



Financial Report
June 30, 2015



**Independent School
District No. 108**
Norwood Young America, Minnesota

INTRODUCTORY SECTION

List of Elected School Officials..... I

FINANCIAL SECTION

Independent Auditor's Report II

Management's Discussion and Analysis V

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Position 1
Statement of Activities 2

Fund Financial Statements:

Balance Sheet – Governmental Funds 3
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position 4
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 5
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 6
Statement of Fiduciary Net Position – Fiduciary Funds 7
Statement of Changes in Fiduciary Net Position – Fiduciary Funds 8
Notes to Financial Statements 9

Required Supplementary Information:

Schedules of Funding Progress as Required by Statement No. 45 and No. 27 of the Governmental Accounting Standards Board 33
Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions 35
Budgetary Comparison Schedules:
General Fund 36
Notes to Required Supplementary Information 37

Combining and Individual Fund Financial Statements and Schedules:

Combining Balance Sheet – Nonmajor Governmental Funds 38
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds 39
Student Activity Treasurer's Report 40

MINNESOTA COMPLIANCE SECTION

Independent Auditor's Report on Minnesota Legal Compliance 41
Uniform Financial Accounting and Reporting Standards Compliance Table 42

AUDIT OF FEDERAL AWARDS SECTION

Schedule of Expenditures of Federal Awards 43
Notes to Schedule of Expenditures of Federal Awards 44

ADDITIONAL REPORTS AND SCHEDULE

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* .. 45
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133 47
Summary of Audit Results, Findings, and Questioned Costs 49
Independent Auditor's Report on Compliance over Financial Reporting of the Student Activity Accounts 54

Independent School District No. 108
Norwood Young America, Minnesota
List of Elected School Officials
June 30, 2015

Board of Education

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



CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 108 (District), Norwood Young America, Minnesota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2015, 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.

Change in Accounting Principle

As discussed in Notes 1 and 7 to the financial statements, the District has adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which has resulted in a restatement of the net position as of July 1, 2014. Our opinions are not modified with respect to this matter.

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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organization*, and is also not a required part of the financial statements.

The combining and individual fund statements and schedules, Student Activity Treasurer's Report, the Uniform Financial Accounting and Reporting Standards Compliance Table, and the schedule of expenditures of federal awards are the responsibility of management and were derived from, and relate directly, to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 December 14, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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
December 14, 2015

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

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, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2014-2015 fiscal year include the following:

- Net position increased by \$557,393 from June 30, 2014.
- Overall total revenues were \$12,154,959 as compared to \$11,597,566 of expenses.
- Total fund balance of the General Fund increased \$203,772 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

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

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

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* net position was \$863,780 on June 30, 2015 (see Table A-1).

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

	2015	2014	Percentage Change
ASSETS			
Current assets	\$ 4,342,889	\$ 7,180,211	-39.52%
Capital assets	17,503,811	15,018,904	16.55%
Total assets	21,846,700	22,199,115	-1.59%
DEFERRED OUTFLOWS OF RESOURCES			
Pension plans	925,082	-	N/A
LIABILITIES			
Other liabilities	731,678	679,111	7.74%
Long-term liabilities	17,365,572	12,419,167	39.83%
Total liabilities	18,097,250	13,098,278	38.17%
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	2,021,051	2,292,166	-11.83%
Pension plans	1,789,701	-	N/A
Total deferred inflows of resources	3,810,752	2,292,166	66.25%
NET POSITION			
Net investment in capital assets	5,806,782	2,824,056	105.62%
Restricted for specific purposes	838,100	4,015,683	-79.13%
Unrestricted	(5,781,102)	(31,068)	18507.90%
Total net position	\$ 863,780	\$ 6,808,671	-87.31%

*Due to the implementation of GASB 68 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$12,154,959 for the year ended June 30, 2015 (see Table A-2). Property taxes and state and federal formula aid accounted for approximately 74% of total revenue for the year. Another 1% came from other general revenues combined with investment earnings and the remainder from program revenues.

**TABLE A-2
STATEMENT OF ACTIVITIES**

	2015	2014	Percentage Change
REVENUES			
Program revenues			
Charges for service	\$ 1,109,927	\$ 1,081,056	2.67%
Operating grants and contributions	1,743,374	1,874,508	-7.00%
Capital grants and contributions	126,665	73,784	71.67%
General			
Property taxes	2,292,253	2,327,722	-1.52%
Aids and payments from state and other	6,703,248	6,064,103	10.54%
Unrestricted investment earnings	4,710	1,896	148.42%
Miscellaneous revenues	174,782	155,646	12.29%
Total revenues	<u>12,154,959</u>	<u>11,578,715</u>	4.98%
EXPENSES			
District and school administration	796,277	780,908	1.97%
District support services	284,652	232,174	22.60%
Regular instruction	4,453,018	4,722,101	-5.70%
Vocational instruction	113,207	140,001	-19.14%
Special Education instruction	1,824,323	1,757,444	3.81%
Community education and services	854,333	760,390	12.35%
Instructional support services	331,603	396,542	-16.38%
Pupil support services	1,270,216	1,311,637	-3.16%
Site, buildings and equipment	1,417,881	1,631,941	-13.12%
Fiscal and other fixed-cost programs	39,956	47,819	-16.44%
Interest and fiscal charges on long-term debt	212,100	147,756	43.55%
Total expenses	<u>11,597,566</u>	<u>11,928,713</u>	-2.78%
CHANGE IN NET POSITION	557,393	(349,998)	-259.26%
NET POSITION - BEGINNING, AS RESTATED	<u>306,387</u>	<u>6,876,094</u>	-95.54%
NET POSITION - ENDING	<u>\$ 863,780</u>	<u>\$ 6,526,096</u>	-86.76%

*Due to the implementation of GASB 68 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

The total cost of all programs and services less interest and fiscal charges was \$11,597,566. Total revenues exceeded expenses, increasing net position \$557,393 from the prior year. Significant changes between years relate to an increase in state aids and payments and a decrease in regular instruction and site, buildings and equipment.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

The cost of all *governmental* activities this year was \$11,597,566.

- Some of the cost was paid by the users of the District's programs (\$1,109,927).
- The federal and state governments subsidized certain programs with grants and contributions (\$1,870,039).
- Most of the District's costs (\$8,995,501), however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$2,292,253 in property taxes and \$6,703,248 of state aid based on the statewide education aid formula.

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2015	2014		2015	2014	
District and school administration	\$ 796,277	\$ 780,908	1.97%	\$ 796,277	\$ 780,908	1.97%
District support services	284,652	232,174	22.60%	284,652	232,174	22.60%
Regular instruction	4,453,018	4,722,101	-5.70%	3,721,458	3,878,537	-4.05%
Vocational instruction	113,207	140,001	-19.14%	113,207	140,001	-19.14%
Special Education instruction	1,824,323	1,757,444	3.81%	869,067	798,677	8.81%
Community education and services	854,333	760,390	12.35%	201,223	161,756	24.40%
Instructional support services	331,603	396,542	-16.38%	331,603	396,542	-16.38%
Pupil support services	1,270,216	1,311,637	-3.16%	778,231	783,026	-0.61%
Site, buildings and equipment	1,417,881	1,631,941	-13.12%	1,269,826	1,532,169	-17.12%
Fiscal and other fixed-costs	39,956	47,819	-16.44%	39,956	47,819	-16.44%
Interest and fiscal charges on long-term debt	212,100	147,756	43.55%	212,100	147,756	43.55%
	<u>\$ 11,597,566</u>	<u>\$ 11,928,713</u>	-2.78%	<u>\$ 8,617,600</u>	<u>\$ 8,899,365</u>	-3.17%

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 \$1,570,172, which is a \$2,640,678 decrease from last year's ending fund balance of \$4,210,850.

Revenues and other financing sources for the District's governmental funds were \$12,547,123 while total expenditures and other financing sources were \$15,187,801.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

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.

The following schedule presents a summary of General Fund Revenues.

General Fund Revenues

Total General Fund Revenue increased by \$378,050 from the previous year, due to an increase in state aids. 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 decreased \$183,853 from the previous year. This is due to a variety of factors including a decrease in purchased services.

In 2014-2015, General Fund revenues were greater than expenditures by \$203,772. Therefore, total fund balance increased to \$1,025,050 at June 30, 2015. After deducting non-spendable, restricted and assigned fund balances, the unassigned fund balance increased from \$189,829 at June 30, 2014 to \$758,759 at June 30, 2015.

The unassigned fund balance is the single best measure of overall financial health. The unassigned fund balance of \$758,759 at June 30, 2015 represents 7.9% of annual expenditures or about 1 month of operations. The District has a Board approved fund policy requiring a minimum 7.7% or one month's operation be maintained.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

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 \$133,338 more than expected, due in part to increase in state funding sources.

The actual expenditures were \$13,311 over budget.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$83,745, the actual results for the year show revenues exceeding expenditures by \$203,772.

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 6/30/14	Fund Balance As of 6/30/15
Food Service Fund	\$ 467,787	\$ 463,495	\$ -	\$ 4,292	\$ 148,427	\$ 152,719
Community Service	847,495	852,977	-	(5,482)	239,689	234,207
Debt Service	974,918	1,058,110	5,625	(77,567)	200,738	123,171
Building Construction	16,052	3,151,120	369,375	(2,765,693)	2,800,718	35,025
	<u>\$ 2,306,252</u>	<u>\$ 5,525,702</u>	<u>\$ 375,000</u>	<u>\$ (2,844,450)</u>	<u>\$ 3,389,572</u>	<u>\$ 545,122</u>

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	2011	2012	2013	2014	2015
ECSE	12	15	16	14	13
Hcp. Kdgt.	15	10	10	10	10
Kdgt.	62	60	78	57	55
1-3	198	214	210	224	213
4-6	210	218	200	195	213
7-12	503	473	485	472	470
Total	1,000	990	999	972	975
ADM Change		(10)	9	(27)	3
% Change		-1%	1%	-3%	0%

Overall student membership increased 3 students in fiscal year 2014-2015.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015, 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 \$690,469.

	2015	2014	Percentage Change
Land	\$ 83,710	\$ 83,710	0.00%
Construction in progress	3,607,919	465,893	674.41%
Land improvements	137,493	137,493	0.00%
Buildings and improvements	21,086,942	21,083,992	0.01%
Equipment	1,906,372	1,875,972	1.62%
Accumulated depreciation	<u>(9,318,625)</u>	<u>(8,628,156)</u>	8.00%
 Total capital assets	 <u>\$ 17,503,811</u>	 <u>\$ 15,018,904</u>	 16.55%

Long-Term Liabilities

At the end of 2014-2015, the District's liabilities were \$11,697,029 for General Obligation Bonds and Capital Leases. This is a 4% decrease from the 2014 year-end.

The District also has \$90,628 in post-employment, pension, and compensated absences payable at June 30, 2015, a decrease of \$107,746 since June 30, 2014.

	2015	2014	Percentage Change
General Obligation Bonds Payable	\$ 11,685,000	\$ 12,165,000	-3.95%
Capital Lease Payable	12,029	29,848	-59.70%
Compensated Absences Payable	48,219	80,170	-39.85%
	<u>\$ 11,745,248</u>	<u>\$ 12,275,018</u>	-4.32%

The District' multi-employer plans have a Net Pension Liability of \$5,505,687 at year end due to the implementation of GASB Statement No. 68, which required the reporting of a liability as well as other pension amounts on the statement of activities.

**INDEPENDENT SCHOOL DISTRICT NO. 108
NORWOOD YOUNG AMERICA, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2015**

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. In FY15, some of the following changes were introduced:

Basic Formula Allowance - FY15 formula allowance was \$5,831. The net formula increase in 2014-2015 is \$105 – an \$80 per pupil increase was authorized during the 2013 legislative session, and an additional \$25 per pupil was authorized during the 2014 legislative session. However, due to pupil weighting changes that go into effect for 2014-15, the formula allowance is adjusted to reflect these changes.

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, 2015

Assets	
Cash and cash equivalents	\$ 2,034,630
Receivables:	
Current property taxes	1,020,325
Delinquent property taxes	58,767
Accounts receivable	21,208
Due from other Minnesota school districts	78,804
Due from Minnesota Department of Education	916,878
Due from Federal through Minnesota Department of Education	155,826
Prepaid items	360
Single-employer plan net pension asset	46,401
Inventories	9,690
Capital assets not being depreciated:	
Land	83,710
Construction in progress	3,607,919
Capital assets, net of accumulated depreciation:	
Land improvements	90,470
Buildings and improvements	13,272,715
Equipment	448,997
	<u>21,846,700</u>
Total assets	<u>21,846,700</u>
Deferred Outflows of Resources	
Pension plans	<u>925,082</u>
Liabilities	
Salaries payable	55,162
Accounts payable	202,267
Interest payable	85,180
Due to other Minnesota school districts	183,895
Due to other governmental units	6,336
Payroll deductions	161,074
Unearned revenue	37,764
Noncurrent liabilities:	
Multi-employer plans net pension liability	5,505,687
Due within one year	787,029
Due in more than one year	11,072,856
	<u>18,097,250</u>
Total liabilities	<u>18,097,250</u>
Deferred Inflows of Resources	
Unavailable revenue - property taxes	2,021,051
Pension plans	1,789,701
	<u>3,810,752</u>
Total deferred inflows of resources	<u>3,810,752</u>
Net Position	
Net investment in capital assets	5,806,782
Restricted for:	
Debt service	147,379
Building construction	35,025
Food service	152,719
Community service	237,046
Other purposes	265,931
Unrestricted	(5,781,102)
	<u>863,780</u>
Total net position	<u>\$ 863,780</u>

Independent School District No. 108
Norwood Young America, Minnesota
Statement of Activities
Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Administration	\$ 796,277	\$ -	\$ -	\$ -	\$ (796,277)
District support services	284,652	-	-	-	(284,652)
Regular instruction	4,453,018	117,839	613,721	-	(3,721,458)
Vocational instruction	113,207	-	-	-	(113,207)
Special education instruction	1,824,323	120,847	834,409	-	(869,067)
Community education and services	854,333	559,385	93,725	-	(201,223)
Instructional support services	331,603	-	-	-	(331,603)
Pupil support services	1,270,216	290,466	201,519	-	(778,231)
Sites and buildings	1,417,881	21,390	-	126,665	(1,269,826)
Fiscal and other fixed cost programs	39,956	-	-	-	(39,956)
Interest and fiscal charges	212,100	-	-	-	(212,100)
Total Governmental Activities	<u>\$ 11,597,566</u>	<u>\$ 1,109,927</u>	<u>\$ 1,743,374</u>	<u>\$ 126,665</u>	<u>(8,617,600)</u>
General Revenues					
Property taxes and other county sources					2,292,253
State aid not restricted to specific purposes					6,703,248
Earnings on investments					4,710
Miscellaneous					174,782
Total general revenues					<u>9,174,993</u>
Changes in Net Position					<u>557,393</u>
Net Position - Beginning, as Previously Reported					6,808,671
Restatement (Note 7)					<u>(6,502,284)</u>
Net Position - Beginning, as Restated					<u>306,387</u>
Net Position - Ending					<u>\$ 863,780</u>

Independent School District No. 108
 Norwood Young America, Minnesota
 Balance Sheet – Governmental Funds
 June 30, 2015

	General	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 808,683	\$ 189,293	\$ 566,415	\$ 470,239	\$ 2,034,630
Receivables					
Current property taxes	547,331	-	423,352	49,642	1,020,325
Delinquent property taxes	31,720	-	24,208	2,839	58,767
Accounts receivable	334	-	-	20,874	21,208
Due from other Minnesota School Districts	78,804	-	-	-	78,804
Due from Minnesota Department of Education	904,468	-	2,116	10,294	916,878
Due from Federal through Minnesota Department of Education	155,826	-	-	-	155,826
Inventories	-	-	-	9,690	9,690
Prepaid items	360	-	-	-	360
Total assets	\$ 2,527,526	\$ 189,293	\$ 1,016,091	\$ 563,578	\$ 4,296,488
Liabilities					
Salaries payable	\$ 15,700	\$ -	\$ -	\$ 39,462	\$ 55,162
Accounts payable	42,669	154,268	-	5,330	202,267
Due to other Minnesota School Districts	183,895	-	-	-	183,895
Due to other governmental units	2,573	-	-	3,763	6,336
Payroll deductions	156,425	-	-	4,649	161,074
Unearned revenue	19,020	-	-	18,744	37,764
Total liabilities	420,282	154,268	-	71,948	646,498
Deferred Inflows of Resources					
Unavailable revenue - delinquent taxes	31,720	-	24,208	2,839	58,767
Unavailable revenue - property taxes	1,050,474	-	868,712	101,865	2,021,051
Total deferred inflows of resources	1,082,194	-	892,920	104,704	2,079,818
Fund Balances					
Nonspendable					
Prepaid items	360	-	-	-	360
Inventories	-	-	-	9,690	9,690
Restricted					
Deferred maintenance	87,908	-	-	-	87,908
Disabled accessibility	5,307	-	-	-	5,307
Operating capital	172,716	-	-	-	172,716
Community education	-	-	-	169,877	169,877
Early childhood family education	-	-	-	32,691	32,691
School readiness	-	-	-	24,888	24,888
Other purposes	-	35,025	123,171	149,780	307,976
Unassigned	758,759	-	-	-	758,759
Total fund balances	1,025,050	35,025	123,171	386,926	1,570,172
Total liabilities, deferred inflows of resources, and fund balances	\$ 2,527,526	\$ 189,293	\$ 1,016,091	\$ 563,578	\$ 4,296,488

Independent School District No. 108
 Norwood Young America, Minnesota
 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
 June 30, 2015

Total Fund Balances for Governmental Funds \$ 1,570,172

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. The cost of these assets is \$26,822,436 and the accumulated depreciation is \$9,318,625.	17,503,811
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.	58,767
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for general obligation bonds is \$85,180.	(85,180)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.	(864,619)

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	11,685,000	
Capital Lease Payable	12,029	
OPEB Obligation	88,810	
Compensated Absences Payable	48,219	
Multi-Employer Plans Net Pension Liability	5,505,687	
Single-Employer Plan Net Pension Asset	(46,401)	
Unamortized Bond Premium	49,825	
Unamortized Bond Discount	(23,998)	
	(17,319,171)	(17,319,171)

Total Net Position for Governmental Activities \$ 863,780

Independent School District No. 108
Norwood Young America, Minnesota

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2015

	General	Capital Projects	Debt Service	Total Nonmajor Funds	Total Governmental Funds
Revenues					
Local property tax levies	\$ 1,279,051	\$ -	\$ 953,046	\$ 126,631	\$ 2,358,728
Other local and county sources	354,062	16,052	711	626,883	997,708
State sources	7,854,930	-	21,161	120,040	7,996,131
Federal sources	376,583	-	-	151,262	527,845
Local sales and insurance recovery	1,245	-	-	290,466	291,711
Total revenues	9,865,871	16,052	974,918	1,315,282	12,172,123
Expenditures					
Administration	794,921	-	-	-	794,921
District support services	284,620	-	-	-	284,620
Regular instruction	4,471,405	-	-	-	4,471,405
Vocational instruction	112,481	-	-	-	112,481
Special education instruction	1,824,075	-	-	-	1,824,075
Community education and services	-	-	-	852,977	852,977
Instructional support services	330,542	-	-	-	330,542
Pupil support services	792,546	-	-	463,495	1,256,041
Sites and buildings	992,077	3,151,120	-	-	4,143,197
Fiscal and other fixed cost programs	39,956	-	-	-	39,956
Debt service:					
Principal	17,819	-	855,000	-	872,819
Interest and fiscal charges	1,657	-	203,110	-	204,767
Total expenditures	9,662,099	3,151,120	1,058,110	1,316,472	15,187,801
Excess (deficiency) of revenues over (under) expenditures	203,772	(3,135,068)	(83,192)	(1,190)	(3,015,678)
Other Financing Sources (Uses)					
Bonds issued	-	375,000	-	-	375,000
Operating Transfers in (out)	-	(5,625)	5,625	-	-
Total other financing sources (uses)	-	369,375	5,625	-	375,000
Net Change in Fund Balances	203,772	(2,765,693)	(77,567)	(1,190)	(2,640,678)
Fund Balances - Beginning	821,278	2,800,718	200,738	388,116	4,210,850
Fund Balances - Ending	<u>\$ 1,025,050</u>	<u>\$ 35,025</u>	<u>\$ 123,171</u>	<u>\$ 386,926</u>	<u>\$ 1,570,172</u>

Independent School District No. 108
Norwood Young America, Minnesota

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities
Year Ended June 30, 2015

Total Net Change in Fund Balances for Governmental Funds \$ (2,640,678)

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. This is the amount by which capital outlays (\$3,175,376) exceeds depreciation expense (\$690,469) in the current period. 2,484,907

In governmental funds, issuance of new bonds is reported as an other financing source (in the amount of net proceeds received). However, in the statement of activities, a new bond issuance is not revenue, rather it constitutes a long-term liability in the statement of net position. (375,000)

In governmental funds, OPEB, Pension, 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. 61,635

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 bond principal (\$855,000) and capital lease principal (\$17,819) as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 872,819

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. There was \$85,180 and \$77,847 of accrued interest at June 30, 2015 and 2014, respectively. (7,333)

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. 178,089

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. (17,164)

Change in Net Position of Governmental Activities \$ 557,393

Independent School District No. 108
 Norwood Young America, Minnesota
 Statement of Fiduciary Net Position – Fiduciary Funds
 June 30, 2015

	Agency Fund	Private Purpose Trust Fund
Assets		
Cash	\$ 114,257	\$ 26,134
Liabilities		
Unearned revenue	-	46
Due to student activities	114,257	-
Total liabilities	\$ 114,257	46
Net Position		
Restricted for scholarships		\$ 26,088

Independent School District No. 108
Norwood Young America, Minnesota
Statement of Changes in Fiduciary Net Position – Fiduciary Funds
Year Ended June 30, 2015

	<u>Private Purpose Trust Fund</u>
Additions	
Other local and county revenues	<u>\$ 2,540</u>
Deductions	
Pupil support services	<u>3,250</u>
Change in Net Position	(710)
Net Position - Beginning of Year	<u>26,798</u>
Net Position - End of Year	<u><u>\$ 26,088</u></u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, intergovernmental revenues, and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

The District reports unearned 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 liability for unearned revenue is removed from the financial statements and revenue is recognized. Unearned revenues arise when resources are received by the District before it has legal claim to them, as when property tax levies, food service revenue, or grant monies are received prior to the incurrence of qualifying expenditures. Unavailable revenues arise when the District has legal claim to resources that are not available, such as delinquent property taxes. Unearned and unavailable revenue is recorded on the District's government-wide and governmental fund financial statements.

The District reports the following major governmental funds:

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

The *capital project fund* accounts for the acquisition and construction of major capital projects.

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 Cash Equivalents

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

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 2014 which are not payable until 2015 less amounts received before June 30, 2015. Delinquent taxes receivable represent levies collectible during 2014 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 2014, but not payable until 2015 and are not expendable by the District until the 2015-2016 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:

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

5. Long-Term Obligations

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

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, 2012.

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, 2012. 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. 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.

As of July 1, 2014, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date* for their multi-employer pension plans. The implementation of these standards requires governments calculate and report the costs and obligations associated with pensions in their basic financial statements. Employers are required to recognize pension amounts for all benefits provided through the plan which include the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

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 \$106,262 in property tax revenues and general education aid; during the current year, the state reduced the shifted amount by \$18,491. 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 \$87,770 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, \$22,798 was for career tech, and \$1,899 for reemployment. Career tech and reemployment are shifted at 100 percent of the 2014 payable 2015 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, 2015, 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, 2015, 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 \$13,311, \$14,795, \$207,665, and \$43,789, respectively. These over expenditures were funded by greater than anticipated revenues, other financing sources, available fund balance, and bond proceeds.

Note 3 - Detailed Notes on All Funds

A. Cash and Cash Equivalents

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, 2015, none of the District's bank balances were exposed to custodial credit risk.

B. Capital Assets

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

Administration	\$ 1,356
District support services	32
Regular instruction	250,232
Vocational instruction	726
Special education instruction	248
Community education and services	1,356
Instructional support services	2,566
Pupil support services	14,175
Sites and buildings	419,778
Total Depreciation Expense	<u>\$ 690,469</u>

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being Depreciated:				
Land	\$ 83,710	\$ -	\$ -	\$ 83,710
Construction in progress	465,893	3,142,026	-	3,607,919
Total Capital Assets not being Depreciated	549,603	3,142,026	-	3,691,629
Capital Assets, being Depreciated:				
Land improvements	137,493	-	-	137,493
Buildings and improvements	21,083,992	2,950	-	21,086,942
Equipment	1,875,972	30,400	-	1,906,372
Total Capital Assets, being Depreciated	23,097,457	33,350	-	23,130,807
Less Accumulated Depreciation for:				
Land improvements	40,148	6,875	-	47,023
Buildings and improvements	7,237,195	577,032	-	7,814,227
Equipment	1,350,813	106,562	-	1,457,375
Total Accumulated Depreciation	8,628,156	690,469	-	9,318,625
Total Capital Assets, being Depreciated, net	14,469,301	(657,119)	-	13,812,182
Governmental Activities Capital Assets, net	\$ 15,018,904	\$ 2,484,907	\$ -	\$ 17,503,811

C. Leases

1. Operating Leases

The District entered into an open-ended lease agreement for classroom space in June 2012. Rent was paid in monthly installments of \$6,474. The lease was canceled in December 2014. All lease payments were paid from the general fund. Total costs for the operating lease was \$38,847 for the year ended June 30, 2015.

The District entered into a lease agreement for classroom space in September 2014. Rent is paid in monthly installments of \$725 until the lease expires in August 2016. All lease payments are paid from the general fund. Total costs for the operating lease was \$7,750 for the year ended June 30, 2015.

2. Capital Lease

The District entered into a capital lease agreement in February 2011, for copiers. The lease is due in monthly installments through February 2016 with an interest rate of 7.60%. Annual debt service requirements to maturity for the capital lease payments are as follows:

Years Ending June 30,	
<u>2016</u>	\$ 12,361
Less: Interest	<u>(332)</u>
Present Value of minimum lease payments	<u>\$ 12,029</u>

Amortization of assets under capital lease is included in depreciation expense. As of June 30, 2015, the total cost of the assets under lease is \$80,355 and the related accumulated amortization is \$72,320.

D. 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	\$ 8,150,000
General Obligation School Building Bonds of 2014A	02/01/29	\$45,000 - \$895,000	2.0% - 3.13%	3,330,000	3,200,000
General Obligation School Building Bonds of 2014B	02/02/24	\$35,000 - \$45,000	1.50% - 2.50%	375,000	<u>335,000</u>
					<u>\$ 11,685,000</u>

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

Years Ending June 30,	Governmental Activities	
	Principal	Interest
2016	\$ 775,000	\$ 202,646
2017	785,000	192,289
2018	800,000	181,806
2019	810,000	171,060
2020	820,000	160,101
2021 - 2025	4,245,000	629,239
2026 - 2029	3,450,000	251,879
Total	\$ 11,685,000	\$ 1,789,020

Compensated Absences Payable. The liability consists of unused vacation as of June 30, 2015. 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, 2015, 13 employees have accrued compensated absences.

Changes in Long-Term Debt. During the year ended June 30, 2015, the following changes occurred in liabilities reported in the government-wide financial statements:

	Balance June 30, 2014	Additions	Deletions	Balance June 30, 2015	Due Within One Year
General Obligation Bonds Payable	\$ 12,165,000	\$ 375,000	\$ 855,000	\$ 11,685,000	\$ 775,000
Capital Lease Payable	29,848	-	17,819	12,029	12,029
Compensated Absences Payable	80,170	106,820	138,771	48,219	-
	<u>\$ 12,275,018</u>	<u>\$ 481,820</u>	<u>\$ 1,011,590</u>	<u>\$ 11,745,248</u>	<u>\$ 787,029</u>

Legal Debt Margin. Minnesota State Statutes do not allow net debt (as defined in Minn. Stat. Para. 475.51 subd. 4) to exceed 15 percent of the actual market value of all taxable property within the District. The District's market value per the School Tax Report 2014 Payable 2015 was \$593,636,800.

E. 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 2015, the District will continue on a "pay-as-you-go" funding policy.

Annual OPEB Cost and Net OPEB Obligation – 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:

	2015
Annual Required Contribution	\$ 190,181
Interest on Net OPEB Obligation	4,740
Amortization of Net OPEB Obligation	(6,719)
Annual OPEB Cost	188,202
Contributions Made	(217,886)
Change in Net OPEB Obligation	(29,684)
Net OPEB Obligation, beginning of year	118,494
Net OPEB Obligation, End of Year	\$ 88,810

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

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Annual OPEB Cost Contributed	Net Ending OPEB Obligation
06/30/13	\$ 185,711	\$ 285,469	153.7%	\$ 144,210
06/30/14	187,108	212,824	113.7%	118,494
06/30/15	188,202	217,886	115.8%	88,810

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$2,114,484, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,114,484. The covered payroll (annual payroll of active employees covered by the plan) was \$4,874,262, and the ratio of the UAAL to the covered payroll was 43.4 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, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 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 8.0 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after six 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.

F. 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	\$ 9,690	\$ -	\$ 9,690
Prepaid items	360	-	360
Total nonspendable	10,050	-	10,050
Restricted			
Deferred maintenance	87,908	-	87,908
Health and safety	-	(170,359)	(170,359)
Operating capital	172,716	-	172,716
Disabled accessibility	5,307	-	5,307
Food service	143,029	-	143,029
Community education	169,877	-	169,877
Early childhood family education	32,691	-	32,691
School readiness	24,888	-	24,888
Community service	6,751	-	6,751
Capital projects	35,025	-	35,025
Debt service	123,171	-	123,171
Total restricted	801,363	(170,359)	631,004
Unassigned	758,759	170,359	929,118
Total Fund Balance	\$ 1,570,172	\$ -	\$ 1,570,172

G. Transfers

The district made a transfer from the Capital Projects fund to the Debt Service fund in accordance with the bond agreement for the bonds issued during the year.

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 4.0 percent. Current year pension payments and prior year pension payments were made from the general fund of the governmental funds.

Funding Policy - For the fiscal year 2015, 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):

	2015
Annual Required Contribution	\$ 72,946
Interest on Net Pension Obligation (NPO)	(12)
Amortization of NPO	16
Annual Pension Cost	72,950
Contributions Made	(119,061)
Change in NPO	(46,111)
Net Pension Obligation (Asset), Beginning of Year	(290)
Net Pension Obligation (Asset), End of Year	\$ (46,401)

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 2015 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)
06/30/13	\$ 72,815	\$ 33,750	46.4%	\$ 30,189
06/30/14	72,434	102,913	142.1%	(290)
06/30/15	72,950	119,061	163.2%	(46,401)

Funded Status and Funding Progress – As of July 1, 2012, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$777,566, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$777,566. The covered payroll (annual payroll of active employees covered by the plan) was \$3,996,765, and the ratio of the UAAL to the covered payroll was 19.50 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, 2012, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0 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 cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

2. Benefits Provided

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 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2015, were \$76,199. 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, 2014		Ending June 30, 2015	
	Employees	Employers	Employees	Employers
Basic	10.50%	11.00%	11.00%	11.50%
Coordinated	7.00%	7.00%	7.50%	7.50%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2015, were \$348,487. 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, 2015, the District reported a liability of \$925,407 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.0197%.

For the year ended June 30, 2015, the District recognized pension expense of \$68,698 for its proportionate share of GERF's pension expense.

Independent School District No. 108
 Norwood Young America, Minnesota
 Notes to Financial Statements
 June 30, 2015

At June 30, 2015, the District reported its proportionate share of GERS'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	\$ 14,202	\$ -
Changes in actuarial assumptions	95,372	-
Difference between projected and actual investment earnings	-	250,044
District's contributions to GERS subsequent to the measurement date	76,199	-
Total	\$ 185,773	\$ 250,044

The \$76,199 reported as deferred outflows of resources related to pensions resulting from District contributions to GERS 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 GERS pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2016	\$ (25,986)
2017	(25,986)
2018	(25,986)
2019	(62,512)
2020	-

b. Teachers Retirement Fund (TRA)

At June 30, 2015, the District reported a liability of \$4,580,280 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on The District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0994% at the end of the measurement period and 0.1015% 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	\$ 4,580,280
State's proportionate share of the net pension liability associated with the district	\$ 322,239

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, 2015, the District recognized pension expense of \$224,056. It also recognized \$14,057 as an increase to pension expense for the support provided by direct aid.

At June 30, 2015, 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	\$ 390,822	\$ -
Difference between projected and actual investment earnings	-	1,439,994
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	99,663
District's contributions to TRA subsequent to the measurement date	348,487	-
Total	\$ 739,309	\$ 1,539,657

The \$348,487 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
2016	\$ (299,214)
2017	(299,214)
2018	(299,214)
2019	(299,214)
2020	48,021

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	3.75% based on years of service
Investment Rate of Return	7.90% per year	8.25%

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

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

The following changes in actuarial assumptions for GERF occurred in 2014:

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

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

The long-term expected rate of return on pension plan investments is 7.9% for GERF and 8.25% 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 8.25% for TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.90%	7.90%	8.90%
District's proportionate share of the GERF net pension liability	\$ 1,491,794	\$ 925,407	\$ 459,404
TRA discount rate	7.25%	8.25%	9.25%
District's proportionate share of the TRA net pension liability	\$ 7,569,635	\$ 4,580,280	\$ 2,088,192

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, 2015, 2014, and 2013, 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, 2015, 2014, and 2013, 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 CSEC. The District had purchases from SMEC of \$211,005 for the year ended June 30, 2015, and a balance due to SMEC of \$45,998 at June 30, 2015. 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, 2015, was \$1,227 and the District has an accounts payable balance to the store of \$148 as of June 30, 2015.

E. Construction Commitment

The district has entered into a contract for renovations at the Elementary school. The total cost of the project is \$3,339,704 and the District had spent \$3,155,436 as of June 30, 2015. The District has a remaining commitment of \$184,268.

Note 7 - Change in Accounting Principle

As of July 1, 2014, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The implementation of these standards requires governments calculate and report the cost and obligations associated with pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated by \$6,502,284 to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date.



Required Supplementary Information
June 30, 2015

Independent School District No. 108
Norwood Young America, Minnesota

Independent School District No. 108
Norwood Young America, Minnesota

Schedules of Funding Progress as Required by Statement No. 45 and No. 27 of the Governmental Accounting Standards Board

Year Ended June 30, 2015

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%

Note to the Schedules of Funding Progress

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. The District implemented the standard as of July 1, 2009, and there has only been two valuations performed.

Since the last actuarial valuation as of July 1, 2009, the following actuarial assumptions have changed:

- The health care trend rates were changed to better anticipate short and long-term medical increases.
- Salary increase assumption changed from 4% to 3%.
- The mortality table was updated from the 1983 Group Annuity Mortality with setbacks to the RP-2000 Combined Healthy Mortality projected to 2012 with Scale BB.
- 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 percent married changed from 80% to 75%.
- The percentage of future retirees electing coverage was changed from 100% for Teachers and Principals and 10% for All Others to 100% for non-Teachers with a post-employment subsidy, 50% for Teachers and 10% for all those without subsidized spouse benefits.
- The percentage of future married retirees electing spouse coverage was changed from 100% for Teachers and Principals and 10% for All Others to 100% for non-Teachers with a post-employment subsidy, 50% for Teachers and 10% for all others without subsidized spouse benefits.

Since the last actuarial valuation as of July 1, 2009, the following plan provisions have changed:

- Principals no longer have post-employment subsidized benefits included under GASB Statement No. 45. (Grandfathered retired principals only included.)
- District Office/Confidential Employees severance based on percentage of salary paid to a Health Care Savings Plan at qualified retirement is included in this GASB Statement No. 45 valuation.

Independent School District No. 108
Norwood Young America, Minnesota

Schedules of Funding Progress as Required by Statement No. 45 and No. 27 of the Governmental Accounting
Standards Board - Continued
Year Ended June 30, 2015

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%

Note to the Schedules of Funding Progress

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. The District implemented the standard as of July 1, 2009, and there has only been two valuations performed.

Since the last actuarial valuation as of July 1, 2009, the following actuarial assumptions have changed:

- Salary increase assumption changed from 4% to 3%.
- The mortality table was updated from the 1983 Group Annuity Mortality with setbacks to the RP-2000 Combined Healthy Mortality projected to 2012 with Scale BB.
- 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.

Since the last actuarial valuation as of July 1, 2009, no changes to plan provisions have been made.

Independent School District No. 108
Norwood Young America, Minnesota

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions
Year Ended June 30, 2015

**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	06/30/14	0.0197%	\$ 925,407	N/A	\$ 925,407	\$ 1,036,762	89.3%	78.8%
TRA	06/30/14	0.0994%	\$ 4,580,280	\$ 322,239	\$ 4,902,519	\$ 4,625,216	99.0%	81.5%

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

**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	06/30/15	\$ 76,199	\$ 76,199	\$ -	\$ 1,031,556	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 this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Independent School District No. 108
 Norwood Young America, Minnesota
 Budgetary Comparison Schedule
 General Fund
 Year Ended June 30, 2015

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Local property tax levies	\$ 1,297,575	\$ 1,337,775	\$ 1,279,051	\$ (58,724)
Other local and county sources	293,610	290,535	354,062	63,527
State sources	7,881,256	7,716,433	7,854,930	138,497
Federal sources	419,249	386,090	376,583	(9,507)
Local sales and insurance recovery	1,700	1,700	1,245	(455)
Total revenues	<u>9,893,390</u>	<u>9,732,533</u>	<u>9,865,871</u>	<u>133,338</u>
Expenditures				
Administration	775,781	785,606	794,921	(9,315)
District support services	242,392	288,478	284,620	3,858
Regular instruction	4,455,350	4,449,969	4,471,405	(21,436)
Vocational instruction	127,071	115,767	112,481	3,286
Special education instruction	1,906,662	1,938,989	1,824,075	114,914
Instructional support services	299,274	257,856	330,542	(72,686)
Pupil support services	758,612	759,834	792,546	(32,712)
Sites and buildings	970,932	993,726	992,077	1,649
Fiscal and other fixed cost programs	57,768	39,768	39,956	(188)
Debt service				
Principal	18,301	18,301	17,819	482
Interest and fiscal charges	494	494	1,657	(1,163)
Total expenditures	<u>9,612,637</u>	<u>9,648,788</u>	<u>9,662,099</u>	<u>(13,311)</u>
Excess (deficiency) of revenues over (under) expenditures	280,753	83,745	203,772	120,027
Fund Balances - Beginning	<u>821,278</u>	<u>821,278</u>	<u>821,278</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 1,102,031</u>	<u>\$ 905,023</u>	<u>\$ 1,025,050</u>	<u>\$ 120,027</u>

1. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end. The actual revenues, expenditures, and transfers for the year ended June 30, 2015, 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, 2015, expenditures exceeded appropriations in the general fund (the legal level of budgetary control) by \$13,311. These over expenditures were funded by greater than anticipated revenues.



Supplementary Information
June 30, 2015

Independent School District No. 108
Norwood Young America, Minnesota

Independent School District No. 108
 Norwood Young America, Minnesota
 Combining Balance Sheet – Nonmajor Governmental Funds
 June 30, 2015

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
Assets			
Cash and cash equivalents	\$ 126,074	\$ 344,165	\$ 470,239
Receivables			
Current property taxes	-	49,642	49,642
Delinquent property taxes	-	2,839	2,839
Accounts receivable	20,874	-	20,874
Due from Minnesota Department of Education	-	10,294	10,294
Inventories	9,690	-	9,690
Total assets	\$ 156,638	\$ 406,940	\$ 563,578
Liabilities			
Salaries payable	\$ -	\$ 39,462	\$ 39,462
Accounts payable	6	5,324	5,330
Due to other governmental units	-	3,763	3,763
Payroll deductions	-	4,649	4,649
Unearned revenue	3,913	14,831	18,744
Total liabilities	3,919	68,029	71,948
Deferred Inflows of Resources			
Unavailable revenue - delinquent taxes	-	2,839	2,839
Unavailable revenue - property taxes	-	101,865	101,865
Total deferred Inflows of Resources	-	104,704	104,704
Fund Balances			
Nonspendable			
Inventories	9,690	-	9,690
Restricted			
Community education	-	169,877	169,877
Early childhood family education	-	32,691	32,691
School readiness	-	24,888	24,888
Other purposes	143,029	6,751	149,780
Total fund balances	152,719	234,207	386,926
Total liabilities, deferred inflows of resources, and fund balances	\$ 156,638	\$ 406,940	\$ 563,578

Independent School District No. 108
Norwood Young America, Minnesota

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2015

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
Revenues			
Local property tax levies	\$ -	\$ 126,631	\$ 126,631
Other local and county sources	2,071	624,812	626,883
State sources	23,988	96,052	120,040
Federal sources	151,262	-	151,262
Local sales and insurance recovery	290,466	-	290,466
Total revenues	<u>467,787</u>	<u>847,495</u>	<u>1,315,282</u>
Expenditures			
Community education and services	-	852,977	852,977
Pupil support services	463,495	-	463,495
Total expenditures	<u>463,495</u>	<u>852,977</u>	<u>1,316,472</u>
Excess (deficiency) of revenues over (under) expenditures	4,292	(5,482)	(1,190)
Fund Balances - Beginning	<u>148,427</u>	<u>239,689</u>	<u>388,116</u>
Fund Balances - Ending	<u>\$ 152,719</u>	<u>\$ 234,207</u>	<u>\$ 386,926</u>

Independent School District No. 108
 Norwood Young America, Minnesota
 Student Activity Treasurer's Report
 Year Ended June 30, 2015

Activity Account	Beginning Balance	Receipts	Disbursements	Ending Balance
Band	\$ 108	\$ 15,678	\$ 15,748	\$ 38
C-Club	5,503	660	2,009	4,154
Baseball	6,997	8,828	9,822	6,003
Cheerleading	65	2,964	2,302	727
Cross Country	2,805	21,095	17,724	6,176
Dance	1,289	3,302	3,102	1,489
Golf	1,798	2,194	1,548	2,444
Speech	2,624	1,729	1,453	2,900
Track	2,270	1,382	1,396	2,256
Volleyball	5,165	18,200	16,634	6,731
Choir	446	240	240	446
Class of 2015	3,476	220	3,696	-
Class of 2016	795	18,320	14,295	4,820
Class of 2017	483	458	55	886
Class of 2018	-	380	25	355
Drama	783	403	628	558
Elem Kids Fund	634	-	634	-
Elem Student Council	25,236	23,904	21,149	27,991
Elem Fall Festival	582	278	392	468
Elem Field Day	1,305	-	96	1,209
Elem Field Trip	60	7,953	7,538	475
Elem Media	3,817	4,172	4,746	3,243
Elem Yearbook	4,396	2,445	2,324	4,517
FFA	5,051	15,612	15,454	5,209
FCCLA	1,780	-	-	1,780
H.S. Science	386	344	365	365
H.S. Yearbook	7,060	8,575	9,941	5,694
Interest	-	113	113	-
International	505	300	285	520
M.S. Acc. Reader	257	-	257	-
M.S. St. Council	9,089	16,295	13,934	11,450
M.S. Student Recognition	256	450	276	430
M.S. Yearbook	2,414	1,574	2,471	1,517
Misc.	52	585	422	215
N.H.S.	341	2,688	1,932	1,097
SSSR	-	1,775	1,180	595
Student Council	2,345	6,403	4,262	4,486
Student R.A.K.	2,852	4,409	4,248	3,013
	<u>\$ 103,025</u>	<u>\$ 193,928</u>	<u>\$ 182,696</u>	<u>\$ 114,257</u>



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, 2015, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2015.

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.

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

Mankato, Minnesota
December 14, 2015

Independent School District No. 108
Norwood Young America, Minnesota
Uniform Financial Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2015

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$9,865,871	<u>\$9,865,872</u>	(\$1)	Total Revenue	\$16,052	<u>\$16,052</u>	\$0
Total Expenditures	\$9,662,099	<u>\$9,662,098</u>	\$1	Total Expenditures	\$3,151,120	<u>\$3,151,120</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$360	<u>\$360</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	\$0	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
4.05 Deferred Maintenance	\$87,908	<u>\$87,908</u>	\$0	4.09 Alternative Facility Program	\$0	<u>\$0</u>	\$0
4.06 Health and Safety	(\$170,359)	<u>(\$170,359)</u>	\$0	4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$35,025	<u>\$35,025</u>	\$0
4.09 Alternative Facility Program	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.14 Operating Debt	\$0	<u>\$0</u>	\$0				
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0	07 DEBT SERVICE			
4.17 Taconite Building Maint	\$0	<u>\$0</u>	\$0	Total Revenue	\$974,918	<u>\$974,918</u>	\$0
4.23 Certain Teacher Programs	\$0	<u>\$0</u>	\$0	Total Expenditures	\$1,058,110	<u>\$1,058,110</u>	\$0
4.24 Operating Capital	\$172,716	<u>\$172,716</u>	\$0	<i>Non Spendable:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.27 Disabled Accessibility	\$5,307	<u>\$5,307</u>	\$0	<i>Restricted / Reserved:</i>			
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	4.51 QZAB Payments	\$0	<u>\$0</u>	\$0
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$123,171	<u>\$123,171</u>	\$0
4.38 Gifted & Talented	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.41 Basic Skills Programs	\$0	<u>\$0</u>	\$0				
4.45 Career Tech Programs	\$0	<u>\$0</u>	\$0	08 TRUST			
4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0	Total Revenue	\$2,540	<u>\$2,540</u>	\$0
4.49 Safe School Crime - Crime Levy	\$0	<u>\$0</u>	\$0	Total Expenditures	\$3,250	<u>\$3,250</u>	\$0
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$26,088	<u>\$26,088</u>	\$0
4.51 QZAB Payments	\$0	<u>\$0</u>	\$0				
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	20 INTERNAL SERVICE			
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
<i>Restricted:</i>				Total Expenditures	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
<i>Committed:</i>							
4.18 Committed for Separation	\$0	<u>\$0</u>	\$0	25 OPEB REVOCABLE TRUST			
4.61 Committed Fund Balance	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
<i>Assigned:</i>				Total Expenditures	\$0	<u>\$0</u>	\$0
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
<i>Unassigned:</i>							
4.22 Unassigned Fund Balance	\$929,118	<u>\$929,119</u>	(\$1)	45 OPEB IRREVOCABLE TRUST			
				Total Revenue	\$0	<u>\$0</u>	\$0
02 FOOD SERVICES				Total Expenditures	\$0	<u>\$0</u>	\$0
Total Revenue	\$467,787	<u>\$467,788</u>	(\$1)	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
Total Expenditures	\$463,495	<u>\$463,495</u>	\$0				
<i>Non Spendable:</i>				47 OPEB DEBT SERVICE			
4.60 Non Spendable Fund Balance	\$9,690	<u>\$9,690</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				Total Expenditures	\$0	<u>\$0</u>	\$0
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	<i>Non Spendable:</i>			
<i>Restricted:</i>				4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$143,029	<u>\$143,030</u>	(\$1)	<i>Restricted:</i>			
<i>Unassigned:</i>				4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
				<i>Unassigned:</i>			
04 COMMUNITY SERVICE				4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
Total Revenue	\$847,495	<u>\$847,496</u>	(\$1)				
Total Expenditures	\$852,977	<u>\$852,977</u>	\$0				
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0				
<i>Restricted / Reserved:</i>							
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0				
4.31 Community Education	\$169,877	<u>\$169,877</u>	\$0				
4.32 E.C.F.E	\$32,691	<u>\$32,691</u>	\$0				
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0				
4.44 School Readiness	\$24,888	<u>\$24,888</u>	\$0				
4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0				
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$6,751	<u>\$6,752</u>	(\$1)				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0				

Independent School District No. 108
 Norwood Young America, Minnesota
 Schedule of Expenditures of Federal Awards
 Year Ended June 30, 2015

Federal Grantor/Program Title	CFDA Number	Expenditures	
Department of Agriculture			
<i>Passed through the Minnesota Department of Education</i>			
Child Nutrition Cluster			
School Breakfast Program	10.553	\$ 12,605	
National School Lunch Program	10.555	111,122	
Special Milk Program for Children	10.556	939	
Total Child Nutrition Cluster			<u>124,666</u>
Commodity Supplemental Food Program	10.565		<u>26,582</u>
Total Department of Agriculture			<u>151,248</u>
Department of Education			
<i>Passed through the Minnesota Department of Education</i>			
Title I Grants to Local Educational Agencies	84.010		74,195
Improving Teacher Quality State Grants	84.367		39,069
<i>Passed through cooperative</i>			
Special Education Grants for Infants & Families	84.181		6,033
Special Education Cluster			
Special Education Grants to States	84.027	241,944	
Special Education Preschool Grants	84.173	9,358	
Subtotal for Special Education Cluster			<u>251,302</u>
Total Department of Education			<u>370,599</u>
Total Expenditures of Federal Awards			<u><u>\$ 521,847</u></u>

Note A – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. The District received federal awards indirectly through pass-through entities.

Note B – Significant Accounting Policies

Governmental fund types account for the District's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis – when they become a demand on current available financial resources. The District's summary of significant accounting policies is presented in Note 1 in the District's basic financial statements.

Note C – Food Distribution

Nonmonetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of commodities received and disbursed. At June 30, 2015, the District had food commodities totaling \$3,981 in inventory.

Note D – Agency or Pass-Through Number

The pass-through entity has not provided identifying numbers, therefore, they are not included in this schedule.



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 108 (District), Norwood Young America, Minnesota, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing 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: 2015-A, 2015-B, and 2015-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 accompanying summary of audit findings. 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.



Mankato, Minnesota
December 14, 2015



CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 108's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying summary of audit results, findings, and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, The District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



Mankato, Minnesota
December 14, 2015

Independent School District No. 108
 Norwood Young America, Minnesota
 Summary of Audit Results, Findings, and Questioned Costs
 Year Ended June 30, 2015

A. Summary of Audit Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting: Material weakness identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted	No

Federal Awards

Internal control over major programs: Material weakness identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>CFDA number</u>
U.S. Department of Education Special Education Cluster	84.027/84.173
U.S. Department of Agriculture Child Nutrition Cluster	10.553/10.555/10.556

Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
Auditee qualified as low-risk auditee	No
Section B – Financial Statement Findings –	Yes
Section C – Federal Award Findings and Questioned Costs –	None
Section D – Minnesota Legal and Other Compliance Findings –	Yes

B. Findings – Financial Statement Audit

Material Weakness – previously reported items not resolved

2015-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.

Response: See corrective action plan below.

Corrective Action Plan:

1. *Actions Planned in Response to the Finding:* The District feels that the costs for hiring additional staff would not be significantly beneficial. The District does currently mitigate this situation through the approval of all checks by action of the School Board and direct deposit of state funds. The District will continue to look for further opportunities to segregate duties.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* Brian Corlett, Superintendent.
4. *Planned Completion Date for the Corrective Action:* Ongoing.
5. *Plan to Monitor Completion of Corrective Action:* Brian Corlett, Superintendent, will monitor the review of various accounting functions.

2015-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.

Response: See corrective action plan below.

Corrective Action Plan:

1. *Actions Planned in Response to the Finding:* The District will continue to have the auditors prepare the financial statements; however, the District has established an internal control policy to document the annual review of the financial statements by the School Board and management.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* Brian Corlett, Superintendent.
4. *Planned Completion Date for the Corrective Action:* Ongoing.
5. *Plan to Monitor Completion of Corrective Action:* Brian Corlett, Superintendent, will monitor the review of the financial statements with the School Board and management.

2015-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.

Response: See corrective action plan below.

Corrective Action Plan:

1. *Actions Planned in Response to the Finding:* The District will review the prior year journal entries to determine training needs with the intent to reduce the overall frequency or number of adjusting journal entries.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* Brian Corlett, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2016.
5. *Plan to Monitor Completion of Corrective Action:* Brian Corlett, Superintendent, will monitor the training needs to ensure completion of action plan by June 30, 2016.

C. Findings – Major Federal Award Programs - NONE

D. Minnesota Legal and Other Compliance Findings

2015-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.

Response: See corrective action plan below.

Corrective Action Plan:

1. Actions Planned in Response to the Finding: The District will comply with the MAFA manual.
2. Explanation of Disagreement: There is no disagreement with the audit finding.
3. Official Responsible for Ensuring Corrective Action: Brian Corlett, Superintendent.
4. Planned Completion Date for the Corrective Action: June 30, 2016
5. Plan to Monitor Completion of Corrective Action: Brian Corlett, Superintendent.



CPAs & BUSINESS ADVISORS

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 108, Central Public Schools (District) for the year ended June 30, 2015, and have issued our report thereon dated December 14, 2015. 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: 2015-D as described in the accompanying summary of audit findings.

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

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

Mankato, Minnesota
December 14, 2015

