Financial Report
June 30, 2016

# Independent School District No. 108

Norwood Young America, Minnesota

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June 30, 2016

## School Board

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

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

**Auditor's Responsibility**
Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress, budgetary comparison information, schedule of employer's share of net pension liability, and schedule of employer contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual fund statements and schedules, student activity treasurer's report, and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements and schedules, Student Activity Treasurer's Report, and the Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from, and relate directly, to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, the Student Activity Treasurer's Report, the Uniform Financial Accounting and Reporting Standards Compliance Table, and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards,* we have also issued a report dated November 18, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Eide Bailly LLP

Mankato, Minnesota
November 18, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 108**
**NORWOOD YOUNG AMERICA, MINNESOTA**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**YEAR ENDED JUNE 30, 2016**

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, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

## FINANCIAL HIGHLIGHTS

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

- Net position increased by $1,681,956 from June 30, 2015.
- Overall total revenues were $12,562,839 as compared to $10,880,883 of expenses.
- Total fund balance of the General Fund increased $368,518 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.

## 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.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Net Assets**
The District's *combined* net position was $2,545,736 on June 30, 2016 (see Table A-1).

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

| | 2016 | 2015 | Percentage Change |
|---|---|---|---|
| ASSETS | | | |
| Current assets | $ 4,664,486 | $ 4,342,889 | 7.41% |
| Capital assets | 16,983,084 | 17,503,811 | -2.97% |
| Total assets | 21,647,570 | 21,846,700 | -0.91% |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension plans | 1,585,977 | 925,082 | 71.44% |
| LIABILITIES | | | |
| Other liabilities | 643,020 | 731,678 | -12.12% |
| Long-term liabilities | 17,558,082 | 17,365,572 | 1.11% |
| Total liabilities | 18,201,102 | 18,097,250 | 0.57% |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Unavailable revenue - property taxes | 2,033,789 | 2,021,051 | 0.63% |
| Pension plans | 452,920 | 1,789,701 | -74.69% |
| Total deferred inflows of resources | 2,486,709 | 3,810,752 | -34.74% |
| NET POSITION | | | |
| Net investment in capital assets | 6,047,375 | 5,806,782 | 4.14% |
| Restricted for specific purposes | 937,126 | 838,100 | 11.82% |
| Unrestricted | (4,438,765) | (5,781,102) | -23.22% |
| Total net position | $ 2,545,736 | $ 863,780 | 194.72% |

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

**Changes in Net Position**

The District's total revenues were $12,562,839 for the year ended June 30, 2016 (see Table A-2). Property taxes and state and federal formula aid accounted for approximately 75% of total revenue for the year.

### TABLE A-2
### STATEMENT OF ACTIVITIES

| | 2016 | 2015 | Percentage Change |
|---|---|---|---|
| REVENUES | | | |
| Program revenues | | | |
| Charges for service | $ 1,100,241 | $ 1,109,927 | -0.87% |
| Operating grants and contributions | 1,719,757 | 1,743,374 | -1.35% |
| Capital grants and contributions | 117,251 | 126,665 | -7.43% |
| General | | | |
| Property taxes | 2,340,629 | 2,292,253 | 2.11% |
| Aids and payments from state and other | 7,091,279 | 6,703,248 | 5.79% |
| Unrestricted investment earnings | 2,922 | 4,710 | -37.96% |
| Miscellaneous revenues | 190,760 | 174,782 | 9.14% |
| Total revenues | 12,562,839 | 12,154,959 | 3.36% |
| EXPENSES | | | |
| District and school administration | 743,980 | 796,277 | -6.57% |
| District support services | 284,544 | 284,652 | -0.04% |
| Regular instruction | 3,905,367 | 4,453,018 | -12.30% |
| Vocational instruction | 106,237 | 113,207 | -6.16% |
| Special Education instruction | 1,682,453 | 1,824,323 | -7.78% |
| Community education and services | 877,397 | 854,333 | 2.70% |
| Instructional support services | 339,447 | 331,603 | 2.37% |
| Pupil support services | 1,303,811 | 1,270,216 | 2.64% |
| Site, buildings and equipment | 1,384,485 | 1,417,881 | -2.36% |
| Fiscal and other fixed-cost programs | 46,055 | 39,956 | 15.26% |
| Interest and fiscal charges on long-term debt | 207,107 | 212,100 | -2.35% |
| Total expenses | 10,880,883 | 11,597,566 | -6.18% |
| CHANGE IN NET POSITION | 1,681,956 | 557,393 | 201.75% |
| NET POSITION - BEGINNING | 863,780 | 306,387 | 181.92% |
| NET POSITION - ENDING | $ 2,545,736 | $ 863,780 | 194.72% |

The total cost of all programs and services less interest and fiscal charges was $10,673,776. Total revenues exceeded expenses, increasing net position $1,681,956 from the prior year. Significant changes between years relate to an increase in state aids & payments and operating grants & contributions, and a decrease in various expenditure categories.

The cost of all *governmental* activities this year was $10,880,883.

- Some of the cost was paid by the users of the District's programs ($1,100,241).
- The federal and state governments subsidized certain programs with grants and contributions ($1,837,008).
- Most of the District's costs ($9,431,908), however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with $2,340,629 in property taxes and $7,091,279 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 2016 | Total Cost of Services 2015 | Percentage Change | Net Cost of Services 2016 | Net Cost of Services 2015 | Percentage Change |
|---|---|---|---|---|---|---|
| District and school administration | $ 743,980 | $ 796,277 | -6.57% | $ 743,980 | $ 796,277 | -6.57% |
| District support services | 284,544 | 284,652 | -0.04% | 284,544 | 284,652 | -0.04% |
| Regular instruction | 3,905,367 | 4,453,018 | -12.30% | 3,156,686 | 3,721,458 | -15.18% |
| Vocational instruction | 106,237 | 113,207 | -6.16% | 106,237 | 113,207 | -6.16% |
| Special Education instruction | 1,682,453 | 1,824,323 | -7.78% | 883,107 | 869,067 | 1.62% |
| Community education and services | 877,397 | 854,333 | 2.70% | 178,079 | 201,223 | -11.50% |
| Instructional support services | 339,447 | 331,603 | 2.37% | 339,447 | 331,603 | 2.37% |
| Pupil support services | 1,303,811 | 1,270,216 | 2.64% | 751,713 | 778,231 | -3.41% |
| Site, buildings and equipment | 1,384,485 | 1,417,881 | -2.36% | 1,246,679 | 1,269,826 | -1.82% |
| Fiscal and other fixed-costs | 46,055 | 39,956 | 15.26% | 46,055 | 39,956 | 15.26% |
| Interest and fiscal charges on long-term debt | 207,107 | 212,100 | -2.35% | 207,107 | 212,100 | -2.35% |
| | $ 10,880,883 | $ 11,597,566 | -6.18% | $ 7,943,634 | $ 8,617,600 | -7.82% |

## 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 $1,948,810, which is a $378,638 increase from last year's ending fund balance.

Revenues and other financing sources for the District's governmental funds were $12,573,336 while total expenditures were $12,194,698.

## 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 $275,496 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 $110,752 from the previous year. This is due to a variety of factors including an increase in sites and buildings.

In 2015-2016, General Fund revenues were greater than expenditures by $365,844. Total fund balance increased to $1,390,894 at June 30, 2016. After deducting non-spendable, restricted and assigned fund balances, the unassigned fund balance increased from $758,759 at June 30, 2015 to $1,033,248 at June 30, 2016.

The unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance at June 30, 2016 represents 10.57% of annual expenditures or about 1.3 months of operations. The District has a Board approved fund policy requiring a minimum 7.7% or one month's operation be maintained.

### 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 $221,102 more than expected, due in part to increase in state funding sources.

The actual expenditures were $919 over budget.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by $148,335, the actual results for the year show revenues exceeding expenditures by $368,518.

## OTHER GOVERNMENTAL FUNDS

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

| | Revenue | Expenditures | Other Financing Sources | Net Increase (Decrease) | Fund Balance As of 6/30/15 | Fund Balance As of 6/30/16 |
|---|---|---|---|---|---|---|
| Food Service Fund | $ 512,602 | $ 509,005 | $ 1,500 | $ 5,097 | $ 152,719 | $ 157,816 |
| Community Service | 904,301 | 876,719 | - | 27,582 | 234,207 | 261,789 |
| Debt Service | 998,511 | 983,371 | - | 15,140 | 123,171 | 138,311 |
| Building Construction | 15,053 | 52,752 | 2,674 | (35,025) | 35,025 | - |
| | $ 2,430,467 | $ 2,421,847 | $ 4,174 | $ 12,794 | $ 545,122 | $ 557,916 |

From the standpoint of maintaining current operating expenditures within the range of annual revenue and maintaining a sound fund balance, both the Community Service and Food Service Funds continue to operate on a sound financial basis.

## 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 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| ECSE | 15 | 16 | 14 | 13 | 19 |
| Hcp. Kdgt. | 10 | 10 | 10 | 10 | 7 |
| Kdgt. | 60 | 78 | 57 | 55 | 56 |
| 1-3 | 214 | 210 | 224 | 213 | 230 |
| 4-6 | 218 | 200 | 195 | 213 | 214 |
| 7-12 | 473 | 485 | 472 | 470 | 485 |
| Total | 990 | 999 | 972 | 975 | 1,010 |
| ADM Change | | 9 | (27) | 3 | 35 |
| % Change | | 1% | -3% | 0% | 4% |

Overall student membership increased 35 students in fiscal year 2015-2016.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2016, 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 A-7). (More detailed information about capital assets can be found in Note 3 to the financial statements.) Total depreciation expense for the year was $717,044.

| | 2016 | 2015 | Percentage Change |
|---|---|---|---|
| Land | $ 83,710 | $ 83,710 | 0.00% |
| Construction in progress | - | 3,607,919 | -100.00% |
| Land improvements | 140,214 | 137,493 | 1.98% |
| Buildings and improvements | 24,844,655 | 21,086,942 | 17.82% |
| Equipment | 1,869,819 | 1,906,372 | -1.92% |
| Accumulated depreciation | (9,955,314) | (9,318,625) | 6.83% |
| Total capital assets | $ 16,983,084 | $ 17,503,811 | -2.97% |

### Long-Term Liabilities

At the end of 2015-2016, the District's liabilities were $10,935,709 for General Obligation Bonds. This is a 7% decrease from the 2015 year-end.

| | 2016 | 2015 | Percentage Change |
|---|---|---|---|
| Bonds Payable | $ 10,935,709 | $ 11,710,827 | -6.62% |
| Capital Lease Payable | - | 12,029 | -100.00% |
| Compensated Absences Payable | 50,070 | 48,219 | 3.84% |
| | $ 10,985,779 | $ 11,771,075 | -6.67% |

The District' multi-employer plans have a Net Pension Liability of $6,572,303 at June 30, 2016.

## 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 FY16 formula allowance was $5,948, an increase of $117 over the previous year. The FY17 formula allowance will be $6,067.

**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, 2016

| | |
|---|---|
| **Assets** | |
| Cash and investments | $ 2,487,977 |
| Receivables: | |
| Current property taxes | 1,024,542 |
| Delinquent property taxes | 48,270 |
| Accounts | 27,429 |
| Due from other Minnesota school districts | 26,547 |
| Due from Minnesota Department of Education | 771,956 |
| Due from Federal through Minnesota Department of Education | 189,397 |
| Prepaid items | 650 |
| Single-employer plan net pension asset | 71,926 |
| Net OPEB asset | 2,587 |
| Inventories | 13,205 |
| Capital assets not being depreciated: | |
| Land | 83,710 |
| Capital assets, net of accumulated depreciation: | |
| Land improvements | 86,249 |
| Buildings and improvements | 16,413,902 |
| Equipment | 399,223 |
| Total assets | 21,647,570 |
| **Deferred Outflows of Resources** | |
| Pension plans | 1,585,977 |
| **Liabilities** | |
| Salaries payable | 37,031 |
| Accounts payable | 68,869 |
| Interest payable | 83,916 |
| Due to other Minnesota school districts | 177,231 |
| Due to other governmental units | 25,126 |
| Payroll deductions | 187,475 |
| Unearned revenue | 63,372 |
| Noncurrent liabilities: | |
| Multi-employer plans net pension liability | 6,572,303 |
| Due within one year | 800,311 |
| Due in more than one year | 10,185,468 |
| Total liabilities | 18,201,102 |
| **Deferred Inflows of Resources** | |
| Unavailable revenue - property taxes | 2,033,789 |
| Pension plans | 452,920 |
| Total deferred inflows of resources | 2,486,709 |
| **Net Position** | |
| Net investment in capital assets | 6,047,375 |
| Restricted for: | |
| Debt service | 158,194 |
| Food service | 157,816 |
| Community service | 264,120 |
| Other purposes | 356,996 |
| Unrestricted | (4,438,765) |
| Total net position | $ 2,545,736 |

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Program Revenues: Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|---|
| Governmental Activities | | | | | |
| Administration | $ 743,980 | $ - | $ - | $ - | $ (743,980) |
| District support services | 284,544 | - | - | - | (284,544) |
| Regular instruction | 3,905,367 | 115,435 | 633,246 | - | (3,156,686) |
| Vocational instruction | 106,237 | - | - | - | (106,237) |
| Special education instruction | 1,682,453 | 49,456 | 749,890 | - | (883,107) |
| Community education and services | 877,397 | 610,904 | 88,414 | - | (178,079) |
| Instructional support services | 339,447 | - | - | - | (339,447) |
| Pupil support services | 1,303,811 | 303,891 | 248,207 | - | (751,713) |
| Sites and buildings | 1,384,485 | 20,555 | - | 117,251 | (1,246,679) |
| Fiscal and other fixed cost programs | 46,055 | - | - | - | (46,055) |
| Interest and fiscal charges | 207,107 | - | - | - | (207,107) |
| Total Governmental Activities | $ 10,880,883 | $ 1,100,241 | $ 1,719,757 | $ 117,251 | (7,943,634) |
| General Revenues | | | | | |
| Property taxes and other county sources | | | | | 2,340,629 |
| State aid not restricted to specific purposes | | | | | 7,091,279 |
| Earnings on investments | | | | | 2,922 |
| Miscellaneous | | | | | 190,760 |
| Total general revenues | | | | | 9,625,590 |
| Changes in Net Position | | | | | 1,681,956 |
| Net Position - Beginning | | | | | 863,780 |
| Net Position - Ending | | | | | $ 2,545,736 |

| | General | Debt Service | Total Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and investments | $ 1,353,210 | $ 578,887 | $ 555,880 | $ 2,487,977 |
| Receivables | | | | |
| Current property taxes | 561,615 | 417,357 | 45,570 | 1,024,542 |
| Delinquent property taxes | 26,056 | 19,883 | 2,331 | 48,270 |
| Accounts | 9,629 | - | 17,800 | 27,429 |
| Due from other Minnesota School Districts | 26,547 | - | - | 26,547 |
| Due from Minnesota Department of Education | 757,847 | 3,173 | 10,936 | 771,956 |
| Due from Federal through Minnesota Department of Education | 188,800 | - | 597 | 189,397 |
| Inventories | - | - | 13,205 | 13,205 |
| Prepaid items | 650 | - | - | 650 |
| Total assets | $ 2,924,354 | $ 1,019,300 | $ 646,319 | $ 4,589,973 |
| **Liabilities** | | | | |
| Salaries payable | $ - | $ - | $ 37,031 | $ 37,031 |
| Accounts payable | 40,997 | - | 27,872 | 68,869 |
| Due to other Minnesota School Districts | 177,231 | - | - | 177,231 |
| Due to other governmental units | 1,926 | - | 23,200 | 25,126 |
| Payroll deductions | 187,475 | - | - | 187,475 |
| Unearned revenue | 21,112 | - | 42,260 | 63,372 |
| Total liabilities | 428,741 | - | 130,363 | 559,104 |
| **Deferred Inflows of Resources** | | | | |
| Unavailable revenue - delinquent taxes | 26,056 | 19,883 | 2,331 | 48,270 |
| Unavailable revenue - property taxes | 1,078,663 | 861,106 | 94,020 | 2,033,789 |
| Total deferred inflows of resources | 1,104,719 | 880,989 | 96,351 | 2,082,059 |
| **Fund Balances** | | | | |
| Nonspendable | | | | |
| Prepaid items | 650 | - | - | 650 |
| Inventories | - | - | 13,205 | 13,205 |
| Restricted | | | | |
| Deferred maintenance | 60,378 | - | - | 60,378 |
| Disabled accessibility | 2,452 | - | - | 2,452 |
| Operating capital | 294,166 | - | - | 294,166 |
| Community education | - | - | 174,132 | 174,132 |
| Early childhood family education | - | - | 36,030 | 36,030 |
| School readiness | - | - | 40,711 | 40,711 |
| Other purposes | - | 138,311 | 155,527 | 293,838 |
| Unassigned | 1,033,248 | - | - | 1,033,248 |
| Total fund balances | 1,390,894 | 138,311 | 419,605 | 1,948,810 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 2,924,354 | $ 1,019,300 | $ 646,319 | $ 4,589,973 |

| | | | |
|---|---|---|---|
| Total Fund Balances for Governmental Funds | | $ | 1,948,810 |
| 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. | | | 16,983,084 |
| 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. | | | 48,270 |
| Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. | | | (83,916) |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. | | | 1,133,057 |
| 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 | 10,935,709 | | |
| OPEB Obligation | (2,587) | | |
| Compensated Absences Payable | 50,070 | | |
| Multi-Employer Plans Net Pension Liability | 6,572,303 | | |
| Single-Employer Plan Net Pension Asset | (71,926) | | |
| | | | (17,483,569) |
| Total Net Position for Governmental Activities | | $ | 2,545,736 |

| | General | Debt Service | Total Nonmajor Funds | Total Governmental Funds |
|---|---|---|---|---|
| Revenues | | | | |
| Local property tax levies | $ 1,320,448 | $ 966,214 | $ 113,853 | $ 2,400,515 |
| Other local and county sources | 285,482 | 564 | 700,699 | 986,745 |
| State sources | 8,166,768 | 31,733 | 131,784 | 8,330,285 |
| Federal sources | 366,884 | - | 181,729 | 548,613 |
| Local sales and insurance recovery | 1,787 | - | 303,891 | 305,678 |
| Total revenues | 10,141,369 | 998,511 | 1,431,956 | 12,571,836 |
| Expenditures | | | | |
| Administration | 743,302 | - | - | 743,302 |
| District support services | 284,544 | - | - | 284,544 |
| Regular instruction | 4,731,322 | - | - | 4,731,322 |
| Vocational instruction | 105,687 | - | - | 105,687 |
| Special education instruction | 1,682,237 | - | - | 1,682,237 |
| Community education and services | - | - | 876,719 | 876,719 |
| Instructional support services | 337,545 | - | - | 337,545 |
| Pupil support services | 790,210 | - | 509,005 | 1,299,215 |
| Sites and buildings | 1,039,920 | - | 52,752 | 1,092,672 |
| Fiscal and other fixed cost programs | 46,055 | - | - | 46,055 |
| Debt service: | | | | |
| Principal | 12,029 | 775,000 | - | 787,029 |
| Interest and fiscal charges | - | 208,371 | - | 208,371 |
| Total expenditures | 9,772,851 | 983,371 | 1,438,476 | 12,194,698 |
| Excess (deficiency) of revenues over (under) expenditures | 368,518 | 15,140 | (6,520) | 377,138 |
| Other Financing Sources (Uses) | | | | |
| Sale of equipment | - | - | 1,500 | 1,500 |
| Operating Transfers in (Out) | (2,674) | - | 2,674 | - |
| Total Other Financing Sources (Uses) | (2,674) | - | 4,174 | 1,500 |
| Net Change in Fund Balances | 365,844 | 15,140 | (2,346) | 378,638 |
| Fund Balances - Beginning | 1,025,050 | 123,171 | 421,951 | 1,570,172 |
| Fund Balances - Ending | $ 1,390,894 | $ 138,311 | $ 419,605 | $ 1,948,810 |

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2016

| | | |
|---|---|---|
| Total Net Change in Fund Balances for Governmental Funds | $ | 378,638 |
| 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. | | (520,727) |
| 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. | | 89,546 |
| 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. | | 787,029 |
| 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. | | 1,264 |
| 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. | | 956,585 |
| 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 unavailable revenue - 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. Unavailable delinquent taxes revenues decreased this year. | | (10,497) |
| Change in Net Position of Governmental Activities | $ | 1,681,956 |

| | Agency Fund | Private Purpose Trust Fund |
|---|---|---|
| Assets | | |
| Cash | $ 114,912 | $ 25,376 |
| Liabilities | | |
| Due to student activities | $ 114,912 | - |
| Net Position | | |
| Restricted for scholarships | | $ 25,376 |

| | Private Purpose Trust Fund |
|---|---|
| Additions | |
| Other local and county revenues | $ 2,538 |
| Deductions | |
| Pupil support services | 3,250 |
| Change in Net Position | (712) |
| Net Position - Beginning of Year | 26,088 |
| Net Position - End of Year | $ 25,376 |

## 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.

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.

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 Investments

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 2015 which are not payable until 2016 less amounts received before June 30, 2016. Delinquent taxes receivable represent levies collectible during 2015 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 2015, but not payable until 2016 and are not expendable by the District until the 2016-2016 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 (amount not rounded) 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:

| Assets | Years |
|---|---|
| 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.

Under GASB Statement No. 65, 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 27, at July 1, 2015. 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 assets and deferred outflows of resources and liabilities and deferred inflows of resources in the government-wide and fiduciary fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial 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.

Under GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions,* 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 $87,770 in property tax revenues and general education aid; during the current year, the state increased the shifted amount by $15,229. 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 $103,000 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, $25,262 was for career tech, and $14,664 for reemployment. Career tech and reemployment are shifted at 100 percent of the 2015 payable 2016 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, 2016, 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, 2016, expenditures exceeded appropriations in the general fund, the community service fund, the capital project fund, and the debt service fund (the legal level of budgetary control) by $1,279, $38,537, $1,246, and $199, respectively. These over expenditures were funded by greater than anticipated revenues and available fund balance.

## Note 3 - Detailed Notes on All Funds

### A. Cash and Investments

#### 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, 2016, none of the District's bank balances were exposed to custodial credit risk.

#### 2. Investments

As of June 30, 2016, the District had an investment in MNTrust with a value of $2,288,363. 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.

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:

| | |
|---|---|
| Administration | $ 678 |
| Regular instruction | 240,148 |
| Vocational instruction | 550 |
| Special education instruction | 216 |
| Community education and services | 678 |
| Instructional support services | 1,902 |
| Pupil support services | 13,737 |
| Sites and buildings | 459,135 |
| Total Depreciation Expense | $ 717,044 |

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|---|---|---|---|
| Governmental Activities | | | | |
| Capital Assets, not being Depreciated: | | | | |
| Land | $ 83,710 | $ - | $ - | $ 83,710 |
| Construction in progress | 3,607,919 | 52,753 | 3,660,672 | - |
| Total Capital Assets not being Depreciated | 3,691,629 | 52,753 | 3,660,672 | 83,710 |
| Capital Assets, being Depreciated: | | | | |
| Land improvements | 137,493 | 2,721 | - | 140,214 |
| Buildings and improvements | 21,086,942 | 3,757,713 | - | 24,844,655 |
| Equipment | 1,906,372 | 43,802 | 80,355 | 1,869,819 |
| Total Capital Assets, being Depreciated | 23,130,807 | 3,804,236 | 80,355 | 26,854,688 |
| Less Accumulated Depreciation for: | | | | |
| Land improvements | 47,023 | 6,942 | - | 53,965 |
| Buildings and improvements | 7,814,227 | 616,526 | - | 8,430,753 |
| Equipment | 1,457,375 | 93,576 | 80,355 | 1,470,596 |
| Total Accumulated Depreciation | 9,318,625 | 717,044 | 80,355 | 9,955,314 |
| Total Capital Assets, being Depreciated, net | 13,812,182 | 3,087,192 | - | 16,899,374 |
| Governmental Activities Capital Assets, net | $ 17,503,811 | $ 3,139,945 | $ 3,660,672 | $ 16,983,084 |

### 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 | $685,000 - $790,000 | 1.26% | $ 10,200,000 | $ 7,455,000 |
| General Obligation School Building Bonds of 2014A | 02/01/29 | $45,000 - $895,000 | 2.0% - 3.13% | 3,330,000 | 3,155,000 |
| General Obligation School Building Bonds of 2014B | 02/02/24 | $35,000 - $45,000 | 1.50% - 2.50% | 375,000 | 300,000 |
| | | | | $ 13,905,000 | $ 10,910,000 |

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

| Years Ending June 30, | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2017 | $ 785,000 | $ 192,289 |
| 2018 | 800,000 | 181,806 |
| 2019 | 810,000 | 171,060 |
| 2020 | 820,000 | 160,101 |
| 2021 | 835,000 | 148,903 |
| 2022 - 2026 | 4,260,000 | 571,209 |
| 2027 - 2029 | 2,600,000 | 161,006 |
| Total | $ 10,910,000 | $ 1,586,374 |

Compensated Absences Payable. The liability consists of unused vacation as of June 30, 2016. 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, 2016, 12 employees have accrued compensated absences.

Changes in Long-Term Debt. During the year ended June 30, 2016, the following changes occurred in liabilities reported in the government-wide financial statements:

| | Balance June 30, 2015 | Additions | Deletions | Balance June 30, 2016 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds Payable | | | | | |
| General Obligation Bonds Payable | $ 11,685,000 | $ - | $ 775,000 | $ 10,910,000 | $ 785,000 |
| Bond Premium | 49,825 | - | 3,559 | 46,266 | - |
| Bond Discount | (23,998) | - | (3,441) | (20,557) | - |
| Total Bonds Payable | 11,710,827 | - | 775,118 | 10,935,709 | 785,000 |
| Capital Lease Payable | 12,029 | - | 12,029 | - | - |
| Compensated Absences Payable | 48,219 | 84,351 | 82,500 | 50,070 | 15,311 |
| | $ 11,771,075 | $ 84,351 | $ 869,647 | $ 10,985,779 | $ 800,311 |

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 2015 Payable 2016 was $633,152,800.

### 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 2016, 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):

| | 2016 |
|---|---|
| Annual Required Contribution | $ 167,018 |
| Interest on Net OPEB Obligation | 3,027 |
| Amortization of Net OPEB Obligation | (4,665) |
| Annual OPEB Cost | 165,380 |
| Contributions Made | (256,777) |
| Change in Net OPEB Obligation | (91,397) |
| Net OPEB Obligation, beginning of year | 88,810 |
| Net OPEB Obligation (Asset), End of Year | $ (2,587) |

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 2016 and the preceding years were as follows:

| Fiscal Year Ended | Annual OPEB Cost | Actual Employer Contribution | Annual OPEB Cost Contributed | Net Ending OPEB Obligation |
|---|---|---|---|---|
| 06/30/14 | $ 187,108 | $ 212,824 | 113.7% | $ 118,494 |
| 06/30/15 | 188,202 | 217,886 | 115.8% | 88,810 |
| 06/30/16 | 165,380 | 256,777 | 155.3% | (2,587) |

*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.

*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.

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 fund balance reporting standards under Uniform Financial Accounting and Reporting Standards (UFARS) vary slightly from the fund balance reporting standards under GASB Statement No. 54. Below is a reconciliation between the fund balances reported under GASB standards and UFARS:

| | GASB Balance | Reconciling Transfer | UFARS Balance |
|---|---|---|---|
| General Fund | | | |
| Nonspendable | | | |
| Inventories | $ 13,205 | $ - | $ 13,205 |
| Prepaid items | 650 | - | 650 |
| Total nonspendable | 13,855 | - | 13,855 |
| Restricted | | | |
| Deferred maintenance | 60,378 | - | 60,378 |
| Health and safety | - | (152,923) | (152,923) |
| Operating capital | 294,166 | - | 294,166 |
| Disabled accessibility | 2,452 | - | 2,452 |
| Food service | 144,611 | - | 144,611 |
| Community education | 174,132 | - | 174,132 |
| Early childhood family education | 36,030 | - | 36,030 |
| School readiness | 40,711 | - | 40,711 |
| Community service | 10,916 | - | 10,916 |
| Debt service | 138,311 | - | 138,311 |
| Total restricted | 901,707 | (152,923) | 748,784 |
| Unassigned | 1,033,248 | 152,923 | 1,186,171 |
| Total Fund Balance | $ 1,948,810 | $ - | $ 1,948,810 |

### F. Transfers

The District made a transfer from the General fund to the Capital Projects fund to close out the fund.

## Note 4 - Pension Plans

### A. Single Employer Plan

*Plan Description* – The District has current and retired employees who have qualified for District's single employer pension benefits. The pension benefits are cash payments based on their education, hire date and years with the district. District contributions to the employees 403(b) reduce the amounts employee will receive under this pension plan. The pension does not issue a stand-alone financial report and any changes to the plan must be made by the school board. The pension benefits were measured at the discounted present value of the expected future benefit payments. The discount rate used was 3.5 percent. Current year pension payments and prior year pension payments were made from the general fund.

*Funding Policy* - For the fiscal year 2016, the District will continue on a "pay-as-you-go" funding policy.

*Annual Pension Cost and Net Pension Obligation (Asset)* – The District's annual pension 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. 27. 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 pension cost for the year, the amount actually contributed to the plan, and changes in the District's net pension obligation (asset):

| | 2016 |
|---|---|
| Annual Required Contribution | $ 37,649 |
| Interest on Net Pension Obligation (NPO) | (1,582) |
| Amortization of NPO | 2,438 |
| Annual Pension Cost | 38,505 |
| Contributions Made | (64,030) |
| Change in NPO | (25,525) |
| Net Pension Obligation (Asset), Beginning of Year | (46,401) |
| Net Pension Obligation (Asset), End of Year | $ (71,926) |

The District's annual pension cost, the percentage of annual pension cost contributed to the plan, and the net pension obligation (asset) for fiscal year 2016 and the preceding years were as follows:

| Fiscal Year Ended | Annual Pension Cost | Actual Employer Contribution | Annual Pension Cost Contributed | Net Ending Pension Obligation (Asset) |
|---|---|---|---|---|
| 06/30/14 | $ 72,434 | $ 102,913 | 142.1% | $ (290) |
| 06/30/15 | 72,950 | 119,061 | 163.2% | (46,401) |
| 06/30/16 | 38,505 | 64,030 | 166.3% | (71,926) |

*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 $310,526, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $310,526. The covered payroll (annual payroll of active employees covered by the plan) was $4,154,700, and the ratio of the UAAL to the covered payroll was 7.50 percent. There is a required schedule of funding progress following the notes to the financial statements.

*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.

In the July 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent discount rate and a 3.0 percent salary scale. The UAAL is being amortized as a level percentage of projected payroll on a closed basis over 30 years.

## B. Multi-Employer Plans

Substantially all employees of the District 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. Plan Descriptions

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

#### a. General Employees Retirement Fund (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

**b. Teachers Retirement Fund (TRA)**

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

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

**2. Benefits Provided**

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

PERA: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

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

### a. General Employees Retirement Fund (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% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

### b. Teachers Retirement Fund (TRA)

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.

### 3. Contributions

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

#### a. General Employees Retirement Fund (GERF)

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2016, were $79,258. The District's contributions were equal to the required contributions for each year as set by state statute.

#### b. Teachers Retirement Fund (TRA)

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

| | Ending June 30, 2015 | | Ending June 30, 2016 | |
|---|---|---|---|---|
| | Employees | Employers | Employees | Employers |
| Basic | 11.00% | 11.50% | 11.00% | 11.50% |
| Coordinated | 7.50% | 7.50% | 7.50% | 7.50% |

The District's contributions to TRA for the plan's fiscal year ended June 30, 2016, were $353,363. The District's contributions were equal to the required contributions for each year as set by state statute.

## 4. Pension Costs

### a. General Employees Retirement Fund (GERF)

At June 30, 2016, the District reported a liability of $912,123 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0176%, which was a decrease of 0.0021% from June 30, 2014.

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

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

For the year ended June 30, 2016, the District recognized pension expense of $96,922 for its proportionate share of GERF's pension expense.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 8,458 | $ 45,987 |
| Changes in actuarial assumptions | 56,804 | - |
| Difference between projected and actual investment earnings | - | 81,196 |
| Change in proportion and differences between contributions made and District's proportionate share of contributions | - | 73,986 |
| District's contributions to GERF subsequent to the measurement date | 79,258 | - |
| Total | $ 144,520 | $ 201,169 |

The $79,258 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|---|---|
| 2017 | $ (41,620) |
| 2018 | (41,621) |
| 2019 | (74,252) |
| 2020 | 21,586 |
| 2021 | - |

**b. Teachers Retirement Fund (TRA)**

At June 30, 2016, the District reported a liability of $5,660,180 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on The District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0915% at the end of the measurement period and 0.0994% for the beginning of the year.

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

| | |
|---|---|
| District's proportionate share of net pension liability | $ 5,660,180 |
| State's proportionate share of the net pension liability associated with the district | $ 694,117 |

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

For the year ended June 30, 2016, the District recognized pension expense of $591,855. It also recognized $122,711 as an increase to pension expense for the support provided by direct aid.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 5,373 | $ - |
| Changes in actuarial assumptions | 435,117 | - |
| Difference between projected and actual investment earnings | 561,258 | - |
| Change in proportion and differences between contributions made and District's proportionate share of contributions | - | 165,405 |
| District's contributions to TRA subsequent to the measurement date | 353,363 | - |
| Total | $ 1,355,111 | $ 165,405 |

The $353,363 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, 2016. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|---|---|
| 2017 | $ 209,086 |
| 2018 | 209,086 |
| 2019 | 209,086 |
| 2020 | 209,085 |
| 2021 | - |

### c. Actuarial Assumptions

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

| Assumptions | GERF | TRA |
|---|---|---|
| Inflation | 2.75% per year | 3.00% |
| Active Member Payroll Growth | 3.50% per year | 3.5% - 12% based on years of service |
| Investment Rate of Return | 7.90% per year | 8.00% |

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The actuarial assumptions used in the June 30, 2015, valuation were based on the results of an actuarial experience study for the period July 1, 2004, to June 30, 2008, and a limited scope experience study dated August 29, 2014. The limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2015 is 5.73 years. The "Difference Between Expected and Actual Experience" and "Changes of Assumptions" use the amortization period of 5.73 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68. The "Changes in Proportion" uses a rounded amortization period of 5.0 years.

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

| Asset Class | Target 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% |

### d. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.0% for TRA. For TRA this is a decrease from the discount rate at the prior measurement date of 8.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2016 contribution rate, contributions from school districts will be made at contractually required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

### e. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|---|---|---|---|
| GERF discount rate | 6.90% | 7.90% | 8.90% |
| District's proportionate share of the GERF net pension liability | $ 1,434,182 | $ 912,123 | $ 480,983 |
| TRA discount rate | 7.00% | 8.00% | 9.00% |
| District's proportionate share of the TRA net pension liability | $ 8,615,527 | $ 5,660,180 | $ 3,193,858 |

### f. Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, 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, 2016, 2015, and 2014, were $50,123, $58,870, and $61,279, respectively. The related employee contributions were $105,851, $128,316, and $138,418, for the years ended June 30, 2016, 2015, and 2014, 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. Joint Ventures

Southwest Metro Educational Cooperative (SMEC) is a joint venture comprised of nine member districts to provide specialized services to the participating school districts. Separate financial statements of the joint venture may be obtained from the SMEC. The District had purchases from SMEC of $154,620 for the year ended June 30, 2016, and a balance due to SMEC of $41,747 at June 30, 2016. The SMEC is not experiencing financial difficulties and is not anticipated to be a burden on the District.

### D. Related Party Transactions

The District purchases supplies from the local hardware store. The owner of the local hardware store is on the District's Board. The amount paid for supplies to the store during the year ended June 30, 2016, was $554 and the District has an accounts payable balance to the store of $0 as of June 30, 2016.

Required Supplementary Information
June 30, 2016

# Independent School District No. 108

Norwood Young America, Minnesota

**Statement No. 45 of the Governmental Accounting Standards Board**

| 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.

## Statement No. 27 of the Governmental Accounting Standards Board

| 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 | - | $ 693,549 | $ 693,549 | 0.0% | $ 5,206,440 | 13.3% |
| 07/01/12 | - | 777,566 | 777,566 | 0.0% | 3,996,765 | 19.5% |
| 07/01/15 | - | 310,526 | 310,526 | 0.0% | 4,154,700 | 7.5% |

## Note to the Schedules of Funding Progress

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

- The mortality table was updated from the projection of RP 2000 rates to 2013 to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- 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.

## 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 | 06/30/15 | 0.0176% | $ 912,123 | N/A | $ 912,123 | $ 1,031,556 | 88.4% | 78.2% |
| PERA | 06/30/14 | 0.0197% | 925,407 | N/A | $ 925,407 | $ 1,036,762 | 89.3% | 78.8% |
| TRA | 06/30/15 | 0.0915% | $ 5,660,180 | $ 694,117 | $ 6,354,297 | $ 4,728,744 | 119.7% | 76.8% |
| TRA | 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 | 06/30/16 | $ 79,258 | $ 79,258 | $ - | $ 1,056,872 | 7.5% |
| PERA | 06/30/15 | 76,199 | $ 76,199 | $ - | $ 1,031,556 | 7.4% |
| TRA | 06/30/16 | $ 353,363 | $ 353,363 | $ - | $ 4,799,319 | 7.4% |
| TRA | 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

Since the last actuarial valuation as of June 30, 2014, the following have been changed:

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

| | Budgeted Amounts | | Actual | Variance With |
|---|---|---|---|---|
| | Original | Final | Amounts | Final Budget |
| **Revenues** | | | | |
| Local property tax levies | $ 1,252,810 | $ 895,200 | $ 1,320,448 | $ 425,248 |
| Other local and county sources | 231,256 | 231,678 | 285,482 | 53,804 |
| State sources | 7,902,544 | 8,375,802 | 8,166,768 | (209,034) |
| Federal sources | 404,498 | 415,887 | 366,884 | (49,003) |
| Local sales and insurance recovery | 1,700 | 1,700 | 1,787 | 87 |
| Total revenues | 9,792,808 | 9,920,267 | 10,141,369 | 221,102 |
| **Expenditures** | | | | |
| Administration | 775,835 | 778,528 | 743,302 | 35,226 |
| District support services | 216,315 | 263,998 | 284,544 | (20,546) |
| Regular instruction | 4,446,890 | 4,655,570 | 4,731,322 | (75,752) |
| Vocational instruction | 116,977 | 115,354 | 105,687 | 9,667 |
| Special education instruction | 1,774,332 | 1,826,955 | 1,682,237 | 144,718 |
| Instructional support services | 271,350 | 269,070 | 337,545 | (68,475) |
| Pupil support services | 774,587 | 786,678 | 790,210 | (3,532) |
| Sites and buildings | 999,869 | 1,028,479 | 1,039,920 | (11,441) |
| Fiscal and other fixed cost programs | 39,768 | 46,100 | 46,055 | 45 |
| Debt service | | | | |
| Principal | - | 1,200 | 12,029 | (10,829) |
| Interest and fiscal charges | 494 | - | - | - |
| Total expenditures | 9,416,417 | 9,771,932 | 9,772,851 | (919) |
| Excess (deficiency) of revenues over (under) expenditures | 376,391 | 148,335 | 368,518 | 220,183 |
| Other Financing Sources | | | | |
| Operating Transfers in (Out) | - | - | (2,674) | (2,674) |
| Net Change in Fund Balances | 376,391 | 148,335 | 365,844 | 217,509 |
| Fund Balances - Beginning | 1,025,050 | 1,025,050 | 1,025,050 | - |
| Fund Balances - Ending | $ 1,401,441 | $ 1,173,385 | $ 1,390,894 | $ 217,509 |

## 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, 2016, 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, 2016, expenditures exceeded appropriations in the general fund (the legal level of budgetary control) by $1,279. These over expenditures were funded by greater than anticipated revenues.

Supplementary Information
June 30, 2016

# Independent School District No. 108

Norwood Young America, Minnesota

# Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2016

| | Special Revenue Funds | | | |
|---|---|---|---|---|
| | Food Service | Community Service | Capital Projects | Total Nonmajor Funds |
| **Assets** | | | | |
| Cash and investments | $ 174,806 | $ 396,074 | $ - | $ 570,880 |
| Receivables | | | | |
| Current property taxes | - | 45,570 | - | 45,570 |
| Delinquent property taxes | - | 2,331 | - | 2,331 |
| Accounts | - | 2,800 | 15,000 | 17,800 |
| Due from Minnesota Department of Education | 128 | 10,808 | - | 10,936 |
| Due from Federal through Minnesota Department of Education | 597 | - | - | 597 |
| Inventories | 13,205 | - | - | 13,205 |
| Total assets | $ 188,736 | $ 457,583 | 15,000 | $ 661,319 |
| **Liabilities** | | | | |
| Salaries payable | $ - | $ 37,031 | $ - | $ 37,031 |
| Checks in excess of deposits | - | - | 15,000 | 15,000 |
| Accounts payable | 20,268 | 7,604 | - | 27,872 |
| Due to other governmental units | - | 23,200 | - | 23,200 |
| Unearned revenue | 10,652 | 31,608 | - | 42,260 |
| Total liabilities | 30,920 | 99,443 | 15,000 | 145,363 |
| **Deferred Inflows of Resources** | | | | |
| Unavailable revenue - delinquent taxes | - | 2,331 | - | 2,331 |
| Unavailable revenue - property taxes | - | 94,020 | - | 94,020 |
| Total deferred Inflows of Resources | - | 96,351 | - | 96,351 |
| **Fund Balances** | | | | |
| Nonspendable | | | | |
| Inventories | 13,205 | - | - | 13,205 |
| Restricted | | | | |
| Community education | - | 174,132 | - | 174,132 |
| Early childhood family education | - | 36,030 | - | 36,030 |
| School readiness | - | 40,711 | - | 40,711 |
| Other purposes | 144,611 | 10,916 | - | 155,527 |
| Total fund balances | 157,816 | 261,789 | - | 419,605 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 188,736 | $ 457,583 | 15,000 | $ 661,319 |

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2016

| | Special Revenue Funds | | | |
|---|---|---|---|---|
| | Food Service | Community Service | Capital Projects | Total Nonmajor Funds |
| Revenues | | | | |
| Local property tax levies | $ - | $ 113,853 | $ - | $ 113,853 |
| Other local and county sources | 2,728 | 682,918 | 15,053 | 700,699 |
| State sources | 24,254 | 107,530 | - | 131,784 |
| Federal sources | 181,729 | - | - | 181,729 |
| Local sales and insurance recovery | 303,891 | - | - | 303,891 |
| Total revenues | 512,602 | 904,301 | 15,053 | 1,431,956 |
| Expenditures | | | | |
| Community education and services | - | 876,719 | - | 876,719 |
| Pupil support services | 509,005 | - | - | 509,005 |
| Sites and buildings | - | - | 52,752 | 52,752 |
| Total expenditures | 509,005 | 876,719 | 52,752 | 1,438,476 |
| Excess (deficiency) of revenues over (under) expenditures | 3,597 | 27,582 | (37,699) | (6,520) |
| Other Financing Sources (Uses) | | | | |
| Sale of equipment | 1,500 | - | - | 1,500 |
| Operating Transfers in (Out) | - | - | 2,674 | 2,674 |
| Total Other Financing Sources (Uses) | 1,500 | - | 2,674 | 4,174 |
| Net Change in Fund Balances | 5,097 | 27,582 | (35,025) | (2,346) |
| Fund Balances - Beginning | 152,719 | 234,207 | 35,025 | 421,951 |
| Fund Balances - Ending | $ 157,816 | $ 261,789 | - | $ 419,605 |

| Activity Account | Beginning Balance | Receipts | Disbursements | Ending Balance |
|---|---|---|---|---|
| Band | $ 38 | $ 3,976 | $ 4,002 | $ 12 |
| C-Club | 4,154 | 716 | 630 | 4,240 |
| Baseball | 6,003 | 10,110 | 12,856 | 3,257 |
| Cheerleading | 727 | 4,473 | 3,871 | 1,329 |
| Cross Country | 6,176 | 13,383 | 14,090 | 5,469 |
| Dance | 1,489 | 1,099 | 1,817 | 771 |
| Golf | 2,444 | 1,156 | 1,289 | 2,311 |
| Speech | 2,900 | 1,316 | 1,472 | 2,744 |
| Track | 2,256 | 4,785 | 3,722 | 3,319 |
| Volleyball | 6,731 | 2,571 | 5,793 | 3,509 |
| Choir | 446 | 4,365 | 4,514 | 297 |
| Class of 2016 | 4,820 | 604 | 5,424 | - |
| Class of 2017 | 886 | 14,498 | 11,258 | 4,126 |
| Class of 2018 | 355 | 780 | 140 | 995 |
| Class of 2019 | - | 281 | 70 | 211 |
| Drama | 558 | 3,098 | 915 | 2,741 |
| Elem Student Council | 27,991 | 23,996 | 21,466 | 30,521 |
| Elem Fall Festival | 468 | 536 | 147 | 857 |
| Elem Field Day | 1,209 | - | - | 1,209 |
| Elem Field Trip | 475 | 10,221 | 10,285 | 411 |
| Elem Media | 3,243 | 5,483 | 4,157 | 4,569 |
| Elem Yearbook | 4,517 | 2,840 | 2,506 | 4,851 |
| FFA | 5,209 | 13,931 | 16,349 | 2,791 |
| FCCLA | 1,780 | - | - | 1,780 |
| H.S. Science | 365 | 180 | 180 | 365 |
| H.S. Yearbook | 5,694 | 10,126 | 8,928 | 6,892 |
| Interest | - | 293 | 293 | - |
| International | 520 | - | - | 520 |
| M.S. St. Council | 11,450 | 15,176 | 13,077 | 13,549 |
| M.S. Student Recognition | 430 | 450 | 526 | 354 |
| M.S. Yearbook | 1,517 | 696 | 1,774 | 439 |
| Misc. | 215 | 373 | 137 | 451 |
| N.H.S. | 1,097 | 3,071 | 3,649 | 519 |
| SSSR | 595 | 1,030 | 1,443 | 182 |
| Student Council | 4,486 | 9,495 | 9,349 | 4,632 |
| Student R.A.K. | 3,013 | 3,299 | 1,623 | 4,689 |
| | $ 114,257 | $ 168,407 | $ 167,752 | $ 114,912 |

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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, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 18, 2016.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* 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 Political Subdivisions.* 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.

Eide Bailly LLP

Mankato, Minnesota
November 18, 2016

| 01 GENERAL FUND | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $10,141,369 | $10,141,368 | $1 |
| Total Expenditures | $9,772,851 | $9,772,852 | ($1) |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $650 | $650 | $0 |
| *Restricted / Reserved:* | | | |
| 4.03 Staff Development | $0 | $0 | $0 |
| 4.05 Deferred Maintenance | $60,378 | $60,378 | $0 |
| 4.06 Health and Safety | ($152,923) | ($152,923) | $0 |
| 4.07 Capital Projects Levy | $0 | $0 | $0 |
| 4.08 Cooperative Revenue | $0 | $0 | $0 |
| 4.09 Alternative Facility Program | $0 | $0 | $0 |
| 4.13 Project Funded by COP | $0 | $0 | $0 |
| 4.14 Operating Debt | $0 | $0 | $0 |
| 4.16 Levy Reduction | $0 | $0 | $0 |
| 4.17 Taconite Building Maint | $0 | $0 | $0 |
| 4.23 Certain Teacher Programs | $0 | $0 | $0 |
| 4.24 Operating Capital | $294,166 | $294,166 | $0 |
| 4.26 $25 Taconite | $0 | $0 | $0 |
| 4.27 Disabled Accessibility | $2,452 | $2,452 | $0 |
| 4.28 Learning & Development | $0 | $0 | $0 |
| 4.34 Area Learning Center | $0 | $0 | $0 |
| 4.35 Contracted Alt. Programs | $0 | $0 | $0 |
| 4.36 State Approved Alt. Program | $0 | $0 | $0 |
| 4.38 Gifted & Talented | $0 | $0 | $0 |
| 4.40 Teacher Development and Evaluation | $0 | $0 | $0 |
| 4.41 Basic Skills Programs | $0 | $0 | $0 |
| 4.45 Career Tech Programs | $0 | $0 | $0 |
| 4.48 Achievement and Integration | $0 | $0 | $0 |
| 4.49 Safe School Crime - Crime Levy | $0 | $0 | $0 |
| 4.50 Pre-Kindergarten | $0 | $0 | $0 |
| 4.51 QZAB Payments | $0 | $0 | $0 |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| 4.53 Unfunded Sev & Retiremt Levy | $0 | $0 | $0 |
| 4.67 LTFM | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Committed:* | | | |
| 4.18 Committed for Separation | $0 | $0 | $0 |
| 4.61 Committed Fund Balance | $0 | $0 | $0 |
| *Assigned:* | | | |
| 4.62 Assigned Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.22 Unassigned Fund Balance | $1,186,171 | $1,186,170 | $1 |

| 02 FOOD SERVICES | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $512,602 | $512,602 | $0 |
| Total Expenditures | $509,005 | $509,006 | ($1) |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $13,205 | $13,205 | $0 |
| *Restricted / Reserved:* | | | |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $144,611 | $144,611 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balancee | $0 | $0 | $0 |

| 04 COMMUNITY SERVICE | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $904,301 | $904,301 | $0 |
| Total Expenditures | $876,719 | $876,721 | ($2) |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.26 $25 Taconite | $0 | $0 | $0 |
| 4.31 Community Education | $174,132 | $174,132 | $0 |
| 4.32 E.C.F.E | $36,030 | $36,030 | $0 |
| 4.40 Teacher Development and Evaluation | $0 | $0 | $0 |
| 4.44 School Readiness | $40,711 | $40,711 | $0 |
| 4.47 Adult Basic Education | $0 | $0 | $0 |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $10,916 | $10,915 | $1 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

| 06 BUILDING CONSTRUCTION | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $15,053 | $15,054 | ($1) |
| Total Expenditures | $52,752 | $52,752 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.07 Capital Projects Levy | $0 | $0 | $0 |
| 4.09 Alternative Facility Program | $0 | $0 | $0 |
| 4.13 Project Funded by COP | $0 | $0 | $0 |
| 4.67 LTFM | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

| 07 DEBT SERVICE | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $998,511 | $998,511 | $0 |
| Total Expenditures | $983,371 | $983,371 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.25 Bond Refundings | $0 | $0 | $0 |
| 4.51 QZAB Payments | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $138,311 | $138,311 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

| 08 TRUST | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $2,538 | $2,538 | $0 |
| Total Expenditures | $3,250 | $3,250 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $25,376 | $25,376 | $0 |

| 20 INTERNAL SERVICE | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |

| 25 OPEB REVOCABLE TRUST | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |

| 45 OPEB IRREVOCABLE TRUST | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |

| 47 OPEB DEBT SERVICE | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.25 Bond Refundings | $0 | $0 | $0 |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

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**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), Norwood Young America, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 18, 2016.

**Internal Control over Financial Reporting**

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

Our consideration of internal control 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 were not 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 audit findings to be material weaknesses: 2016-A, 2016-B, and 2016-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*.

**Response to Findings**

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

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Eide Bailly LLP

Mankato, Minnesota
November 18, 2016

## A. Findings – Financial Statement Audit

**Material Weakness – previously reported items not resolved**

### 2016-A Segregation of Duties

*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.
*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.
*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.

### 2016-B Preparation of 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.
*Criteria*: A good system of internal control contemplates an adequate system for drafting of the financial statements.
*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.

2016-C: Significant Journal Entries

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

## B. Minnesota Legal and Other Compliance Findings

2016-D Student Activity Controls

*Condition:* The District did not follow the Manual for Activity Fund Accounting (MAFA) when administering the Student Activity accounts. Student activity funds were not administered with the requisite level of student oversight, board minutes were not available, and the student activity forms were not completed for all activities.
*Criteria:* The Minnesota Department of Education requires compliance with the MAFA manual for financial management of student activity accounts not under board control.
*Cause:* The District was unaware of some of the restrictions and failed to enforce other controls.
*Effect:* This control deficiency could allow improper use of student activity funds.
*Recommendation:* We recommend the District follow the guidance of the MAFA manual for all student activities not under board control. The District should also consider bringing the Student Activity accounts under Board control if they are not going to follow the manual.
*Views of Responsible Officials:* There is no disagreement with this finding.

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**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, 2016, and have issued our report thereon dated November 18, 2016. 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: 2016-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.

Eide Bailly LLP

Mankato, Minnesota
November 18, 2016



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