	0.00%
Land improvements	140,214	140,214	0.00%
Buildings and improvements	24,899,270	24,844,655	0.22%
Equipment	1,894,282	1,869,819	1.31%
Accumulated depreciation	<u>(10,673,588)</u>	<u>(9,955,314)</u>	7.21%
 Total capital assets	 <u>\$ 16,343,888</u>	 <u>\$ 16,983,084</u>	 -3.76%

Long-Term Liabilities

At the end of 2016-2017, the District's liabilities were \$10,195,571 for General Obligation Bonds. This is a 7% decrease from the 2016 year-end.

	2017	2016	Percentage Change
Bonds Payable	\$ 10,150,591	\$ 10,935,709	-7.18%
Compensated Absences Payable	44,980	50,070	-10.17%
	<u>\$ 10,195,571</u>	<u>\$ 10,985,779</u>	-7.19%

The District's multi-employer plans have a Net Pension Liability of \$22,934,247 at June 30, 2017. The District's single-employer plan has a net pension liability of \$296,872 at June 30, 2017.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE

Changes made to Federal and State funding and decisions made by the Board of Education have a direct impact on the district's financial position.

Basic Formula Allowance -

The FY17 formula allowance was \$6,067, an increase of \$119 over the previous year. The FY18 formula allowance will be \$6,188, an increase of 2%, FY19 will see another 2% increase, \$124, for a total formula allowance of \$6,312. These increases are also linked to other revenues that are linked to the formula allowance.

Special Education Tuition Billing – since the state took over this task, rates have nearly doubled, decreasing our special education aid substantially.

The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 108, District Office, 531 Morse Street, Norwood Young America, Minnesota 55368.

Independent School District No. 108
 Norwood Young America, Minnesota
 Statement of Net Position
 June 30, 2017

Assets	
Cash and investments	\$ 2,522,119
Receivables:	
Current property taxes	1,097,873
Delinquent property taxes	21,177
Accounts	1,973
Due from Minnesota Department of Education	1,242,278
Due from Federal through Minnesota Department of Education	67,232
Net OPEB asset	100,481
Inventories	14,117
Capital assets not being depreciated:	
Land	83,710
Capital assets, net of accumulated depreciation:	
Land improvements	79,238
Buildings and improvements	15,810,992
Equipment	369,948
	<u>21,411,138</u>
Total assets	<u>21,411,138</u>
Deferred Outflows of Resources	
Single-employer plan	59,024
Multi-employer plans	14,328,804
	<u>14,387,828</u>
Total deferred inflows of resources	<u>14,387,828</u>
Liabilities	
Salaries payable	56,589
Accounts payable	86,597
Interest payable	76,394
Due to other Minnesota school districts	64,741
Due to other governmental units	1,935
Payroll deductions	212,478
Unearned revenue	50,109
Noncurrent liabilities:	
Multi-employer plans net pension liability	22,934,247
Single-employer plan net pension liability	296,872
Due within one year	800,118
Due in more than one year	9,395,453
	<u>33,975,533</u>
Total liabilities	<u>33,975,533</u>
Deferred Inflows of Resources	
Unavailable revenue - property taxes	2,196,499
Multi-employer plans	541,770
	<u>2,738,269</u>
Total deferred inflows of resources	<u>2,738,269</u>
Net Position	
Net investment in capital assets	6,193,297
Restricted	1,014,713
Unrestricted	(8,122,846)
	<u>(914,836)</u>
Total net position	<u>\$ (914,836)</u>

Independent School District No. 108
Norwood Young America, Minnesota
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Administration	\$ 805,797	\$ -	\$ -	\$ -	\$ (805,797)
District support services	285,208	-	-	-	(285,208)
Regular instruction	8,847,079	104,578	702,468	-	(8,040,033)
Vocational instruction	121,685	-	-	-	(121,685)
Special education instruction	1,603,206	48,702	596,245	-	(958,259)
Community education and services	859,662	622,283	87,572	-	(149,807)
Instructional support services	381,164	-	-	-	(381,164)
Pupil support services	1,337,701	310,273	225,676	-	(801,752)
Sites and buildings	1,443,960	20,820	-	115,640	(1,307,500)
Fiscal and other fixed cost programs	50,468	-	-	-	(50,468)
Debt Service					
Interest and fiscal charges	190,667	-	-	-	(190,667)
Total Governmental Activities	\$ 15,926,597	\$ 1,106,656	\$ 1,611,961	\$ 115,640	(13,092,340)
General Revenues					
Property taxes and other county sources					2,299,077
State aid not restricted to specific purposes					7,524,028
Earnings on investments					13,105
Miscellaneous					192,520
Total general revenues					10,028,730
Changes in Net Position					(3,063,610)
Net Position - Beginning, as restated (Note 7)					2,148,774
Net Position - Ending					\$ (914,836)

Independent School District No. 108
Norwood Young America, Minnesota
Balance Sheet – Governmental Funds
June 30, 2017

	General	Community Service	Debt Service	Total Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 1,259,286	\$ 492,976	\$ 610,538	\$ 159,319	\$ 2,522,119
Receivables					
Current property taxes	606,125	52,962	438,786	-	1,097,873
Delinquent property taxes	11,711	932	8,534	-	21,177
Accounts	1,973	-	-	-	1,973
Due from Minnesota Department of Education	1,225,866	13,104	3,102	206	1,242,278
Due from Federal through Minnesota Department of Education	66,047	-	-	1,185	67,232
Inventories	-	-	-	14,117	14,117
Total assets	\$ 3,171,008	559,974	\$ 1,060,960	\$ 174,827	\$ 4,966,769
Liabilities					
Salaries payable	\$ 8,370	\$ 48,219	\$ -	\$ -	\$ 56,589
Accounts payable	66,565	5,481	-	14,551	86,597
Due to other Minnesota School Districts	64,741	-	-	-	64,741
Due to other governmental units	1,888	47	-	-	1,935
Payroll deductions	212,478	-	-	-	212,478
Unearned revenue	20,723	15,130	-	14,256	50,109
Total liabilities	374,765	68,877	-	28,807	472,449
Deferred Inflows of Resources					
Unavailable revenue - delinquent taxes	11,711	932	8,534	-	21,177
Unavailable revenue - property taxes	1,181,204	109,350	905,945	-	2,196,499
Total deferred inflows of resources	1,192,915	110,282	914,479	-	2,217,676
Fund Balances					
Nonspendable	-	-	-	14,117	14,117
Restricted	355,514	380,815	146,481	131,903	1,014,713
Unassigned	1,247,814	-	-	-	1,247,814
Total fund balances	1,603,328	380,815	146,481	146,020	2,276,644
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,171,008	559,974	\$ 1,060,960	\$ 174,827	\$ 4,966,769

Independent School District No. 108
Norwood Young America, Minnesota

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Total Fund Balances for Governmental Funds \$ 2,276,644

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. 16,343,888

Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as unavailable revenue in the funds. 21,177

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. (76,394)

Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds. 59,024

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. 13,787,034

Long-term liabilities that pertain to governmental funds are not due and payable in the current period, and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year end are:

General Obligation Bonds Payable	\$	10,150,591	
OPEB Obligation		(100,481)	
Compensated Absences Payable		44,980	
Multi-Employer Plans Net Pension Liability		22,934,247	
Single-Employer Plan Net Pension Liability		296,872	
			(33,326,209)

Total Net Position for Governmental Activities \$ (914,836)

Independent School District No. 108
Norwood Young America, Minnesota

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2017

	General	Community Service	Debt Service	Total Nonmajor Funds	Total Governmental Funds
Revenues					
Local property tax levies	\$ 1,310,372	\$ 104,688	\$ 958,021	\$ -	\$ 2,373,081
Other local and county sources	283,083	711,842	2,315	20,030	1,017,270
State sources	8,476,546	162,158	31,023	22,654	8,692,381
Federal sources	343,579	-	-	168,758	512,337
Local sales and insurance recovery	1,520	-	-	293,491	295,011
Total revenues	10,415,100	978,688	991,359	504,933	12,890,080
Expenditures					
Administration	805,797	-	-	-	805,797
District support services	285,208	-	-	-	285,208
Regular instruction	5,120,782	-	-	-	5,120,782
Vocational instruction	121,400	-	-	-	121,400
Special education instruction	1,602,990	-	-	-	1,602,990
Community education and services	-	859,662	-	-	859,662
Instructional support services	380,175	-	-	-	380,175
Pupil support services	833,985	-	-	516,729	1,350,714
Sites and buildings	1,001,861	-	-	-	1,001,861
Fiscal and other fixed cost programs	50,468	-	-	-	50,468
Debt service:					
Principal	-	-	785,000	-	785,000
Interest and fiscal charges	-	-	198,189	-	198,189
Total expenditures	10,202,666	859,662	983,189	516,729	12,562,246
Excess (deficiency) of revenues over (under) expenditures	212,434	119,026	8,170	(11,796)	327,834
Fund Balances - Beginning	1,390,894	261,789	138,311	157,816	1,948,810
Fund Balances - Ending	<u>\$ 1,603,328</u>	<u>\$ 380,815</u>	<u>\$ 146,481</u>	<u>\$ 146,020</u>	<u>\$ 2,276,644</u>

Independent School District No. 108
Norwood Young America, Minnesota

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended June 30, 2017

Total Net Change in Fund Balances for Governmental Funds \$ 327,834

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. (639,196)

In governmental funds, OPEB and Compensated Absences liabilities are measured by the amount of resources used. However, in the statement of activities, a change is based on the amount earned (used) by the employees during the period. This amount is the net of these differences. 162,008

Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences. 118

The governmental funds report repayment of long-term liabilities as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 785,000

Interest on long-term debt is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. 7,522

In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense. (3,679,803)

Property taxes levied and due in previous fiscal years that have not been received as of the end of the current fiscal year are recorded as deferred inflows - delinquent taxes (not considered available revenues) in the governmental funds. In the statement of activities, these taxes are considered revenue in the period for which they are levied. (27,093)

Change in Net Position of Governmental Activities \$ (3,063,610)

Independent School District No. 108
Norwood Young America, Minnesota
Statement of Fiduciary Net Position – Fiduciary Funds
June 30, 2017

	<u>Agency Fund</u>	<u>Private Purpose Trust Fund</u>
Assets		
Cash	\$ 100,840	\$ 24,879
Liabilities		
Due to student activities	<u>\$ 100,840</u>	<u>-</u>
Net Position		
Restricted for scholarships		<u>\$ 24,879</u>

Independent School District No. 108
Norwood Young America, Minnesota
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
Year Ended June 30, 2017

	<u>Private Purpose Trust Fund</u>
Additions	
Other local and county revenues	<u>\$ 1,753</u>
Deductions	
Pupil support services	<u>2,250</u>
Change in Net Position	(497)
Net Position - Beginning of Year	<u>25,376</u>
Net Position - End of Year	<u><u>\$ 24,879</u></u>

Note 1 - Summary of Significant Accounting Policies

The Independent School District No. 108 (District) is a school district governed by a board elected by eligible voters of the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant District accounting policies are described below.

A. Financial Reporting Entity

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District does not have any blended or discretely presented component units.

The District is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the District's area. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

B. Government-Wide and Fund Financial Statements

The government-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. For the most part, the effect of inter-fund 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 are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, intergovernmental revenues, and other items not properly included among program revenues are reported instead as general revenues.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-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 recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. 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 government considers most revenues to be available if they are collected within 60 days of the end of the current fiscal period, except as stated below. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for the following: (1) commodity inventory items are recorded when received, (2) interest and principal on long-term debt are recorded when paid, and (3) claims and judgments, group health claims, and compensated absences are recorded as expenditures when paid with expendable available financial resources. Prepaid items are recorded for approved disbursements made in advance of the year in which the item is budgeted.

Property tax revenues for all funds, which are payable by property owners in a calendar year, are recognized in the fiscal year beginning July 1 of that calendar year. State revenues are recognized in the year to which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or Federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year. Revenue from other school districts is generally recognized when related expenditures occur. All other revenue items are considered to be measurable and available as stated above.

The District reports unavailable revenue on its governmental fund financial statements when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the revenue is recognized. Unearned revenues arise when resources are received by the District before it has legal claim to them, as when property tax levies, food service revenue, or grant monies are received prior to the incurrence of qualifying expenditures. This type of unearned revenue is recorded on the District's government-wide and governmental fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is used to account for educational activities, district, instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund.

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

The *special revenue fund* is used to account for specific revenues that are legally restricted to expenditures for particular purposes.

The special revenue *community service fund* is used to record all financial activities of the community service program. The community service funds is comprised of five components, each with its own fund balance (community service, community education, early childhood and family education, school readiness, and adult basic education) as authorized in Minnesota State Statutes. The significant revenues in this fund are local taxes, federal aid and state aid.

Additionally, the government reports the following fund types:

The *fiduciary funds* are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

The *private-purpose trust fund* is used to account for resources legally held in trust by agreements where the School Board has accepted the responsibility to serve as trustee. This fund is used for student scholarships.

The *agency fund* is used to account for the extracurricular student activities, not under board control. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

1. Cash and Cash Equivalents

Cash balances of the District's funds are combined (pooled) and invested to the extent available in various deposits authorized by Minnesota State Statutes. Each fund shares in the earnings according to its average cash balance. Cash includes amounts in demand deposits, money market accounts, certificates of deposit, as well as short-term investments, with an original maturity date within three months of the date acquired by the District. The District's investments are in MNTrust. MNTrust includes amounts in a money market account and tradable certificates of deposits which are available to service the District's financial needs immediately.

2. Receivables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, state and federal aids, and revenue from other Minnesota school districts. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. The District has estimated no amounts are expected to be uncollectible.

On or before September 15th of each year, the School Board certifies to the county auditor the dates it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All school districts must hold public hearings on their proposed property tax levies. Also, at this time the School Board certifies its proposed property tax levy to the county auditor for collection in the following year.

Beginning on November 29th and through December 20th of each year, the District is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the School Board certifies its final adopted property taxes payable the following year to the county auditor. If the District has not certified its final property tax by this time, its property tax will be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on May 15 and November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to Districts three times a year, in January, June, and November.

Property tax revenue is recorded under the intact levy concept whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning with the year of collection. Current taxes receivable represent taxes levied in 2016 which are not payable until 2017 less amounts received before June 30, 2017. Delinquent taxes receivable represent levies collectible during 2016 and prior years. Delinquent taxes are recorded as unearned revenue in the fund financial statements. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2016, but not payable until 2017 and are not expendable by the District until the 2017-2018 school year, adjusted for the property tax shift amount.

3. Inventories, Commodities, and Prepaid Items

All inventories are expended when consumed rather than when purchased and are valued at the lower of cost or market using the first-in first-out (FIFO) method. United States Department of Agriculture commodities received are recorded as revenue at the fair market value of such commodities and included in the food service fund revenue and expenditures when received. Unused commodities at year end are included in inventories of food.

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

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. 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.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Plumbing and Electrical	30
Building Improvements Interior, Portable Classrooms, and Fire System	25
Heating and Ventilation System, Long-term Admin Software, Furniture and Fixtures, Outdoor Equipment, Roofing, and Site Improvements	20
Custodial Equipment, Grounds Equipment, Kitchen Equipment, and Machinery and Tools	15
All Other Equipment, Short-term Admin Software, and Long-term Instructional Software	10
Vehicles and Buses	8
Carpet Replacement	7
Computer Hardware, Copiers, Short-term Instructional Software, and Library Books	5

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances 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.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation benefits. Vacation leave is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees.

7. Postemployment Benefits

Under the provisions of the various employee and union contracts the District provides health coverage until age 65 if certain criteria are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB Statement No. 45, at July 1, 2015.

8. Pensions

a. Single Employer Plan

Under the provisions of the various employee contracts the District provides a lump sum payment (maximum \$42,000) to retirees if certain criteria are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis and plan members are not required to contribute. This amount was actuarially determined, in accordance with GASB 73, at July 1, 2016. The plan does not issue a stand-alone financial report.

b. Multi-Employer Plans

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 the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA.

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 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.

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.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position 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 and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

10. Net Position and Fund Balances

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. 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.

Fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact.
- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution. The School board also has the power to rescind committed amounts through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the District's intent to be used for specific purposes, but neither restricted nor committed. The School Board has the authority to assign a fund balance and the School Board has also delegated the authority to assign fund balances to the superintendent.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District will strive to maintain a minimum unassigned general fund balance of seven percent of the annual budget. If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

E. Inter-Fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers have been removed from the government-wide financial statements.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Property Tax Shift

Each year the State of Minnesota requires school districts to shift property taxes and general education aid in accordance with State Statutes. During prior years, the District shifted \$103,000 in property tax revenues and general education aid; during the current year, the state increased the shifted amount by \$15,230. The District has recognized an increase in property tax revenues and general education aid an amount equal to these shifted amounts. The net amount shifted to date has reduced taxes levied for subsequent years by \$97,490 in the general fund. Of this total shifted amount, \$63,074 was for referendum levies shifted at 31 percent of the 2000 payable 2001 levy limitation and certification, \$26,123 was for career tech, and \$8,293 for reemployment. Career tech and reemployment are shifted at 100 percent of the 2016 payable 2017 levy limitation and certification.

The referendum, career tech, and reemployment levy shift amounts are early revenue recognition and have increased the current years fund balance in the general fund. The other property tax amounts have no effect on the District's fund balances. The referendum shift amount will remain constant from year to year until changed by State Statutes.

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal yearend. The actual revenues, expenditures, and transfers for the year ended June 30, 2017, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The School Board made several supplemental budgetary appropriations throughout the year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2017, expenditures exceeded appropriations in the general fund by \$114,181. These over expenditures were funded by greater than anticipated revenues.

Note 3 - Detailed Notes on All Funds

A. Cash and Cash Equivalents

1. Cash

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board. All such depositories 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% of the deposits not covered by insurance or bonds. 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.

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2017, none of the District's bank balances were exposed to custodial credit risk.

2. Cash Equivalents

As of June 30, 2017, the District had an investment in MNTrust with a value of \$2,271,256. MNTrust is a money market account and is available to service the District's financial needs immediately. MNTrust is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool's shares.

Custodial Credit Risk—Investments. The investment in the MNTrust is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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Credit Risk. The District may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds in MNTrust are invested in accordance with Minnesota Statutes Section 475.66. Each Minnesota School District owns a pro-rata share of each investment which is held in the name of the Funds. The District has no investment policy that would further limit its investment choices. The District's MNTrust accounts were rated AAA by S&P.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District's investments are invested in the MNTrust (100.0%).

B. Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows:

Regular instruction	\$	225,673
Vocational instruction		285
Special education instruction		216
Instructional support services		989
Pupil support services		14,052
Sites and buildings		498,182
Total Depreciation Expense	<u>\$</u>	<u>739,397</u>

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, not being Depreciated:				
Land	\$ 83,710	\$ -	\$ -	\$ 83,710
Capital Assets, being Depreciated:				
Land improvements	140,214	-	-	140,214
Buildings and improvements	24,844,655	54,615	-	24,899,270
Equipment	1,869,819	45,586	21,123	1,894,282
Total Capital Assets, being Depreciated	<u>26,854,688</u>	<u>100,201</u>	<u>21,123</u>	<u>26,933,766</u>
Less Accumulated Depreciation for:				
Land improvements	53,965	7,011	-	60,976
Buildings and improvements	8,430,753	657,525	-	9,088,278
Equipment	1,470,596	74,861	21,123	1,524,334
Total Accumulated Depreciation	<u>9,955,314</u>	<u>739,397</u>	<u>21,123</u>	<u>10,673,588</u>
Total Capital Assets, being Depreciated, net	<u>16,899,374</u>	<u>(639,196)</u>	<u>-</u>	<u>16,260,178</u>
Governmental Activities Capital Assets, net	<u>\$ 16,983,084</u>	<u>\$ (639,196)</u>	<u>\$ -</u>	<u>\$ 16,343,888</u>

C. Long-Term Debt

General Obligation Bonds. The District issued general obligation bonds to provide funds for the improvement and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District and are paid from the debt service fund. General obligation bonds currently outstanding are as follows:

Bond Description	Final Maturities	Annual Installments	Interest Rate	Original Issue	Outstanding Balance
General Obligation School Building Bonds of 2010A	01/15/26	\$710,000 - \$790,000	1.26%	\$ 10,200,000	\$ 6,750,000
General Obligation School Building Bonds of 2014A	02/01/29	\$55,000 - \$895,000	2.0% - 3.13%	3,330,000	3,110,000
General Obligation School Building Bonds of 2014B	02/02/24	\$35,000 - \$45,000	1.50% - 2.50%	<u>375,000</u>	<u>265,000</u>
				<u>\$ 13,905,000</u>	<u>\$ 10,125,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending June 30,	Governmental Activities	
	Principal	Interest
2018	\$ 800,000	\$ 181,806
2019	810,000	171,060
2020	820,000	160,101
2021	835,000	148,903
2022	845,000	137,479
2023 - 2027	4,255,000	512,849
2028 - 2029	<u>1,760,000</u>	<u>81,888</u>
Total	<u>\$ 10,125,000</u>	<u>\$ 1,394,086</u>

Compensated Absences Payable. The liability consists of unused vacation as of June 30, 2017. Vacation expense is recorded in the fund in which the compensated absence was earned. The compensated absences will be liquidated from the same fund from which they were earned. As of June 30, 2017, 12 employees have accrued compensated absences.

Changes in Long-Term Debt. During the year ended June 30, 2017, the following changes occurred in liabilities reported in the government-wide financial statements:

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Bonds Payable					
General Obligation Bonds Payable	\$ 10,910,000	\$ -	\$ 785,000	\$ 10,125,000	\$ 800,000
Bond Premium	46,266	-	3,559	42,707	3,559
Bond Discount	(20,557)	-	(3,441)	(17,116)	(3,441)
Total Bonds Payable	10,935,709	-	785,118	10,150,591	800,118
Compensated Absences Payable	50,070	86,052	91,142	44,980	-
	<u>\$ 10,985,779</u>	<u>\$ 86,052</u>	<u>\$ 876,260</u>	<u>\$ 10,195,571</u>	<u>\$ 800,118</u>

Legal Debt Margin. Minnesota State Statutes do not allow net debt (as defined in Minn. Stat. Para. 475.51 subd. 4) to exceed 15 percent of the actual market value of all taxable property within the District. The District's market value per the School Tax Report 2016 Payable 2017 was \$665,055,000.

D. Other Postemployment Benefits

Plan Description – All employees are allowed, upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. The implicit rate subsidy is only until Medicare eligibility. The retiree health plan does not issue a publicly available financial report.

Funding Policy - For the fiscal year 2017, the District will continue on a "pay-as-you-go" funding policy.

Annual OPEB Cost and Net OPEB Obligation (Asset) – The District’s annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period of 30 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 (asset):

Annual Required Contribution	\$ 167,018
Interest on Net OPEB Obligation	(91)
Amortization of Net OPEB Obligation	<u>138</u>
Annual OPEB Cost	167,065
Contributions Made	<u>(264,959)</u>
Change in Net OPEB Obligation	(97,894)
Net OPEB Obligation, beginning of year	<u>(2,587)</u>
Net OPEB Obligation (Asset), End of Year	<u><u>\$ (100,481)</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation (asset) for fiscal year 2017 and the preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Annual OPEB Cost Contributed	Net Ending OPEB Obligation
06/30/15	\$ 188,202	\$ 217,886	115.8%	\$ 88,810
06/30/16	165,380	256,777	155.3%	(2,587)
06/30/17	167,065	264,959	158.6%	(100,481)

Funded Status and Funding Progress – As of July 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$1,737,606, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,737,606. The covered payroll (annual payroll of active employees covered by the plan) was \$5,076,265, and the ratio of the UAAL to the covered payroll was 34.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and 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 multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.25 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after nine years. Both rates included an inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

E. Fund Balances

The Uniform Financial Accounting and Reporting Standards (UFARS) fund balance reporting standards are slightly different than the reporting standards under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balances reported following GASB standards and UFARS reporting standards:

	GASB Balance	Reconciling Transfer	UFARS Balance
Nonspendable			
Inventories	\$ 14,117	\$ -	\$ 14,117
Total nonspendable	14,117	-	14,117
Restricted			
Long-term facilities maintenance	132,489	-	132,489
Health and safety	-	(151,814)	(151,814)
Operating capital	194,902	-	194,902
Disabled accessibility	1,502	-	1,502
Medical assistance	26,621	-	26,621
Food service	131,903	-	131,903
Community education	207,199	-	207,199
Early childhood family education	54,575	-	54,575
School readiness	87,221	-	87,221
Community service	31,820	-	31,820
Debt service	146,481	-	146,481
Total restricted	1,014,713	(151,814)	862,899
Unassigned	1,247,814	151,814	1,399,628
Total Fund Balance	\$ 2,276,644	\$ -	\$ 2,276,644

Note 4 - Pension Plans

1. Single Employer Plan

A. Plan Description

The District provides a defined contribution supplemental pension benefit to certain eligible employees and report them following the guidance of GASB Statement No. 73. All of the pension benefits are based on contractual agreements that are ratified by the approval of School Board and are between the District and employee groups. Contract groups receive other supplement benefits as follows:

Benefit 1:

Teachers – For retirees that reach 55 years of age and 10 years of service, the District will make an early retirement incentive payment based on the pay scale below. This payment is made monthly for two years subsequent to retirement.

Payment made based on pay scale: (Monthly for two years)	
BA	\$ 63
BA + 15	125
BA + 30	188
BA + 45	250
BA + 60	313
MA	375
MA + 15	438
MA + 30	500
MA + 45	563
MA + 60	625

Non-Certified Employees – Do not receive Benefit 1 for early retirement incentive

All Other Employees – One retired Principal receives the same benefit as Teachers, all others do not receive Benefit 1 for early retirement incentive.

Benefit 2:

Teachers – For retirees reaching 55 years of age and 10 years of service and hired prior to July 1, 1994, the District will make a severance payment per the schedule below:

With 8-14 years of service before July 1, 2002	\$ 8,000
With 15-21 years of service before July 1, 2002	20,000
With 25+ years of service before July 1, 2002	25,000
Minus accumulated District contributions to the Matching Annuity Program	
<u>Years of Service</u>	<u>Amount</u>
0 - 7	\$ 100
8 - 14	500
15 - 21	1,000
22 +	1,500
Up to a lifetime maximum of	25,000

Non-Certified Employees – For retirees reaching 50 years of age and 15 years of service and hired prior to July 1, 1998, the District will make a severance payment per the schedule below, not to exceed 50% of annual salary.

With 15 years of service: 36% of annual salary
 With 20 years of service: 50% of annual salary
 Minus accumulated District contributions to the Matching Annuity Program

<u>Years of Service</u>	<u>Amount</u>
0 - 5	\$ -
6 - 10	300
11 - 15	350
16 - 20	400
21 +	450

Benefit 3:

Teachers – For retirees reaching 55 years of age and 10 years of service and hired prior to September 1, 2009, the District will make a payment in cash to the Retiree for the Excess of the Board contribution toward family vs. single medical coverage for 10 years or Medicare eligibility, whichever is earlier, that is not applied towards medical and dental premiums.

Non-Certified Employees – Do not receive Benefit 3 for contribution toward medical coverage

All Other Employees – One retired Principal receives the same benefit as Teachers, all others do not receive Benefit 3 for contribution toward medical coverage.

B. Employees Covered by Benefit Terms

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	19
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	88
	107

C. Contributions

At June 30, 2017, the District reported its deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ 8,051	\$ -
District's contributions subsequent to the measurement date	50,973	-
Total	\$ 59,024	\$ -

For the year ended June 30, 2017, the District recognized pension expense of \$27,815.

\$50,973 reported at deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	\$ 806
2019	806
2020	806
2021	806
2022	806
Thereafter	4,021

D. Supplemental Benefits Liability

The District's supplemental benefits liability was measured as of July 1, 2016.

Since the last actuarial valuation as of July 1, 2012, the following actuarial assumptions have changed:

- The discount rate was changed from 3.50% to 2.90%

Since the last actuarial valuation as of July 1, 2012, the following actuarial funding method has changed:

- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 73.

E. Actuarial Assumptions

The supplemental benefits liability in the June 30, 2017 actuarial valuation was determined using a measurement date of July 1, 2016, an actuarial valuation date of July 1, 2015. The actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent
Discount Rate	2.90 percent
20-Year Municipal Bond Yield	2.90 percent

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study as of July 1, 2015.

F. Discount Rate

The discount rate used to measure the supplemental benefits liability was 2.90 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates.

G. Changes in the Supplemental Benefits Liability

Service cost	\$ 16,177
Interest cost	10,832
Assumption changes	8,857
Supplemental benefits cost	<u>35,866</u>
Benefit payments	<u>(64,030)</u>
Change in supplemental benefits obligation	(28,164)
Supplemental benefits liability, beginning of year, as restated	<u>325,036</u>
Supplemental benefits liability, end of year	<u><u>\$ 296,872</u></u>

There are no assets accumulated in a trust to be used for the supplemental benefits liability.

H. Sensitivity of the Supplemental Benefits Liability to Changes in Discount Rate

The following presents the supplemental benefits liability of the District, as well as what the District's supplemental benefits liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	1.90%	2.90%	3.90%
Supplemental Benefits Liability	\$ 311,939	\$ 296,872	\$ 282,203

B. Multi-Employer Plans

Substantially all employees of the Districts are required by state law to belong to defined benefit, multi-employer, cost-sharing 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:

1. Public Employees Retirement Association (PERA)

A. Plan Description

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

All full-time and certain part-time employees of the District, other than teachers, are covered by 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.

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

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

GERF benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7 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.

B. Contribution Rate

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively of their annual covered salary in calendar year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2017, were \$74,740. The District's contributions were equal to the required contributions for each year as set by state statute.

C. Pension Costs

At June 30, 2017, the District reported a liability of \$1,347,838 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$17,586. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0166% which was a decrease of 0.001% from the prior year.

For the year ended June 30, 2017, the District recognized pension expense of \$173,859 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$5,244 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

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At June 30, 2017, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,989	\$ 109,492
Changes in actuarial assumptions	290,696	-
Difference between projected and actual investment earnings	150,476	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	111,680
District's contributions to GERF subsequent to the measurement date	74,740	-
Total	\$ 519,901	\$ 221,172

\$74,740 reported at deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	\$ 44,440
2019	13,663
2020	117,201
2021	48,685
2022	-

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Assumptions	GERF
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years.

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employee fund

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness on a regular basis of the long-term expected rate of return 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 geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

E. Discount Rate

The discount rate used to measure the total pension liability in 2016 was 7.50 percent, a reduction from the 7.9 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. 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.

F. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percent lower and one percent higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 1,914,329	\$ 1,347,838	\$ 881,203

G. Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org

2. Teachers Retirement Association (TRA)

A. Plan Descriptions

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

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

B. Benefits Provided

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

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

Tier I Benefits

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

With these provisions:

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

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. 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 that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2015, 2016 and June 30, 2017 were:

	Employees	Employers
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	\$ 354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	(442,978)
Total employer contributions	354,544,518
Total non-employer contributions	35,587,410
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	\$ 390,131,928

Amounts reported in the allocation schedule 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.

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, 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	
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	4.66%, from the Single Equivalent Interest Rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.5 - 9.5%
Cost of living adjustment	2.00%
Mortality assumptions	
Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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 Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience,” “Changes of Assumptions,” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68.

E. Discount Rate

The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 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 depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

F. Net Pension Liability

At June 30, 2017, the District reported a liability of \$21,586,409 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on The District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District’s proportionate share was 0.0905% at the end of the measurement period and 0.0915% for the beginning of the year.

Independent School District No. 108
 Norwood Young America, Minnesota
 Notes to Financial Statements
 June 30, 2017

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	<u>\$ 21,586,409</u>
State's proportionate share of the net pension liability associated with the district	<u>\$ 2,167,064</u>

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 remain level at 2.0% annually. While in the previous measurement the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the District recognized pension expense of \$3,188,404. It also recognized \$302,595 as an increase to pension expense for the support provided by direct aid.

On June 30, 2017, 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 economic experience	\$ 211,448	\$ 602
Changes in actuarial assumptions	12,309,392	-
Difference between projected and actual investment earnings	933,843	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	319,996
District's contributions to TRA subsequent to the measurement date	<u>354,220</u>	<u>-</u>
Total	<u>\$ 13,808,903</u>	<u>\$ 320,598</u>

The \$354,220 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 2,583,411
2019	2,583,411
2020	2,895,576
2021	2,688,114
2022	2,383,573

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using one percent lower and one percent higher:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	\$ 27,808,691	\$ 21,586,409	\$ 16,518,564

The Central Public Schools ISD #108'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.

H. 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.

Note 5 - 403(b) Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Some employees are eligible to receive a match of employee contributions up to the qualifying amounts set forth in their Wage and Benefit Guidelines. Contributions are invested in tax deferred annuities hosted by a vendor from whom the District has obtained. The District's contributions for the years ended June 30, 2017, 2016, and 2015, were \$49,830, \$50,123, and \$58,870, respectively. The related employee contributions were \$96,211, \$105,851, and \$128,316, for the years ended June 30, 2017, 2016, and 2015, respectively.

Note 6 - Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District has joined together with other governments (school districts) in self-insured insurance plans and public entity risk pools.

The District continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

The District participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the District believes that any disallowed costs as a result of such audits will be immaterial.

C. Affiliated Organization

Southwest Metro Educational Cooperative (SMEC) is an affiliated organization comprised of nine member districts to provide specialized services to the participating school districts. Separate financial statements of the affiliated organization may be obtained from the SMEC. The District had purchases from SMEC of \$118,897 for the year ended June 30, 2017, and a balance due to SMEC of \$44,819 at June 30, 2017. The SMEC is not experiencing financial difficulties and is not anticipated to be a burden on the District.

Note 7 - Issued But Non-effective Accounting Pronouncements

As of July 1, 2016, the District adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not within the Scope of GASB 68*. The implementation of these standards requires governments to calculate and report the cost and obligations associated with these benefit plans in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning liability.

Net Position - June 30, 2016, as previously reported	\$ 2,545,736
Restatement due to implementation of GASB Statement No. 73	(396,962)
Net Position - July 1, 2016, as restated	\$ 2,148,774

Note 8 - Issued But Non-effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. This statement will be implemented at the District in the year ended June 30, 2018.

The second statement issued but not yet implemented that will significantly affect the District is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This statement will be implemented at the District in the year ended June 30, 2019.

The third statement issued but not yet implemented that will significantly affect the District is statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement enhance the comparability of financial statements among governments. This statement will be implemented at the District in the year ended June 30, 2018.

The fourth statement issued but not yet implemented that will significantly affect the District is statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The fifth statement issued but not yet implemented that will significantly affect the District is statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. This statement will be implemented at the District in the year ended June 30, 2018.

The final statement issued but not yet implemented that will significantly affect the District is statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.



Required Supplementary Information
June 30, 2017

Independent School District No. 108

Norwood Young America, Minnesota

Independent School District No. 108
 Norwood Young America, Minnesota
 Schedule of Funding Progress
 Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
07/01/09	-	\$ 2,711,368	\$ 2,711,368	0.0%	\$ 5,206,440	52.1%
07/01/12	-	2,114,484	2,114,484	0.0%	4,874,262	43.4%
07/01/15	-	1,737,606	1,737,606	0.0%	5,076,265	34.2%

Note to the Schedules of Funding Progress

Since the last actuarial valuation as of July 1, 2012, the following actuarial assumptions have changed:

- The health care trend rates were changed to better anticipate short and long-term medical increases.
- The mortality table was updated from the projection of RP-2000 rates to 2012 to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale. The termination, retirement, and disability rates were all updated. Termination and Retirement rates are based on rates used by the Teacher's Retirement Association Pension Plan.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated.
- The discount rate was changed from 4.00% to 3.50%

Since the last actuarial valuation as of July 1, 2012, the following plan provisions have changed:

- The monthly district contribution toward insurance coverage was frozen at \$320.12 for single medical coverage, \$706.06 for family medical coverage and \$20.20 for dental coverage for all future retirees.
- The monthly district contribution toward insurance coverage for current retirees was frozen at the current amount and will not increase.

Independent School District No. 108
Norwood Young America, Minnesota
Schedule of Changes in Supplemental Benefits Liability and Supplemental Benefits Liability
Year Ended June 30, 2017

**Schedule of Changes in Supplemental Benefits Liability
Last 10 Fiscal Years ***

	2017
Supplemental benefits liability, beginning of year	\$ 325,036
Service cost	16,177
Interest cost	10,832
Assumption changes	-
Plan changes	-
Employer contributions	-
Projected investment return	-
Differences between expected and actual experience	-
Benefit payments	(64,030)
Administrative expenses	-
Other changes	-
	\$ 288,015

**Schedule of Supplemental Benefits Liability
Last 10 Fiscal Years ***

	2017
Supplemental benefits liability	\$ 288,015
Covered-employee payroll	\$ 4,279,341
Supplemental benefits liability as a percentage of covered-employee payroll	6.73%

There are no assets accumulated in an irrevocable trust to pay plan benefits.

Since the last actuarial valuation as of July 1, 2012, the following actuarial assumptions have changed:

- The discount rate was changed from 3.50% to 2.90%

Since the last actuarial valuation as of July 1, 2012, the following actuarial funding method has changed:

- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 73.

* GASB Statement No. 73 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Independent School District No. 108
Norwood Young America, Minnesota

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions
Year Ended June 30, 2017

**Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years ***

Pension Plan	Measurement Date	District's Proportion (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (d) (a+b)	District's Covered - Employee Payroll (e) **	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered - Employee Payroll (a/e) **	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	06/30/16	0.0166%	\$ 1,347,838	N/A	\$ 1,347,838	\$ 1,056,872	127.5%	68.9%
	06/30/15	0.0176%	912,123	N/A	912,123	1,031,556	88.4%	78.2%
	06/30/14	0.0197%	925,407	N/A	925,407	1,036,762	89.3%	78.8%
TRA	06/30/16	0.0905%	\$ 21,586,409	\$ 2,167,064	\$ 23,753,473	\$ 4,799,319	449.8%	44.9%
	06/30/15	0.0915%	5,660,180	694,117	6,354,297	4,728,744	119.7%	76.8%
	06/30/14	0.0994%	4,580,280	322,239	4,902,519	4,625,216	99.0%	81.5%

**Schedule of Employer's Contributions
Last 10 Fiscal Years ***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Employee Payroll (d) **	Contributions as a Percentage of Covered - Employee Payroll (b/d) **
PERA	06/30/17	\$ 74,740	\$ 74,740	\$ -	\$ 996,537	7.5%
	06/30/16	79,258	79,258	-	1,056,872	7.5%
	06/30/15	76,199	76,199	-	1,031,556	7.4%
TRA	06/30/17	\$ 354,220	\$ 354,220	\$ -	\$ 4,830,378	7.3%
	06/30/16	353,363	353,363	-	4,799,319	7.4%
	06/30/15	348,487	348,487	-	4,728,744	7.4%

* GASB Statement No. 68 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

- PERA's CAFR may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TRA's CAFR may be obtained on the PERA's website at www.MinnesotaTRA.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

**Covered payroll has been retrospectively restated for all years presented to conform to the definition of covered payroll as clarified in GASB No. 82, *Pension Issues*.

Independent School District No. 108
 Norwood Young America, Minnesota
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Local property tax levies	\$ 1,341,478	\$ 1,341,478	\$ 1,310,372	\$ (31,106)
Other local and county sources	221,987	248,684	283,083	34,399
State sources	8,262,540	8,262,540	8,476,546	214,006
Federal sources	407,314	411,454	343,579	(67,875)
Local sales and insurance recovery	1,700	1,700	1,520	(180)
Total revenues	<u>10,235,019</u>	<u>10,265,856</u>	<u>10,415,100</u>	<u>149,244</u>
Expenditures				
Administration	791,565	840,880	805,797	35,083
District support services	262,927	295,017	285,208	9,809
Regular instruction	4,692,511	4,746,164	5,120,782	(374,618)
Vocational instruction	110,252	101,891	121,400	(19,509)
Special education instruction	1,790,082	1,798,259	1,602,990	195,269
Instructional support services	261,078	296,084	380,175	(84,091)
Pupil support services	782,994	805,938	833,985	(28,047)
Sites and buildings	1,175,322	1,158,152	1,001,861	156,291
Fiscal and other fixed cost programs	46,100	46,100	50,468	(4,368)
Debt service				
Principal	1,200	-	-	-
Total expenditures	<u>9,914,031</u>	<u>10,088,485</u>	<u>10,202,666</u>	<u>(114,181)</u>
Excess (deficiency) of revenues over (under) expenditures	320,988	177,371	212,434	35,063
Fund Balances - Beginning	<u>1,390,894</u>	<u>1,390,894</u>	<u>1,390,894</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 1,711,882</u>	<u>\$ 1,568,265</u>	<u>\$ 1,603,328</u>	<u>\$ 35,063</u>

Independent School District No. 108
 Norwood Young America, Minnesota
 Budgetary Comparison Schedule – Community Service Fund
 Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Local property tax levies	\$ 115,400	\$ 122,400	\$ 104,688	\$ (17,712)
Other local and county sources	608,100	612,516	711,842	99,326
State sources	102,190	146,190	162,158	15,968
Total revenues	<u>825,690</u>	<u>881,106</u>	<u>978,688</u>	<u>97,582</u>
Expenditures				
Community education and services	<u>868,410</u>	<u>924,018</u>	<u>859,662</u>	<u>64,356</u>
Excess (deficiency) of revenues over (under) expenditures	(42,720)	(42,912)	119,026	161,938
Fund Balances - Beginning	<u>261,789</u>	<u>261,789</u>	<u>261,789</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 219,069</u>	<u>\$ 218,877</u>	<u>\$ 380,815</u>	<u>\$ 161,938</u>

1. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end. The actual revenues, expenditures, and transfers for the year ended June 30, 2017, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The School Board made several supplemental budgetary appropriations throughout the year.

2. Excess of Expenditures over Appropriations

For the year ended June 30, 2017, expenditures exceeded appropriations (the legal level of budgetary control) in the general fund by \$114,181. These over expenditures were funded by greater than anticipated revenues.



Supplementary Information
June 30, 2017

Independent School District No. 108

Norwood Young America, Minnesota

Independent School District No. 108
 Norwood Young America, Minnesota
 Combining Balance Sheet – Nonmajor Governmental Fund
 June 30, 2017

	Special Revenue Fund
	Food Service
Assets	
Cash and investments	\$ 159,319
Receivables	
Due from Minnesota Department of Education	206
Department of Education	1,185
Inventories	14,117
Total assets	\$ 174,827
Liabilities	
Accounts payable	\$ 14,551
Unearned revenue	14,256
Total liabilities	28,807
Fund Balances	
Nonspendable	14,117
Restricted	131,903
Total fund balances	146,020
Total liabilities, deferred inflows of resources, and fund balances	\$ 174,827

Independent School District No. 108
 Norwood Young America, Minnesota

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Fund
 Year Ended June 30, 2017

	Special Revenue Fund <u>Food Service</u>
Revenues	
Other local and county sources	\$ 20,030
State sources	22,654
Federal sources	168,758
Local sales and insurance recovery	<u>293,491</u>
Total revenues	<u>504,933</u>
Expenditures	
Pupil support services	<u>516,729</u>
Total expenditures	<u>516,729</u>
Excess (deficiency) of revenues over (under) expenditures	(11,796)
Fund Balances - Beginning	<u>157,816</u>
Fund Balances - Ending	<u><u>\$ 146,020</u></u>

Independent School District No. 108
 Norwood Young America, Minnesota
 Student Activity Treasurer's Report
 Year Ended June 30, 2017

Activity Account	Beginning Balance	Receipts	Disbursements	Ending Balance
Band	\$ 12	\$ 4,866	\$ 4,463	\$ 415
C-Club	4,240	11,731	11,766	4,205
Baseball	3,257	8,363	6,702	4,918
Cheerleading	1,329	4,197	4,819	707
Cross Country	5,468	14,090	15,557	4,001
Dance	772	813	1,223	362
Golf	2,311	675	1,869	1,117
Speech	2,744	1,361	2,252	1,853
Track	3,319	1,870	1,478	3,711
Volleyball	3,509	14,406	14,087	3,828
Choir	297	5,072	5,039	330
Class of 2017	4,126	145	4,271	-
Class of 2018	995	18,390	14,578	4,807
Class of 2019	211	556	30	737
Class of 2020	-	350	-	350
Drama	2,741	698	832	2,607
Elem Student Council	30,521	17,793	27,851	20,463
Elem Fall Festival	857	279	652	484
Elem Field Day	1,209	-	24	1,185
Elem Field Trip	411	11,993	11,980	424
Elem Media	4,569	5,338	5,564	4,343
Elem Yearbook	4,852	2,385	606	6,631
FFA	2,791	30,779	32,790	780
FCCLA	1,780	-	-	1,780
H.S. Science	365	361	360	366
H.S. Yearbook	6,892	9,164	9,888	6,168
Interest	-	196	186	10
International	520	5	452	73
Middle School	-	1,274	1,274	-
M.S. St. Council	13,549	7,842	8,436	12,955
M.S. Student Recognition	354	500	583	271
M.S. Yearbook	439	460	652	247
Misc.	451	21	128	344
N.H.S.	519	3,001	1,822	1,698
SSSR	182	1,043	964	261
Student Council	4,632	5,539	5,576	4,595
Student R.A.K.	4,689	1,000	1,875	3,814
	<u>\$ 114,913</u>	<u>\$ 186,556</u>	<u>\$ 200,629</u>	<u>\$ 100,840</u>



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Minnesota Legal Compliance

Members of the School Board
Independent School District No. 108
Norwood Young America, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Independent School District No. 108 as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 20, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 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 study included 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Mankato, Minnesota
December 20, 2017

Independent School District No. 108
Norwood Young America, Minnesota
Uniform Financial Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2017

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$10,415,100	<u>\$10,415,102</u>	<u>(\$2)</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$10,202,666	<u>\$10,202,666</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
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>
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.05 Health and Safety	(\$151,814)	<u>(\$151,814)</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>	<i>Restricted:</i>			
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>				
4.24 Operating Capital	\$194,902	<u>\$194,902</u>	<u>\$0</u>	07 DEBT SERVICE			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$991,359	<u>\$991,359</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$1,502	<u>\$1,502</u>	<u>\$0</u>	Total Expenditures	\$933,189	<u>\$933,189</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.26 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	4.51 OZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$146,481	<u>\$146,481</u>	<u>\$0</u>
4.45 Career Tech Programs	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	\$0	<u>\$0</u>	<u>\$0</u>				
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>	08 TRUST			
4.51 OZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$1,763	<u>\$1,763</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$2,260	<u>\$2,260</u>	<u>\$0</u>
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$24,879	<u>\$24,879</u>	<u>\$0</u>
4.67 LTFM	\$132,489	<u>\$132,489</u>	<u>\$0</u>				
4.72 Medical Assistance	\$26,021	<u>\$26,021</u>	<u>\$0</u>	20 INTERNAL SERVICE			
<i>Restricted:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>				
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	25 OPEB REVOCABLE TRUST			
<i>Assigned:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance	\$1,369,628	<u>\$1,369,629</u>	<u>(\$1)</u>				
				45 OPEB IRREVOCABLE TRUST			
02 FOOD SERVICES				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Revenue	\$904,933	<u>\$904,933</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$916,729	<u>\$916,729</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$14,117	<u>\$14,117</u>	<u>\$0</u>	47 OPEB DEBT SERVICE			
<i>Restricted / Reserved:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>				<i>Non Spendable:</i>			
4.64 Restricted Fund Balance	\$131,803	<u>\$131,804</u>	<u>(\$1)</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				<i>Restricted:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.26 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
				4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
04 COMMUNITY SERVICE				<i>Unassigned:</i>			
Total Revenue	\$978,688	<u>\$978,689</u>	<u>(\$1)</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$869,662	<u>\$869,662</u>	<u>\$0</u>				
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Restricted / Reserved:</i>							
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>				
4.31 Community Education	\$207,199	<u>\$207,199</u>	<u>\$0</u>				
4.32 E.C.F.E	\$54,575	<u>\$54,575</u>	<u>\$0</u>				
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>				
4.44 School Readiness	\$87,221	<u>\$87,221</u>	<u>\$0</u>				
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>				
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$31,820	<u>\$31,820</u>	<u>\$0</u>				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				



CPAs & BUSINESS ADVISORS

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. 108
Norwood Young America, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 108 (District) as of and for the year ended June 30, 2017, 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 20, 2017.

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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying summary of audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 deficiencies described in the accompanying summary of findings to be material weaknesses: 2017-A, 2017-B, and 2017-C.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying summary of audit findings and the District's Corrective Action Plan, which is contained in a separate document. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Mankato, Minnesota
December 20, 2017



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance over Financial Reporting of the Student Activity Accounts

The School Board of
Independent School District No. 108
Norwood Young America, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 108, Central Public Schools (District) for the year ended June 30, 2017, and have issued our report thereon dated December 20, 2017. 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, and the provisions of the Manual for Activity Fund Accounting (MAFA).

Compliance

As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity 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 the following instance of noncompliance or other matters that is required to be reported under the Manual for Activity Fund Accounting: 2017-D as described in the accompanying summary of audit findings.

Response to Finding

The District's response to the finding identified in our audit are described in the District's Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the School Board, and the Minnesota Department of Education and other state agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Mankato, Minnesota
December 20, 2017



Section I – Financial Statement Findings

**2017-A Segregation of Duties
 Material Weakness**

Criteria: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: The District has a lack of segregation of duties in certain areas due to limited staff. The District has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

Cause: The District does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. School Board oversight will mitigate some of the effect.

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Views of Responsible Officials: There is no disagreement with this audit finding.

2017-B Preparation of Financial Statements
Material Weakness

Criteria: A good system of internal control contemplates an adequate system for drafting of the financial statements.

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and certain required supplementary information.

Cause: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This control deficiency is not unusual in a District of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: There is no disagreement with this audit finding.

2017-C Significant Journal Entries
Material Weakness

Criteria: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition: During the course of our engagement, we proposed material audit adjustments to the trial balance that would not have been identified as a result of the District's existing internal controls.

Cause: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year-end adjustments to the trial balance.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials: There is no disagreement with this audit finding.

Section II – Minnesota Legal Compliance and Student Activities

2017-D Student Activity Controls

Criteria: The Minnesota Department of Education requires compliance with the MAFA manual for financial management of student activity accounts not under board control.

Condition: The District did not follow the Manual for Activity Fund Accounting (MAFA) when administering the Student Activity accounts. Student activity purpose forms were not completed for all activities which is required per the MAFA page 13.

Cause: The District failed to enforce the requirement to obtain annual signed purpose forms for each activity accounts.

Effect: This control deficiency could allow improper use of student activity funds.

Recommendation: We recommend the District follow the guidance of the MAFA for all student activities not under board control.

Views of Responsible Officials: There is no disagreement with this finding.

