

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES  
(ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2016**

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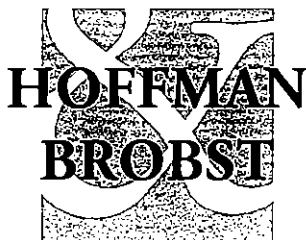
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## INTRODUCTORY SECTION

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
SCHEDULE OF SCHOOL BOARD MEMBERS AND OFFICIALS  
JUNE 30, 2016**

| <b><u>SCHOOL BOARD MEMBERS</u></b> |             | <b><u>TERM<br/>EXPIRES</u></b> |
|------------------------------------|-------------|--------------------------------|
| David Ose                          | Chairperson | 2017                           |
| Scott Parsons                      | Clerk       | 2016                           |
| Marsha Lecy                        | Treasurer   | 2018                           |
| Kay Haneca                         | Director    | 2017                           |
| Melanie Kurtz                      | Director    | 2016                           |
| Chris Berends                      | Director    | 2016                           |
| Jeff Berthelsen                    | Director    | 2018                           |



PLLP

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CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITOR'S REPORT

Members of the School Board  
Independent School District No. 4026  
Every Child Has Opportunities (ECHO) Charter School  
Echo, 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 Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

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## **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 Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's basic financial statements. The introductory section, other supplementary information, and the uniform financial accounting and reporting standards compliance table listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The uniform financial accounting and reporting standards compliance table is the responsibility of management and was derived from and relates 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 uniform financial accounting and reporting standards compliance table is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

### *Report on Summarized Comparative Information*

We have previously audited the District's June 30, 2015 financial statements, and our report, dated November 30, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's internal control over financial reporting and compliance.

*Hoffman + Brobst, PLLP*

Hoffman & Brobst, PLLP  
Certified Public Accountants  
Marshall, Minnesota

November 30, 2016



## **REQUIRED SUPPLEMENTAL INFORMATION**

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

As management of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota, we offer readers of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's financial statements this narrative overview and analysis of the financial activities of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota for the fiscal year ended June 30, 2016.

**FINANCIAL HIGHLIGHTS**

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

- Net position in the Statement of Net Position decreased \$267,933 from the prior year to (\$130,154). This decrease was primarily the result of the District's expenses exceeding revenues due to depreciation expense, a decrease in general education aid and a prior year special education adjustment.
- The General Fund expenditures exceeded revenues and other financing sources by \$206,314, resulting in the total fund balance decreasing to \$364,729 as of June 30, 2016. After deducting fund balance policy assignments, the unassigned fund balance decreased \$215,853 to \$291,407 at June 30, 2016. The District is not meeting its minimum fund balance policy of four months of expenditures in the General Fund. At June 30, 2016, the unassigned fund balance would only cover approximately two and a half months of expenditures.
- The District worked with its Authorizer, Innovative Quality Schools, to develop a long-term strategic plan that involved the community and is working on its implementation. The District's goal is to develop an enhanced plan for course work, retain and eventually increase student count, and maintain employees. The vision that was developed is to be "...the most highly respected school in Southwest Minnesota noted for caring, innovating, and preparing students to succeed." The mission developed is "...ECHO Charter School's mission is to be your school of choice by preparing students to achieve to their highest potential through an innovative and uniquely flexible curriculum." The strategic initiatives are (1) operate a school that is fiscally sound and responsibly lead, (2) create a school climate that nurtures student learning, and (3) strengthen our programs and services to maximize student success.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts. They are:

- Independent Auditor's Report,
- Required Supplementary Information which includes the Management's Discussion and Analysis (this section),
- Basic financial statements, notes to financial statements, and
- Other supplementary information, and other required reports and information.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
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ECHO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)**

The basic financial statements include two kinds of statements that present different views of the District:

- The government-wide financial statements, including the Statement of Net Position and the Statement of Activities, 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 government-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. The fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

**GOVERNMENT-WIDE STATEMENTS**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources – 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, one needs to consider additional non-financial factors such as changes in the District's average daily membership served.

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

- **Governmental Activities** – Most of the District's basic services are included here, such as regular and special education, transportation, administration, and food service. State and federal 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 – rather than 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.
- The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
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ECHO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**FUND FINANCIAL STATEMENTS (Cont'd)**

The District has two kinds of funds:

- **Governmental funds** – 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 less 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 government-wide statements, additional information (reconciliation schedules) follows the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.
- **Fiduciary funds** – The District is the trustee, or fiduciary, for a fund. The District is responsible for ensuring that the assets reported in this fund are used for their intended purpose. 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's government-wide financial statements because the District cannot use these assets to finance its operations.

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (GOVERNMENT-WIDE STATEMENTS)  
NET POSITION**

The District's combined net position was (\$130,154) on June 30, 2016. This was a decrease of 194.5% from the previous year total of \$137,779. A summary of the District's net position is as follows:

| <b>Net Position – Governmental Activities</b> |                            |                          | <b>Percentage<br/>Change</b> |
|---|----------------------------|--------------------------|------------------------------|
|   | <b><u>6/30/2016</u></b>    | <b><u>6/30/2015</u></b>  |                              |
| Current and Other Assets                      | \$ 499,491                 | \$ 725,830               |                              |
| Capital Assets                                | <u>478,332</u>             | <u>550,615</u>           |                              |
| <b>Total Assets</b>                           | <b><u>977,823</u></b>      | <b><u>1,276,445</u></b>  | <b>(23.4%)</b>               |
| Related to Pensions                           | <u>169,920</u>             | <u>132,729</u>           |                              |
| <b>Total Deferred Outflows of Resources</b>   | <b><u>169,920</u></b>      | <b><u>132,729</u></b>    | <b>28.0%</b>                 |
| Current Liabilities                           | 125,438                    | 146,877                  |                              |
| Noncurrent Liabilities                        | <u>923,872</u>             | <u>750,246</u>           |                              |
| <b>Total Liabilities</b>                      | <b><u>1,049,310</u></b>    | <b><u>897,123</u></b>    | <b>17.0%</b>                 |
| Related to Pensions                           | <u>228,587</u>             | <u>374,272</u>           |                              |
| <b>Total Deferred Inflows of Resources</b>    | <b><u>228,587</u></b>      | <b><u>374,272</u></b>    | <b>(38.9%)</b>               |
| <b>Net Position</b>                           |                            |                          |                              |
| Net Investment in Capital Assets              | 478,332                    | 550,615                  |                              |
| Restricted                                    | 9,324                      | 7,910                    |                              |
| Unrestricted                                  | <u>(617,810)</u>           | <u>(420,746)</u>         |                              |
| <b>Total Net Position</b>                     | <b>\$ <u>(130,154)</u></b> | <b>\$ <u>137,779</u></b> | <b>(194.5%)</b>              |

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (GOVERNMENT-WIDE STATEMENTS)  
(Cont'd)**

**CHANGE IN NET POSITION**

The change in net position occurs as a result of the District's expenses being greater than revenues for the year ended June 30, 2016. A summary of the District's revenues and expenses is as follows:

| <b>Change in Net Position – Governmental Activities</b> |                            |                          | <b>Percentage</b>    |
|---|----------------------------|--------------------------|----------------------|
|   | <b><u>6/30/2016</u></b>    | <b><u>6/30/2015</u></b>  | <b><u>Change</u></b> |
| <b>Revenues</b>   |                            |                          |                      |
| Program Revenues  |                            |                          |                      |
| Charges for Services                                    | \$ 44,470                  | \$ 31,586                | 40.8%                |
| Operating Grants and Contributions                      | 446,362                    | 533,105                  | (16.3%)              |
| Capital Grants and Contributions                        | -                          | 6,591                    | (100.0%)             |
| General Revenues  |                            |                          |                      |
| Unallocated Federal and State Aid                       | 881,870                    | 883,920                  | (0.2%)               |
| Other   | 4,214                      | 3,249                    | 29.7%                |
| Gain on Sale of Assets                                  | 1,193                      | -                        | 100.0%               |
| <b>Total Revenues</b>                                   | <b><u>1,378,109</u></b>    | <b><u>1,458,451</u></b>  | <b>(5.5%)</b>        |
| <b>Expenses</b>   |                            |                          |                      |
| District and School Administration                      | 58,908                     | 60,471                   | (2.6%)               |
| District Support Services                               | 144,409                    | 116,704                  | 23.7%                |
| Regular Instruction                                     | 710,641                    | 693,674                  | 2.4%                 |
| Vocation Instruction                                    | 664                        | -                        | 100.0%               |
| Exceptional Instruction                                 | 151,522                    | 158,915                  | (4.7%)               |
| Instructional Support Services                          | 7,953                      | 12,123                   | (34.4%)              |
| Pupil Support Services                                  | 189,707                    | 192,905                  | (1.7%)               |
| Site, Buildings and Equipment                           | 353,652                    | 365,010                  | (3.1%)               |
| Fiscal and Other Fixed Cost Programs                    | 7,960                      | 7,398                    | 7.6%                 |
| <b>Total Expenses</b>                                   | <b><u>1,625,416</u></b>    | <b><u>1,607,200</u></b>  | <b>1.1%</b>          |
| <b>Increase (Decrease) in Net Position</b>              | <b><u>(247,307)</u></b>    | <b><u>(148,749)</u></b>  |                      |
| <b>Beginning of Year Net Position,</b>                  |                            |                          |                      |
| As Originally Stated                                    | 137,779                    | 1,327,010                |                      |
| Prior Period Adjustment (GASB 68)                       | <u>(20,626)</u>            | <u>(1,040,482)</u>       |                      |
| <b>Beginning Net Position, As Restated</b>              | <b><u>117,153</u></b>      | <b><u>286,528</u></b>    |                      |
| <b>End of Year Net Position</b>                         | <b><u>\$ (130,154)</u></b> | <b><u>\$ 137,779</u></b> | <b>(194.5%)</b>      |

The District's total revenues consisted of program revenues of \$490,832, unallocated federal and state aids of \$881,870, and a small amount from various other sources. Expenses totaling \$1,625,416 consisted primarily of student instructional costs of \$862,827, student support services of \$197,660, administration costs of \$203,317, site, buildings and equipment costs of \$353,652, and minor other amounts.

The cost of all governmental activities this year was \$1,625,416.

- The users of the District's programs paid for 2.7%, or \$44,470, of the costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled \$446,362 or 27.5% of the total costs.
- The balance of the District's net cost of services (\$1,134,584), were paid for by state taxpayers based on the statewide education aid formula and by District citizens.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (FUND FINANCIAL STATEMENTS)**

**FUND BALANCE**

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 \$374,053. This was a decrease of \$204,900 from the prior year. The decrease is mainly due to a reduction in general education aid and a prior year special education adjustment.

**REVENUES AND EXPENDITURES**

Revenues of the District's governmental funds totaled \$1,361,502. This was a decrease of 6.5% from the previous year total of \$1,456,760, primarily due to a reduction in general education aid and a prior year special education adjustment. Total expenditures were \$1,570,408. This was a decrease of 0.8% from the previous year total of \$1,582,276, primarily due to the District eliminating costs when possible. A summary of the revenues and expenditures reported in the governmental financial statements is as follows:

**Revenues and Expenditures – Governmental Funds**

|                   | <u>Revenue</u>             | <u>Expenditures</u>        | <u>Other<br/>Financing<br/>Sources (Uses)</u> | <u>Fund Balance<br/>Increase<br/>(Decrease)</u> |
|-------------------|----------------------------|----------------------------|---|---|
| General Fund      | \$ 1,293,682               | \$ 1,504,002               | \$ 4,006                                      | \$ (206,314)                                    |
| Food Service Fund | <u>67,820</u>              | <u>66,406</u>              | <u>-</u>                                      | <u>1,414</u>                                    |
| <b>Totals</b>     | <b><u>\$ 1,361,502</u></b> | <b><u>\$ 1,570,408</u></b> | <b><u>\$ 4,006</u></b>                        | <b><u>\$ (204,900)</u></b>                      |

**GENERAL FUND**

The General Fund is used by the District to record the primary operations of providing educational services to students from kindergarten through grade twelve. Pupil transportation activities, capital purchases and major maintenance projects are also included in the General Fund.

The following schedule presents a summary of General Fund revenues and other financing sources:

**Revenues – General Fund**

|   | <u>Year Ended<br/>6/30/2016</u> | <u>Year Ended<br/>6/30/2015</u> | <u>Amount of<br/>Increase<br/>(Decrease)</u> | <u>Percent<br/>Increase<br/>(Decrease)</u> |
|---|---------------------------------|---------------------------------|--|--|
| Local Sources   | \$ 32,727                       | \$ 19,835                       | \$ 12,892                                    | 65.0%                                      |
| State Sources   | 1,125,334                       | 1,238,519                       | (113,185)                                    | (9.1%)                                     |
| Federal Sources                                       | <u>135,621</u>                  | <u>129,894</u>                  | <u>5,727</u>                                 | 4.4%                                       |
| <b>Total Revenues</b>                                 | <b>1,293,682</b>                | <b>1,388,248</b>                | <b>(94,566)</b>                              | <b>(6.8%)</b>                              |
| Other Financing Sources                               |                                 |                                 |  |  |
| Proceeds from Sale of Assets                          | <u>4,006</u>                    | <u>-</u>                        | <u>4,006</u>                                 | 100.0%                                     |
| <b>Total Revenues and Other<br/>Financing Sources</b> | <b><u>\$ 1,297,688</u></b>      | <b><u>\$ 1,388,248</u></b>      | <b><u>\$ (90,560)</u></b>                    | <b>(6.5%)</b>                              |

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (FUND FINANCIAL STATEMENTS) (Cont'd)  
GENERAL FUND (Cont'd)**

The following schedule presents a summary of General Fund expenditures and other financing uses:

| <b>Expenditures – General Fund</b>                     |                                 |                                 |  |  |
|--|---------------------------------|---------------------------------|--|--|
|  | <b>Year Ended<br/>6/30/2016</b> | <b>Year Ended<br/>6/30/2015</b> | <b>Amount of<br/>Increase<br/>(Decrease)</b> | <b>Percent<br/>Increase<br/>(Decrease)</b> |
| Salaries and Wages                                     | \$ 843,228                      | \$ 838,306                      | \$ 4,922                                     | 0.6%                                       |
| Employee Benefits                                      | 148,494                         | 137,244                         | 11,250                                       | 8.2%                                       |
| Purchased Services                                     | 392,840                         | 434,173                         | (41,333)                                     | (9.5%)                                     |
| Supplies and Materials                                 | 95,702                          | 81,322                          | 14,380                                       | 17.7%                                      |
| Capital Expenditures                                   | 7,940                           | 16,365                          | (8,425)                                      | (51.5%)                                    |
| Other Expenditures                                     | <u>15,798</u>                   | <u>7,949</u>                    | <u>7,849</u>                                 | 98.7%                                      |
| <b>Total Expenditures</b>                              | <b>1,504,002</b>                | <b>1,515,359</b>                | <b>(11,357)</b>                              | <b>(0.7%)</b>                              |
| Other Financing Uses                                   |                                 |                                 |  |  |
| Transfer to Food Service Fund                          | <u>-</u>                        | <u>2,500</u>                    | <u>(2,500)</u>                               | <b>(100.0%)</b>                            |
| <b>Total Expenditures and Other<br/>Financing Uses</b> | <b>\$ <u>1,504,002</u></b>      | <b>\$ <u>1,517,859</u></b>      | <b>\$ <u>(13,857)</u></b>                    | <b>(0.9%)</b>                              |

In summary, the 2015-2016 General Fund expenditures exceeded revenues and other financing sources by \$206,314. As a result, the total fund balance decreased to \$364,729 at June 30, 2016. The District closely monitors the General Fund unassigned fund balance throughout the year.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year ended June 30, 2016 the District revised its operating budget once. This revision was planned, and was necessary because when the initial budget was prepared and adopted (a budget must be in place prior to the beginning of the fiscal year on July 1) details of student enrollment numbers, salary details, staffing levels, and other significant information items were not yet known. This revision was approved in February.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues and other financing sources by \$3,712, the actual results for the year showed a deficit of \$206,314.

- Actual revenues were \$156,585, or 10.8 percent, less than budget, due primarily to recognizing less revenue for special education aid, general education aid, and charter school lease aid, along with several other less significant variances. The budget variance is mainly due to generating the budget based on a higher student count than the final actual number of enrolled students.
- Actual expenditures were \$50,023 or 3.4 percent, higher than budget. This overall unfavorable variance was mainly due to negative variances in district and school administration, district support services, regular instruction, pupil support services, and site, buildings, and equipment. Several other less significant areas contributed to this overall unfavorable variance. The budget variance is primarily due to spending more for bus repairs and bus drivers than expected, and budgeting based on higher than actual student count.

**FOOD SERVICE FUND**

The Food Service Fund revenues for 2015-2016 totaled \$67,820 and expenditures were \$66,406, resulting in a fund balance increase of \$1,414. The June 30, 2016 Food Service Fund fund balance is \$9,324.

**TRUST FUND**

The Trust Fund additions exceeded deductions by \$20 in 2015-2016. The net position of \$7,669 at June 30, 2016 is available for scholarships.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

As of June 30, 2016, the District had net capital assets of \$478,332 including leasehold improvements, computer and audio-visual equipment, transportation equipment, and various other equipment for instructional, support and administrative purposes. Total depreciation expense for the year was \$69,470. Information about the District's capital assets is shown below. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

**Capital Assets – Governmental Activities**

|                                 | <u>6/30/2016</u>         | <u>6/30/2015</u>         | <u>Percentage<br/>Change</u> |
|---------------------------------|--------------------------|--------------------------|------------------------------|
| Leasehold Improvements          | \$ 457,259               | \$ 457,259               | 0.0%                         |
| Equipment and Vehicles          | 684,340                  | 698,625                  | (2.0%)                       |
| Less Accumulated Depreciation   | <u>(663,267)</u>         | <u>(605,269)</u>         | 9.6%                         |
| <b>Total Net Capital Assets</b> | <b>\$ <u>478,332</u></b> | <b>\$ <u>550,615</u></b> | <b>(13.1%)</b>               |

**DEBT ADMINISTRATION**

At June 30, 2016, the District had no outstanding debt. Other long-term liabilities are detailed in Note 5 to the financial statements.

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

The Legislature approved a foundation formula increase for the 2016-2017 fiscal year. This has a positive effect on school district operations and maintaining a balanced budget. Economic conditions in Minnesota are continuing to improve and the new Legislature in 2017 will benefit from having more options available to support education.

All work agreements are in effect for a one-year period beginning the first day of teacher workshop. Labor costs account for approximately 66% of the District's General Fund operating expenditures.

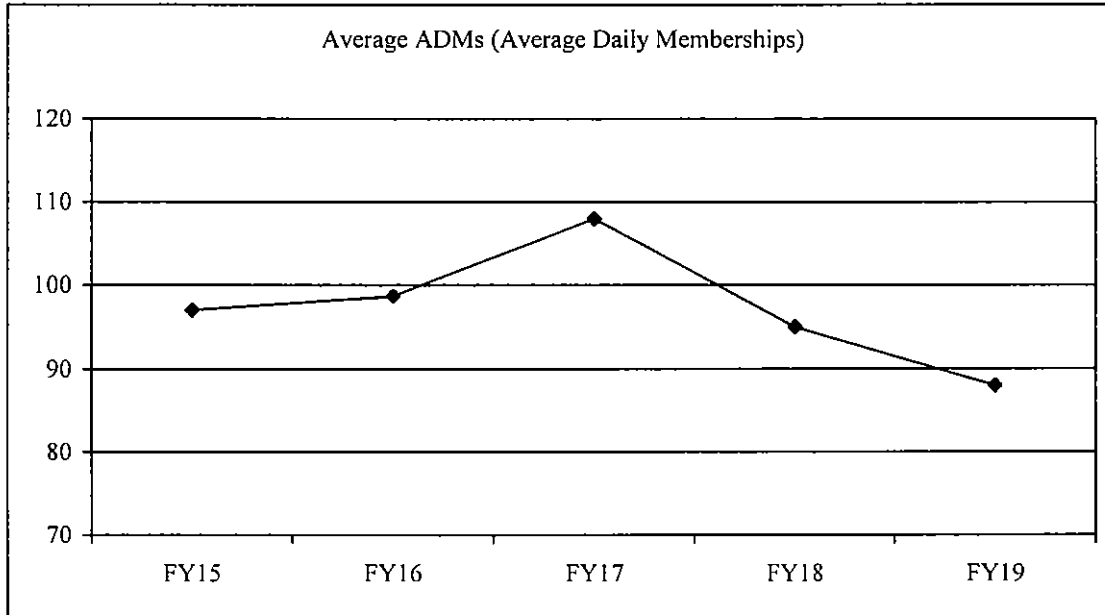
The District was awarded a PACT 4 grant for the 21<sup>st</sup> Century after school and summer program for the 2014-2015 year and the next two to four years. These grants provide increased program opportunities for the District's students.

The District's trend for enrollment shows an increase in enrollment for the 2016-2017 school year due to an increase in the number of high school age students and a decrease after that, as the junior and senior classes have more students than the lower-level grades. This impacts the District's funding since enrollment is what actually determines most of a school's funding components. Hence, if there was an increase in enrollment the District could anticipate an increase in revenues even if there were no increases to the formulas. Increasing enrollment is a primary goal of the District.



**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (Cont'd)**



**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide District citizens, customers, 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 one has questions about this report or needs additional financial information, contact the Business Office, Independent School District 4026, Every Child Has Opportunities (ECHO) Charter School, 101 Rocket Ave, PO Box 158, Echo, MN 56237, visit the District website at [www.echo.charter.k12.mn.us](http://www.echo.charter.k12.mn.us) or call (507) 925-4143.

## **BASIC FINANCIAL STATEMENTS**

INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
STATEMENT OF NET POSITION  
JUNE 30, 2016  
(with Partial Comparative Information as of June 30, 2015)

|   | Governmental Activities |                     |
|---|-------------------------|---------------------|
|   | 2016                    | 2015                |
| <b>ASSETS</b>   |                         |                     |
| <b>Current Assets:</b>  |                         |                     |
| Cash and Investments  | \$ 273,365              | \$ 392,974          |
| Accounts Receivable   | 8,695                   | 10,023              |
| Due From State of Minnesota   | 120,649                 | 146,105             |
| Due From Federal Government   | 10,540                  | 21,369              |
| Due From Other Minnesota School Districts                                 | 52,372                  | 52,133              |
| Interest Receivable   | 169                     | 260                 |
| Inventory   | 3,867                   | 2,880               |
| Prepaid Expenses  | 9,154                   | 10,674              |
| Total Current Assets  | <u>478,811</u>          | <u>636,418</u>      |
| <b>Noncurrent Assets:</b>   |                         |                     |
| Investments   | 20,680                  | 89,412              |
| <b>Capital Assets:</b>  |                         |                     |
| Other Capital Assets, Net of Depreciation                                 | 478,332                 | 550,615             |
| Total Noncurrent Assets   | <u>499,012</u>          | <u>640,027</u>      |
| <b>TOTAL ASSETS</b>   | <u>977,823</u>          | <u>1,276,445</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                                     |                         |                     |
| Related to Pensions   | 169,920                 | 132,729             |
| <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                    | <u>\$ 1,147,743</u>     | <u>\$ 1,409,174</u> |
| <b>LIABILITIES</b>  |                         |                     |
| <b>Current Liabilities:</b>   |                         |                     |
| Salaries Payable  | \$ 75,624               | \$ 73,829           |
| Accounts Payable  | 10,080                  | 31,248              |
| Payroll Liabilities   | 39,734                  | 41,800              |
| Total Current Liabilities   | <u>125,438</u>          | <u>146,877</u>      |
| <b>Noncurrent Liabilities:</b>  |                         |                     |
| Noncurrent Portion of Long-Term Liabilities                               | <u>923,872</u>          | <u>750,246</u>      |
| <b>TOTAL LIABILITIES</b>  | <u>1,049,310</u>        | <u>897,123</u>      |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                      |                         |                     |
| Related to Pensions   | <u>228,587</u>          | <u>374,272</u>      |
| <b>NET POSITION</b>   |                         |                     |
| Net Investment in Capital Assets  | 478,332                 | 550,615             |
| Restricted For:   |                         |                     |
| Food Service  | 9,324                   | 7,910               |
| Unrestricted  | <u>(617,810)</u>        | <u>(420,746)</u>    |
| <b>TOTAL NET POSITION</b>   | <u>(130,154)</u>        | <u>137,779</u>      |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> | <u>\$ 1,147,743</u>     | <u>\$ 1,409,174</u> |

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
(with Partial Comparative Information for the Year Ended June 30, 2015)

| Functions/Programs  | 2016             |                         |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position |
|---|------------------|-------------------------|--|--|
|   | Expenses         | Program Revenues        | Capital<br>Grants and<br>Contributions   |  |
|   |                  | Charges for<br>Services | Operating<br>Grants and<br>Contributions |  |
| <b>Governmental Activities:</b>                               |                  |                         |  |  |
| District and School Administration                            | \$ 58,908        |                         | \$                                       | (58,908) \$  |
| District Support Services                                     | 144,409          |                         |  | (144,409)  |
| Regular Instruction   | 710,641          | \$ 18,635               | 144,812                                  | (547,194)  |
| Vocational Instruction  | 664              | -                       | -  | (664)  |
| Exceptional Instruction                                       | 151,522          | -                       | 113,368                                  | (38,154)   |
| Instructional Support Services                                | 7,953            | -                       | -  | (7,953)  |
| Pupil Support Services  | 189,707          | 25,835                  | 44,811                                   | (119,061)  |
| Site, Buildings and Equipment                                 | 353,652          | -                       | 143,371                                  | (210,281)  |
| Fiscal and Other Fixed Cost Programs                          | 7,960            | -                       | -  | (7,960)  |
| <b>Total Governmental Activities</b>                          | <b>1,625,416</b> | <b>44,470</b>           | <b>446,362</b>                           | <b>(1,134,584)</b>   |
|   |                  |                         |  |  |
| <b>General Revenues:</b>                                      |                  |                         |  |  |
| Federal and State Aid Not<br>Restricted to Specific Purposes  |                  |                         |  | 881,870  |
| Earnings on Investments                                       |                  |                         |  | 1,920  |
| Gain on Sale of Assets  |                  |                         |  | 1,193  |
| Miscellaneous Revenues  |                  |                         |  | 2,294  |
| <b>Total General Revenues</b>                                 |                  |                         |  | <b>887,277</b>   |
|   |                  |                         |  |  |
| <b>Change in Net Position</b>                                 |                  |                         |  | <b>(247,307)</b>   |
| <b>Net Position - Beginning of Year, As Originally Stated</b> |                  |                         |  | <b>137,779</b>   |
| <b>Prior Period Adjustment</b>                                |                  |                         |  | <b>(20,626)</b>  |
| <b>Net Position, Beginning of Year, As Restated</b>           |                  |                         |  | <b>117,153</b>   |
| <b>Net Position - Ending</b>                                  |                  |                         |  | <b>\$ (130,154) \$</b>                                     |
|   |                  |                         |  | <b>887,169</b>   |
|   |                  |                         |  | <b>(148,749)</b>   |
|   |                  |                         |  | <b>1,327,010</b>   |
|   |                  |                         |  | <b>(1,040,482)</b>   |
|   |                  |                         |  | <b>286,528</b>   |
|   |                  |                         |  | <b>137,779</b>   |

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2016  
(with Partial Comparative Information as of June 30, 2015)

|  | Major Funds       |                  | Total Governmental Funds |                   |
|--|-------------------|------------------|--------------------------|-------------------|
|  | General           | Food Service     | 2016                     | 2015              |
| <b>ASSETS</b>                              |                   |                  |                          |                   |
| Cash and Investments                       | \$ 290,850        | \$ 3,195         | \$ 294,045               | \$ 482,386        |
| Accounts Receivable                        | 5,491             | 3,204            | 8,695                    | 10,023            |
| Due From State of Minnesota                | 120,649           | -                | 120,649                  | 146,105           |
| Due From Federal Government                | 9,061             | 1,479            | 10,540                   | 21,369            |
| Due From Other Minnesota School Districts  | 52,372            | -                | 52,372                   | 52,133            |
| Interest Receivable                        | 169               | -                | 169                      | 260               |
| Inventory                                  | -                 | 3,867            | 3,867                    | 2,880             |
| Prepaid Expenditures                       | 9,154             | -                | 9,154                    | 10,674            |
| <b>TOTAL ASSETS</b>                        | <b>\$ 487,746</b> | <b>\$ 11,745</b> | <b>\$ 499,491</b>        | <b>\$ 725,830</b> |
| <b>LIABILITIES</b>                         |                   |                  |                          |                   |
| Salaries Payable                           | \$ 73,627         | \$ 1,997         | \$ 75,624                | \$ 73,829         |
| Accounts Payable                           | 9,656             | 424              | 10,080                   | 31,248            |
| Payroll Liabilities                        | 39,734            | -                | 39,734                   | 41,800            |
| <b>TOTAL LIABILITIES</b>                   | <b>123,017</b>    | <b>2,421</b>     | <b>125,438</b>           | <b>146,877</b>    |
| <b>FUND BALANCES</b>                       |                   |                  |                          |                   |
| Nonspendable Fund Balances                 | 9,154             | 3,867            | 13,021                   | 13,554            |
| Restricted Fund Balances                   | -                 | 5,457            | 5,457                    | 5,030             |
| Assigned Fund Balances                     | 64,168            | -                | 64,168                   | 53,109            |
| Unassigned Fund Balances                   | 291,407           | -                | 291,407                  | 507,260           |
| <b>TOTAL FUND BALANCES</b>                 | <b>364,729</b>    | <b>9,324</b>     | <b>374,053</b>           | <b>578,953</b>    |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 487,746</b> | <b>\$ 11,745</b> | <b>\$ 499,491</b>        | <b>\$ 725,830</b> |

The accompanying notes are an integral part of these statements.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016  
(with Partial Comparative Information as of June 30, 2015)**

|  | <u>2016</u>                | <u>2015</u>              |
|--|----------------------------|--------------------------|
| <b>Total Fund Balances for Governmental Funds</b>  | <b>\$ 374,053</b>          | <b>\$ 578,953</b>        |
| 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. Those assets consist of:                        |                            |                          |
| Other Capital Assets, Net of \$663,267 of Accumulated Depreciation   | 478,332                    | 550,615                  |
| Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.   |                            |                          |
| Deferred Outflows of Resources Related to Pensions   | 169,920                    | 132,729                  |
| Deferred Inflows of Resources Related to Pensions  | (228,587)                  | (374,272)                |
| Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of: |                            |                          |
| Pension Benefits Payable   | <u>(923,872)</u>           | <u>(750,246)</u>         |
| <b>Total Net Position of Governmental Activities</b>   | <b>\$ <u>(130,154)</u></b> | <b>\$ <u>137,779</u></b> |

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 4026  
**EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL**  
**ECHO, MINNESOTA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(with Partial Comparative Information for the Year Ended June 30, 2015)**

|  | Major Funds       |                 | Total Governmental Funds |                   |
|--|-------------------|-----------------|--------------------------|-------------------|
|  | General           | Food Service    | 2016                     | 2015              |
| <b>REVENUES</b>  |                   |                 |                          |                   |
| Other Local and County Revenues  | \$ 20,026         |                 | \$ 20,026                | \$ 19,106         |
| Revenue From State Sources   | 1,125,334         | \$ 3,832        | 1,129,166                | 1,243,284         |
| Revenue From Federal Sources   | 135,621           | 40,979          | 176,600                  | 167,595           |
| Sales and Other Conversion of Assets   | 12,701            | 23,009          | 35,710                   | 26,775            |
| <b>TOTAL REVENUES</b>  | <b>1,293,682</b>  | <b>67,820</b>   | <b>1,361,502</b>         | <b>1,456,760</b>  |
| <b>EXPENDITURES</b>  |                   |                 |                          |                   |
| <b>Current:</b>  |                   |                 |                          |                   |
| District and School Administration   | 60,004            | -               | 60,004                   | 62,613            |
| District Support Services  | 142,334           | -               | 142,334                  | 115,822           |
| Regular Instruction  | 704,056           | -               | 704,056                  | 697,063           |
| Vocational   | 664               | -               | 664                      | -                 |
| Exceptional Instruction  | 152,527           | -               | 152,527                  | 163,820           |
| Instructional Support Services   | 2,315             | -               | 2,315                    | 8,640             |
| Pupil Support Services   | 97,568            | 66,406          | 163,974                  | 166,905           |
| Site, Buildings and Equipment  | 328,634           | -               | 328,634                  | 343,650           |
| Fiscal and Other Fixed Cost Programs   | 7,960             | -               | 7,960                    | 7,398             |
| <b>Capital Outlay:</b>   | 7,940             | -               | 7,940                    | 16,365            |
| <b>TOTAL EXPENDITURES</b>  | <b>1,504,002</b>  | <b>66,406</b>   | <b>1,570,408</b>         | <b>1,582,276</b>  |
| <b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>                                  | <b>(210,320)</b>  | <b>1,414</b>    | <b>(208,906)</b>         | <b>(125,516)</b>  |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                   |                 |                          |                   |
| Proceeds from Sale of Assets   | 4,006             | -               | 4,006                    | -                 |
| <b>EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES</b> | <b>(206,314)</b>  | <b>1,414</b>    | <b>(204,900)</b>         | <b>(125,516)</b>  |
| <b>FUND BALANCE BEGINNING OF YEAR</b>  | <b>571,043</b>    | <b>7,910</b>    | <b>578,953</b>           | <b>704,469</b>    |
| <b>FUND BALANCE END OF YEAR</b>  | <b>\$ 364,729</b> | <b>\$ 9,324</b> | <b>\$ 374,053</b>        | <b>\$ 578,953</b> |

The accompanying notes are an integral part of these statements.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
(with Partial Comparative Information for the Year Ended June 30, 2015)**

|  | <u>2016</u>                | <u>2015</u>                |
|--|----------------------------|----------------------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>  | <b>\$ (204,900)</b>        | <b>\$ (125,516)</b>        |
| Amounts reported for governmental activities in the statement of activities are different because:   |                            |                            |
| Capital outlays to purchase or construct capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which depreciation expense exceeds capital outlays in the period. |                            |                            |
| Capital Outlays  | -                          | 1,490                      |
| Depreciation Expense   | (69,470)                   | (73,416)                   |
| Proceeds from the sale of capital assets are reported in governmental funds as other financing sources without regard to any cost basis adjustment. However, for governmental activities those proceeds are adjusted for any remaining cost basis of the assets that were disposed.  | (2,813)                    | -                          |
| Governmental funds recognized pension contributions as expenditures at the time of payment whereas the statement of activities factors in items related to pensions on a full accrual perspective.   |                            |                            |
| State Aid Related to Pension Expense   | 15,414                     | 1,691                      |
| Pension Expense  | <u>14,462</u>              | <u>47,002</u>              |
| <b>Change in Net Position of Governmental Activities</b>   | <b>\$ <u>(247,307)</u></b> | <b>\$ <u>(148,749)</u></b> |

The accompanying notes are an integral part of these statements.



**INDEPENDENT SCHOOL DISTRICT NO. 4026**  
**EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL**  
**ECHO, MINNESOTA**  
**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**  
**JUNE 30, 2016**  
**(with Partial Comparative Information as of June 30, 2015)**

|  | <b>Private-Purpose<br/>Trust Fund</b> |                               |
|--|---------------------------------------|-------------------------------|
|  | <u><b>2016</b></u>                    | <u><b>2015</b></u>            |
| <b>ASSETS</b>                                      |                                       |                               |
| Cash and Investments                               | \$ 7,664                              | \$ 7,644                      |
| Interest Receivable                                | <u>5</u>                              | <u>5</u>                      |
| <b>TOTAL ASSETS</b>                                | <u><b>7,669</b></u>                   | <u><b>7,649</b></u>           |
| <b>LIABILITIES</b>                                 |                                       |                               |
| None   | <u>-</u>                              | <u>-</u>                      |
| <b>NET POSITION HELD IN TRUST FOR SCHOLARSHIPS</b> | <u><u><b>\$ 7,669</b></u></u>         | <u><u><b>\$ 7,649</b></u></u> |

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2016  
(with Partial Comparative Information for the Year Ended June 30, 2015)

|                                       | Private-Purpose<br>Trust Fund |                 |
|---------------------------------------|-------------------------------|-----------------|
|                                       | 2016                          | 2015            |
| <b>ADDITIONS:</b>                     |                               |                 |
| Gifts and Bequests                    | \$ -                          | \$ 1,000        |
| Investment Income:                    |                               |                 |
| Interest                              | 20                            | 19              |
| <b>TOTAL ADDITIONS</b>                | <b>20</b>                     | <b>1,019</b>    |
| <b>DEDUCTIONS:</b>                    |                               |                 |
| Scholarships Awarded                  | -                             | 1,300           |
| <b>TOTAL DEDUCTIONS</b>               | <b>-</b>                      | <b>1,300</b>    |
| <b>NET INCREASE</b>                   | <b>20</b>                     | <b>(281)</b>    |
| <b>NET POSITION BEGINNING OF YEAR</b> | <b>7,649</b>                  | <b>7,930</b>    |
| <b>NET POSITION END OF YEAR</b>       | <b>\$ 7,669</b>               | <b>\$ 7,649</b> |

The accompanying notes are an integral part of these statements.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. BASIS OF PRESENTATION**

The financial statements of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

**B. FINANCIAL REPORTING ENTITY**

Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The governing body consists of school board members elected by parents and District staff to serve staggered terms.

U.S. Generally Accepted Accounting Principles (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. The District currently has no student activities accounts.

**C. BASIC FINANCIAL STATEMENT PRESENTATION**

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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 charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational, or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**C. BASIC FINANCIAL STATEMENT PRESENTATION (Cont'd)**

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Since the resources in the fiduciary fund cannot be used for District operations, they are not included in the government-wide statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

**D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized when 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. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales and other miscellaneous revenue (except investment earnings) are generally recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used.

Fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the period in which they are incurred and become measurable.

**Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

**Governmental Funds**

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, and equipment purchases.

Food Service Fund – The Food Service Fund is used to account for food service revenues and expenditures.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)**

**Description of Funds (Cont'd)**

**Fiduciary Fund**

Trust Fund – The Private-Purpose Trust Fund is used to account for assets held by the District in a fiduciary capacity. Major sources of additions include gifts, donations, and interest income. Deductions are allowed for any purpose for which the original trust was created.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. Although only the General Fund is a major fund by definition, the District has elected to report all funds as major funds and therefore presents all funds in separate columns on the fund financial statements – an option permitted by GASB Statement No. 34.

**E. BUDGETING**

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund, Food Service Fund, and Trust Fund. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data, the School Board Treasurer submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are generally not recorded.

**F. CASH AND INVESTMENTS**

Cash and investments include amounts invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Investments are reported at fair value.

Cash and investments at June 30, 2016 are comprised of demand deposit accounts and negotiable certificates of deposit.

The District has formal policies in place as of June 30, 2016 to address custodial credit risk for deposits. The District does not have formal policies in place to address credit risk, concentration of credit risk and interest rate risk for investments since the District does not have any applicable investments.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**G. ACCOUNTS RECEIVABLE**

Accounts receivable represent amounts receivable from individuals and others for goods and services furnished by the District. Amounts due from the State of Minnesota and from other governmental units for general education aids and reimbursements under various specific programs are reported at the estimated amounts to be received based on available information at the date of this report. In some instances adjustments and proration by these agencies, which are dependent upon the amount of funds available for distribution, may result in differing amounts actually being received. Any such differences will be absorbed into operations of the subsequent period. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

**H. INVENTORIES**

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

**I. PREPAYMENTS**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

**J. CAPITAL ASSETS**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statement, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 5 to 15 years for equipment.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property which is being leased from Echo Community Corporation.

**K. DEFINED BENEFIT PENSION PLANS**

**Teachers Retirement Association**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 8.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**K. DEFINED BENEFIT PENSION PLANS (Cont'd)**

**Public Employees Retirement Association**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**L. VACATION AND SICK PAY**

Employees of the District earn sick leave at various rates to a maximum accumulation of 60 days. Vacation leave is earned by 12-month employees at various rates. Unused vacation pay does not accumulate. The expenditures for sick leave and vacation pay are recognized during the periods that payment is actually made and accumulated leaves are forfeited by the employee upon termination of employment.

**M. DEFERRED OUTFLOWS OF RESOURCES**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

**N. DEFERRED INFLOWS OF RESOURCES**

In addition to liabilities, the Statement of Net 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**O. 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; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**P. FUND BALANCE**

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

*Nonspendable* – consists of amounts that cannot be spent because it is not in spendable form, such as prepaid and inventory items.

*Restricted* – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

**P. FUND BALANCE (Cont'd)**

*Assigned* – consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School Board itself or by an official to which the School Board delegates the authority. Pursuant to School Board resolution, the Finance Committee is authorized to establish assignments of fund balance.

*Unassigned* – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

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 as determined by the School Board.

The District has formally adopted a fund balance policy for the General Fund. The District's policy is to maintain a minimum of four months operating expenditures in the General Fund.

**Q. NET POSITION**

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements. Net position invested 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 statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. All other net position items that do not meet the definition of "net investment in capital assets" or "restricted" are reported as unrestricted.

**R. 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.

**S. RECLASSIFICATIONS**

Certain amounts in the prior year data have been reclassified in order to be consistent with the current year's presentation. The total amount of the District's prior year fund balance did not change due to the reclassifications.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. DEFICIT FUND BALANCES**

For the year ended June 30, 2016, the District did not have any negative fund balances.

**3. DEPOSITS AND INVESTMENTS**

**A. DEPOSITS**

In accordance with Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, which are members of the Federal Reserve System.

Minnesota Statutes require that all District deposits be secured by a bank guaranty bond or 110% of collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC).



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**3. DEPOSITS AND INVESTMENTS (Cont'd)**

**A. DEPOSITS (Cont'd)**

**Custodial Credit Risk:** For deposits, is the risk that, in the event of failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

**B. INVESTMENTS**

**Interest Rate Risk:** Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investments were not exposed to interest rate risk at June 30, 2016.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investments were not exposed to credit risk at June 30, 2016.

**Concentration of Credit Risk:** Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District has no formal investment policy that places limits on the amount the District may invest in any one issuer.

**Custodial Credit Risk:** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments were not exposed to custodial credit risk at June 30, 2016.

The following table presents the District's cash and investment balances at June 30, 2016:

| <u>Cash/Investment Type</u>       | <u>Credit Rating</u> | <u>Average Maturities</u> | <u>Percentage of Total</u> | <u>Fair Value</u>        |
|-----------------------------------|----------------------|---------------------------|----------------------------|--------------------------|
| <b>Cash and Investments:</b>      |                      |                           |                            |                          |
| Certificates of Deposit           | N/A                  | 4.16 months               | 90.7%                      | \$ 266,777               |
| Savings                           | N/A                  | N/A                       | 4.0%                       | 11,764                   |
| Checking Account                  | N/A                  | N/A                       | 5.3%                       | 15,404                   |
| Petty Cash                        | N/A                  | N/A                       | 0.0%                       | 100                      |
| <b>Total Cash and Investments</b> |                      |                           | <b>100.0%</b>              | <b><u>\$ 294,045</u></b> |

Cash and Investments are presented in the June 30, 2016 basic financial statements as follows:

**Statement of Net Position:**

|                           |                          |
|---------------------------|--------------------------|
| <b>Current Assets:</b>    |                          |
| Cash and Investments      | \$ 273,365               |
| <b>Noncurrent Assets:</b> |                          |
| Investments               | 20,680                   |
| <b>Total</b>              | <b><u>\$ 294,045</u></b> |

**C. FAIR VALUE MEASUREMENT**

The District's cash and investments consist of a checking account, certificates of deposit, a savings account, and petty cash, none of which are subject to fair value measurement under GASB Statement No. 72.

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**4. CAPITAL ASSETS**

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

|   | <u>Beginning<br/>Balance</u> | <u>Increases</u>   | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|--------------------|------------------|---------------------------|
| Governmental Activities                             |                              |                    |                  |                           |
| Capital Assets, Being Depreciated                   |                              |                    |                  |                           |
| Leasehold Improvements                              | \$ 457,259                   | \$ -               | \$ -             | \$ 457,259                |
| Equipment and Transportation Vehicles               | <u>698,625</u>               | <u>-</u>           | <u>14,285</u>    | <u>684,340</u>            |
| Total Capital Assets,<br>Being Depreciated          | <u>1,155,884</u>             | <u>-</u>           | <u>14,285</u>    | <u>1,141,599</u>          |
| Accumulated Depreciation for:                       |                              |                    |                  |                           |
| Leasehold Improvements                              | 118,869                      | 18,491             | -                | 137,360                   |
| Equipment and Transportation Vehicles               | <u>486,400</u>               | <u>50,979</u>      | <u>11,472</u>    | <u>525,907</u>            |
| Total Accumulated Depreciation                      | <u>605,269</u>               | <u>69,470</u>      | <u>11,472</u>    | <u>663,267</u>            |
| <br>Total Capital Assets, Being<br>Depreciated, Net | <u>550,615</u>               | <u>(69,470)</u>    | <u>2,813</u>     | <u>478,332</u>            |
| <br>Governmental Activities Capital<br>Assets, Net  | <u>\$ 550,615</u>            | <u>\$ (69,470)</u> | <u>\$ 2,813</u>  | <u>\$ 478,332</u>         |

Depreciation expense was charged to functions of the District as follows:

|   |                  |
|---|------------------|
| Governmental Activities                             |                  |
| District Support Services                           | \$ 1,009         |
| Regular Instruction                                 | 21,460           |
| Exceptional Instruction                             | 403              |
| Pupil Support Services                              | 24,567           |
| Site, Buildings and Equipment                       | <u>22,031</u>    |
| Total Depreciation Expense, Governmental Activities | <u>\$ 69,470</u> |

**5. GENERAL LONG-TERM LIABILITIES**

**A. CHANGES IN LONG-TERM LIABILITIES**

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

|                          | <u>Beginning<br/>Balance</u> | <u>Additions</u>  | <u>Reductions</u> | <u>Ending<br/>Balance</u> | <u>Amounts<br/>Due within<br/>One Year</u> |
|--------------------------|------------------------------|-------------------|-------------------|---------------------------|--|
| Governmental Activities  |                              |                   |                   |                           |  |
| Pension Benefits Payable | <u>\$ 750,246</u>            | <u>\$ 278,824</u> | <u>\$ 105,198</u> | <u>\$ 923,872</u>         | <u>\$ -</u>                                |

**6. OTHER POST EMPLOYMENT BENEFITS**

Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions* requires Districts that provide health insurance benefits for retired employees to record a liability for the District's net OPEB obligation. Since the District does not offer health insurance to its employees, this Standard is not applicable to the District, and no liability is recorded.

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**7. FUND BALANCE CLASSIFICATION**

At June 30, 2016, a summary of the governmental fund balance classifications is as follows:

|                                | <b>General<br/>Fund</b> | <b>Food Service<br/>Fund</b> | <b>Total</b>      |
|--------------------------------|-------------------------|------------------------------|-------------------|
| <b>Nonspendable:</b>           |                         |                              |                   |
| Prepaid Expenditures           | \$ 9,154                | \$ -                         | \$ 9,154          |
| Inventory                      | <u>-</u>                | <u>3,867</u>                 | <u>3,867</u>      |
|                                | <u>9,154</u>            | <u>3,867</u>                 | <u>13,021</u>     |
| <b>Restricted:</b>             |                         |                              |                   |
| Food Service                   | <u>-</u>                | <u>5,457</u>                 | <u>5,457</u>      |
|                                | <u>-</u>                | <u>5,457</u>                 | <u>5,457</u>      |
| <b>Assigned for:</b>           |                         |                              |                   |
| Projected Budget Deficit       | 34,728                  | -                            | 34,728            |
| Equipment and Program Supplies | 16,095                  | -                            | 16,095            |
| Field Trips                    | <u>13,345</u>           | <u>-</u>                     | <u>13,345</u>     |
|                                | <u>64,168</u>           | <u>-</u>                     | <u>64,168</u>     |
| <b>Unassigned:</b>             | <u>291,407</u>          | <u>-</u>                     | <u>291,407</u>    |
| <b>Total Fund Balance:</b>     | <u>\$ 364,729</u>       | <u>\$ 9,324</u>              | <u>\$ 374,053</u> |

**8. PENSION PLANS**

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

**A. TEACHERS RETIREMENT ASSOCIATION**

**1. Plan Description**

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

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

**2. Benefits Provided**

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

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

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**8. PENSION PLANS (Cont'd)**

**A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)**

**2. Benefits Provided (Cont'd)**

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

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 factors 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:** 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 which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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

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8. PENSION PLANS (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

3. Contribution Rate

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

|             | Employee | Employer |
|-------------|----------|----------|
| Basic       | 11.0%    | 11.5%    |
| Coordinated | 7.5%     | 7.5%     |

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

|   |                              |
|---|------------------------------|
| Employer contributions reported in TRA's CAFR<br>Statement of Changes in Fiduciary Net Position | \$ 340,207,590               |
| Deduct employer contributions not related to future<br>contribution efforts                     | (704,635)                    |
| Deduct TRA's contributions not included in allocation   | <u>(435,999)</u>             |
| Total employer contributions  | 339,066,956                  |
| Total non-employer contributions  | <u>41,587,410</u>            |
| <b>Total contributions reported in Schedule of Employer<br/>and Non-Employer Allocations</b>    | <b><u>\$ 380,654,366</u></b> |

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

4. Merger of Duluth Teacher's Retirement Fund Association (DTRFA)

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

|                                 | 6/30/14 Prior to Merger        | 6/30/14 After Merger           |
|---------------------------------|--------------------------------|--------------------------------|
| Total Pension Liability (A)     | \$ 24,901,612,000              | \$ 25,299,564,000              |
| Plan Fiduciary Net Position (B) | <u>20,293,684,000</u>          | <u>20,519,756,000</u>          |
| Net Pension Liability (A-B)     | <b><u>\$ 4,607,928,000</u></b> | <b><u>\$ 4,779,808,000</u></b> |

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**8. PENSION PLANS (Cont'd)**

**A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)**

**5. Actuarial Assumptions**

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

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

**Actuarial Information**

|                           |                                      |
|---------------------------|--------------------------------------|
| Measurement Date          | June 30, 2015                        |
| Valuation Date            | July 1, 2015                         |
| Experience Study          | October 30, 2009                     |
| Actuarial Cost Method     | Entry Age Normal                     |
| Actuarial Assumptions:    |                                      |
| Investment Rate of Return | 8.0%                                 |
| Wage Inflation            | 3.0%                                 |
| Projected Salary increase | 3.5 – 12%, based on years of service |
| Cost of living adjustment | 2.0%                                 |

**Mortality Assumption**

|                 |   |
|-----------------|---|
| Pre-retirement  | RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years. |
| Post-retirement | RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.     |
| Post-disability | RP 2000 disabled retiree mortality, without adjustment.   |

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

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

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

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8. PENSION PLANS (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

5. Actuarial Assumptions (Cont'd)

| Asset Class          | Target Allocation  | Long-Term Expected<br>Real Rate of Return |
|----------------------|--------------------|---|
| Domestic Stocks      | 45%                | 5.50%                                     |
| International Stocks | 15%                | 6.00                                      |
| Bonds                | 18%                | 1.45                                      |
| Alternative Assets   | 20%                | 6.40                                      |
| Unallocated Cash     | 2%                 | 0.50                                      |
| <b>Total</b>         | <b><u>100%</u></b> |   |

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

6. Discount Rate

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

7. Net Pension Liability

On June 30, 2016, the District reported a liability of \$711,389 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0115% at the end of the measurement period and 0.0120% 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                                  | \$ 711,389 |
| State's proportionate share of the net pension liability<br>associated with the District | \$ 87,187  |

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

For the year ended June 30, 2016, the District recognized pension expense of \$27,678. It also recognized \$15,414 as an increase to pension expense for the support provided by direct aid.

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**8. PENSION PLANS (Cont'd)**

**A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)**

**7. Net Pension Liability (Cont'd)**

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

|  | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual economic experience                      | \$ 36,457                         | \$ -                             |
| Changes in actuarial assumptions   | 54,687                            | -                                |
| Net difference between projected and actual earnings on pension plan investments | -                                 | 54,409                           |
| Change in Proportion   | -                                 | 140,491                          |
| Contributions paid to TRA subsequent to the measurement date                     | <u>46,060</u>                     | <u>-</u>                         |
| <b>Total</b>   | <b><u>\$ 137,204</u></b>          | <b><u>\$ 194,900</u></b>         |

\$46,060 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, 2017. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

| Year ended June 30 | Pension Expense Amount |
|--------------------|------------------------|
| 2017               | \$ (38,682)            |
| 2018               | \$ (38,682)            |
| 2019               | \$ (38,682)            |
| 2020               | \$ 7,464               |
| 2021               | \$ 4,826               |
| Thereafter         | \$ -                   |

**8. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0 percent as well as the liability measured using one percent lower and one percent higher.

| District proportionate share of NPL |                   |                              |
|-------------------------------------|-------------------|------------------------------|
| 1 percent decrease<br>(7.0%)        | Current<br>(8.0%) | 1 percent increase<br>(9.0%) |
| \$1,082,826                         | \$711,389         | \$401,414                    |

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

**9. Pension Plan Fiduciary Net Position**

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org), or 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.



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**8. PENSION PLANS (Cont'd)**

**B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**1. Plan Description**

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

General Employees Retirement Plan (GERF)

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

**2. Benefits Provided**

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

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

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

GERF Benefits

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

**3. Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of Basic Plan members and 7.5% for the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2016, were \$17,513. The District's contributions were equal to the required contributions for each year as set by State Statute.

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**8. PENSION PLANS (Cont'd)**

**B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)**

**4. Pension Costs**

GERF Pension Costs

At June 30, 2016, the District reported a liability of \$212,483 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0041%, which was a decrease of 3.4% from its proportion measured as of June 30, 2014.

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$21,433 for its proportionate share of GERF's pension expense.

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

|  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Differences between expected and actual economic experience                  | \$ 1,971                                  | \$ 10,713                                |
| Changes in actuarial assumptions   | 13,232                                    | -  |
| Difference between projected and Actual earnings on pension plan investments | -   | 18,916                                   |
| Changes in proportion  | -   | 4,058                                    |
| Contributions paid to PERA subsequent to the measurement date                | <u>17,513</u>                             | <u>-</u>                                 |
| <b>Total</b>   | <b><u>\$ 32,716</u></b>                   | <b><u>\$ 33,687</u></b>                  |

\$17,513 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

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**8. PENSION PLANS (Cont'd)**

**B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)**

**4. Pension Costs (Cont'd)**

| <b>Year ended June 30</b> | <b>Pension Expense Amount</b> |
|---------------------------|-------------------------------|
| 2017                      | \$ (5,303)                    |
| 2018                      | \$ (5,304)                    |
| 2019                      | \$ (12,905)                   |
| 2020                      | \$ 5,028                      |
| 2021                      | \$ -                          |
| Thereafter                | \$ -                          |

**5. Actuarial Assumptions**

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions:

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

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

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

| <b>Asset Class</b>   | <b>Target Allocation</b> | <b>Long-Term Expected<br/>Real Rate of Return</b> |
|----------------------|--------------------------|---|
| Domestic Stocks      | 45%                      | 5.50%   |
| International Stocks | 15%                      | 6.00%   |
| Bonds                | 18%                      | 1.45%   |
| Alternative Assets   | 20%                      | 6.40%   |
| Cash                 | 2%                       | 0.50%   |
| <b>Total</b>         | <b><u>100%</u></b>       |   |

**6. Discount Rate**

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

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**8. PENSION PLANS (Cont'd)**

**B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)**

**7. Pension Liability Sensitivity**

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

| District proportionate share of GERP NPL |                   |                              |
|--|-------------------|------------------------------|
| 1 percent decrease<br>(6.9%)             | Current<br>(7.9%) | 1 percent increase<br>(8.9%) |
| \$334,099                                | \$212,483         | \$112,047                    |

**8. Pension Plan Fiduciary Net Position**

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

**9. OPERATING LEASE AGREEMENTS**

**Building Lease**

The District entered into an operating lease effective July 1, 2006 with the Echo Community Corporation for the building located in Echo, Minnesota. The lease is on a monthly basis and must be renewed annually. The lease agreement in effect for July 1, 2015 through June 30, 2016 requires monthly payments of \$17,000. The Echo Community Corporation is responsible for all building insurance costs, health and safety expenditures, ADA expenditures, and other facilities costs which may arise. Echo Community Corporation obtains an annual independent audit, and will furnish this information to the District upon request.

Lease expenditures for the year ended June 30, 2016 were \$204,000.

**Equipment Leases**

The District has entered into operating lease agreements for various pieces of office equipment. These leases call for monthly payments ranging from \$19 to \$381 and end on various dates through April 28, 2019. Expenditures under these leases were \$7,397 for the year ended June 30, 2016.

Future minimum lease obligations under these agreements are as follows:

|      |          |
|------|----------|
| 2017 | \$ 6,410 |
| 2018 | 6,006    |
| 2019 | 3,485    |
| 2020 | -        |
| 2021 | -        |

**10. PRIOR PERIOD ADJUSTMENT**

The beginning net position of the governmental activities has been decreased to reflect the merger of the Duluth Teachers Retirement Fund Association (DTRFA) with TRA during the measurement year used for the June 30, 2016 audit, as mentioned in Note 8. The result of this merger records the District's proportionate share of the additional net pension liability on the District's government-wide financial statements. Beginning governmental activities net position has been restated from \$137,779 to \$117,153 (a decrease of \$20,626).

## **REQUIRED SUPPLEMENTARY INFORMATION**

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REQUIRED SUPPLEMENTARY INFORMATION  
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CONTRIBUTIONS  
FOR DEFINED BENEFIT PENSION PLANS  
JUNE 30, 2016**

**TEACHERS RETIREMENT ASSOCIATION**

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY**

| Fiscal Year<br>Ending | District's<br>Proportion<br>(Percentage)<br>of the<br>Net<br>Pension<br>Liability<br>(Asset) | District's<br>Proportionate<br>Share<br>(Amount)<br>of the<br>Net<br>Pension<br>Liability<br>(Asset) | State's<br>Proportionate<br>Share<br>(Amount)<br>of the<br>Net<br>Pension<br>Liability<br>(Asset)<br>associated<br>with<br>District | Total<br>(a+b) | District's<br>Covered-<br>Employee<br>Payroll<br>(c) | District's<br>Proportionate<br>Share<br>of the<br>Net<br>Pension<br>Liability<br>(Asset)<br>as a<br>Percentage<br>of its<br>Covered-<br>Employee<br>Payroll<br>(a/c) | Plan<br>Fiduciary<br>Net<br>Position<br>as a<br>Percentage<br>of the<br>Total<br>Pension<br>Liability |
|-----------------------|--|--|---|----------------|--|--|---|
|                       |  |  |   |                |  |  |   |
| 6/30/2015             | 0.0115%  | \$ 711,389   | \$ 87,187   | \$ 583,280     | \$ 593,895   | 119.8%   | 76.8%   |
| 6/30/2014             | 0.0120   | 552,951  | 38,766  | 591,717        | 525,563  | 105.2  | 81.5  |

**Note:** Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

**TEACHERS RETIREMENT ASSOCIATION**

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS**

| Fiscal Year<br>Ending | Statutorily<br>Required<br>Contribution<br>(a) | Contributions<br>in Relation<br>to the<br>Statutorily<br>Required<br>Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(a-b) | District's<br>Covered-<br>Employee<br>Payroll<br>(d) | Contributions<br>as a<br>Percentage of<br>Covered-<br>Employee<br>Payroll<br>(b/d) |
|-----------------------|--|--|---|--|--|
|                       |  |  |   |  |  |
| 6/30/2016             | \$ 46,060                                      | \$ 46,060  | \$ -  | \$ 615,646   | 7.5%   |
| 6/30/2015             | 44,477   | 44,477   | -   | 593,895  | 7.5  |

**Note:** Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

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CONTRIBUTIONS  
FOR DEFINED BENEFIT PENSION PLANS  
JUNE 30, 2016**

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT PLAN**

| Fiscal Year<br>Ending | District's<br>Proportion<br>(Percentage)<br>of the<br>Net Pension<br>Liability (Asset) | District's<br>Proportionate<br>Share (Amount)<br>of the<br>Net Pension<br>Liability (Asset)<br>(a) | District's<br>Covered-<br>Employee<br>Payroll<br>(b) | District's<br>Proportionate<br>Share of the<br>Net Pension<br>Liability (Asset)<br>as a Percentage<br>of its<br>Covered-Employee<br>Payroll<br>(a/b) | Plan Fiduciary<br>Net Position<br>as a Percentage<br>of the<br>Total Pension<br>Liability |
|-----------------------|--|--|--|--|---|
|                       |  |  |  |  |   |
| 6/30/2015             | 0.0041%  | \$ 212,483   | \$ 239,090   | 88.9%  | 78.2%   |
| 6/30/2014             | 0.0042   | 197,295  | 223,552  | 88.3   | 78.7  |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT PLAN**

| Fiscal Year<br>Ending | Statutorily<br>Required<br>Contribution<br>(a) | Contributions<br>in Relation<br>to the<br>Statutorily<br>Required<br>Contribution<br>(b) | Contribution<br>Deficiency<br>(Excess)<br>(a-b) | Covered-<br>Employee<br>Payroll<br>(d) | Contributions<br>as a<br>Percentage of<br>Covered-<br>Employee<br>Payroll<br>(b/d) |
|-----------------------|--|--|---|--|--|
|                       |  |  |   |  |  |
| 6/30/2016             | \$ 17,513                                      | \$ 17,513  | \$ -  | \$ 233,708                             | 7.5%   |
| 6/30/2015             | 17,709   | 17,709   | -   | 239,090                                | 7.4  |

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016  
(with Comparative Actual Amounts for the Year Ended June 30, 2015)

|  | 2016 Budgeted Amounts |                  | 2016             |                  | 2015             |
|--|-----------------------|------------------|------------------|------------------|------------------|
|  | Original              | Final            | Actual           | Variance         | Actual           |
| <b>REVENUES</b>                              |                       |                  |                  |                  |                  |
| <b>Other Local and County Revenues:</b>      |                       |                  |                  |                  |                  |
| Contributions                                | \$ 6,290              | \$ 8,810         | \$ 7,031         | \$ (1,779)       | \$ 7,971         |
| Admissions                                   | 2,300                 | 2,458            | 2,483            | 25               | 1,236            |
| Fees from Patrons                            | 4,610                 | 3,290            | 2,932            | (358)            | 3,505            |
| Earnings From Investments                    | 2,500                 | 2,500            | 1,920            | (580)            | 2,523            |
| Miscellaneous Revenues and Reimbursements    | 3,200                 | 15,674           | 5,660            | (10,014)         | 3,571            |
|  | <u>18,900</u>         | <u>32,732</u>    | <u>20,026</u>    | <u>(12,706)</u>  | <u>18,806</u>    |
| <b>Revenues From State Sources:</b>          |                       |                  |                  |                  |                  |
| Endowment Fund Apportionment                 | 2,757                 | 3,114            | 3,209            | 95               | 3,557            |
| General Education Aid                        | 870,522               | 918,587          | 859,880          | (58,707)         | 899,664          |
| Literacy Incentive Aid                       | 5,417                 | 3,182            | 3,367            | 185              | 4,932            |
| Charter School Lease Aid                     | 155,086               | 154,264          | 143,371          | (10,893)         | 138,091          |
| Special Education Aid                        | 137,566               | 137,566          | 90,156           | (47,410)         | 162,557          |
| Alt Teacher Compensation                     | 24,999                | 25,310           | 25,351           | 41               | 29,718           |
|  | <u>1,196,347</u>      | <u>1,242,023</u> | <u>1,125,334</u> | <u>(116,689)</u> | <u>1,238,519</u> |
| <b>Revenues From Federal Sources:</b>        |                       |                  |                  |                  |                  |
| Title I                                      | 38,526                | 36,618           | 24,174           | (12,444)         | 32,079           |
| Title II                                     | 5,000                 | 8,058            | 6,744            | (1,314)          | 4,249            |
| REAP Grant                                   | 17,427                | 15,145           | 9,953            | (5,192)          | 25,611           |
| 21st Century Grant                           | 54,958                | 69,958           | 71,539           | 1,581            | 49,199           |
| Special Education Through Other Districts    | 5,000                 | 30,000           | 23,211           | (6,789)          | 18,756           |
|  | <u>120,911</u>        | <u>159,779</u>   | <u>135,621</u>   | <u>(24,158)</u>  | <u>129,894</u>   |
| <b>Sales and Other Conversion of Assets:</b> |                       |                  |                  |                  |                  |
| Sale of Materials                            | 10,960                | 15,733           | 11,144           | (4,589)          | 1,029            |
| Insurance Recovery                           | -                     | -                | 1,557            | 1,557            | -                |
|  | <u>10,960</u>         | <u>15,733</u>    | <u>12,701</u>    | <u>(3,032)</u>   | <u>1,029</u>     |
| <b>TOTAL REVENUES</b>                        | <u>1,347,118</u>      | <u>1,450,267</u> | <u>1,293,682</u> | <u>(156,585)</u> | <u>1,388,248</u> |
| <b>EXPENDITURES</b>                          |                       |                  |                  |                  |                  |
| <b>Current:</b>                              |                       |                  |                  |                  |                  |
| <b>District and School Administration:</b>   |                       |                  |                  |                  |                  |
| Salaries and Wages                           | 18,000                | 36,341           | 36,692           | (351)            | 40,595           |
| Employee Benefits                            | 2,727                 | 5,506            | 5,559            | (53)             | 5,273            |
| Purchased Services                           | 3,000                 | 100              | 2,345            | (2,245)          | 8,285            |
| Supplies and Materials                       | -                     | -                | 20               | (20)             | 927              |
| Other Expenditures                           | 16,000                | 9,589            | 15,388           | (5,799)          | 7,533            |
|  | <u>39,727</u>         | <u>51,536</u>    | <u>60,004</u>    | <u>(8,468)</u>   | <u>62,613</u>    |
| <b>District Support Services:</b>            |                       |                  |                  |                  |                  |
| Salaries and Wages                           | 61,474                | 76,585           | 76,968           | (383)            | 56,608           |
| Employee Benefits                            | 9,314                 | 11,603           | 11,661           | (58)             | 8,246            |
| Purchased Services                           | 44,957                | 43,758           | 52,332           | (8,574)          | 48,620           |
| Supplies and Materials                       | 1,700                 | 838              | 1,063            | (225)            | 2,052            |
| Other Expenditures                           | 300                   | 300              | 310              | (10)             | 296              |
|  | <u>117,745</u>        | <u>133,084</u>   | <u>142,334</u>   | <u>(9,250)</u>   | <u>115,822</u>   |
| <b>Regular Instruction:</b>                  |                       |                  |                  |                  |                  |
| Salaries and Wages                           | 556,523               | 528,346          | 528,214          | 132              | 533,883          |
| Employee Benefits                            | 82,992                | 94,880           | 101,176          | (6,296)          | 92,781           |
| Purchased Services                           | 27,030                | 27,500           | 25,021           | 2,479            | 24,096           |
| Supplies and Materials                       | 12,300                | 41,193           | 49,645           | (8,452)          | 46,303           |
| Other Expenditures                           | -                     | -                | -                | -                | -                |
|  | <u>678,845</u>        | <u>691,919</u>   | <u>704,056</u>   | <u>(12,137)</u>  | <u>697,063</u>   |



INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016  
(with Comparative Actual Amounts for the Year Ended June 30, 2015)

|  | 2016 Budgeted Amounts |                   | 2016              |                     | 2015              |
|--|-----------------------|-------------------|-------------------|---------------------|-------------------|
|  | Original              | Final             | Actual            | Variance            | Actual            |
| <b>EXPENDITURES (Cont'd)</b>   |                       |                   |                   |                     |                   |
| <b>Current (Cont'd):</b>   |                       |                   |                   |                     |                   |
| <b>Vocational Instruction:</b>   |                       |                   |                   |                     |                   |
| Purchased Services   | \$ -                  | \$ -              | \$ 664            | \$ (664)            | \$ -              |
| <b>Exceptional Instruction:</b>  |                       |                   |                   |                     |                   |
| Salaries and Wages   | 106,834               | 105,902           | 104,846           | 1,056               | 122,706           |
| Employee Benefits  | 16,109                | 16,044            | 15,781            | 263                 | 18,387            |
| Purchased Services   | 28,500                | 25,582            | 22,160            | 3,422               | 22,288            |
| Supplies and Materials   | 100                   | 10,000            | 9,740             | 260                 | 439               |
|  | <u>151,543</u>        | <u>157,528</u>    | <u>152,527</u>    | <u>5,001</u>        | <u>163,820</u>    |
| <b>Instructional Support Services:</b>   |                       |                   |                   |                     |                   |
| Purchased Services   | 3,500                 | 3,000             | 2,315             | 685                 | 8,275             |
| Supplies and Materials   | 180                   | -                 | -                 | -                   | 365               |
|  | <u>3,680</u>          | <u>3,000</u>      | <u>2,315</u>      | <u>685</u>          | <u>8,640</u>      |
| <b>Pupil Support Services:</b>   |                       |                   |                   |                     |                   |
| Salaries and Wages   | 33,000                | 42,229            | 50,854            | (8,625)             | 41,356            |
| Employee Benefits  | 4,999                 | 6,401             | 7,601             | (1,200)             | 6,185             |
| Purchased Services   | 12,300                | 11,030            | 21,134            | (10,104)            | 31,462            |
| Supplies and Materials   | 15,540                | 10,600            | 17,979            | (7,379)             | 20,985            |
| Other Expenditures   | -                     | 96                | -                 | 96                  | -                 |
|  | <u>65,839</u>         | <u>70,356</u>     | <u>97,568</u>     | <u>(27,212)</u>     | <u>99,988</u>     |
| <b>Site, Buildings and Equipment:</b>  |                       |                   |                   |                     |                   |
| Salaries and Wages   | 28,680                | 41,224            | 45,654            | (4,430)             | 43,158            |
| Employee Benefits  | 4,345                 | 6,317             | 6,716             | (399)               | 6,372             |
| Purchased Services   | 263,700               | 262,608           | 258,909           | 3,699               | 283,749           |
| Supplies and Materials   | 6,000                 | 16,687            | 17,255            | (568)               | 10,251            |
| Other Expenditures   | 100                   | 100               | 100               | -                   | 120               |
|  | <u>302,825</u>        | <u>326,936</u>    | <u>328,634</u>    | <u>(1,698)</u>      | <u>343,650</u>    |
| <b>Fiscal and Other Fixed Cost Programs:</b>   |                       |                   |                   |                     |                   |
| District Insurance   | 11,565                | 12,307            | 7,960             | 4,347               | 7,398             |
| <b>Capital Outlay:</b>   |                       |                   |                   |                     |                   |
| Regular Instruction  | 1,000                 | 275               | -                 | 275                 | 12,243            |
| Instructional Support Services   | -                     | 5,638             | 5,638             | -                   | 3,481             |
| Pupil Support Services   | -                     | -                 | -                 | -                   | 641               |
| Site, Buildings and Equipment  | -                     | 1,400             | 2,302             | (902)               | -                 |
|  | <u>1,000</u>          | <u>7,313</u>      | <u>7,940</u>      | <u>(627)</u>        | <u>16,365</u>     |
| <b>TOTAL EXPENDITURES</b>  | <u>1,372,769</u>      | <u>1,453,979</u>  | <u>1,504,002</u>  | <u>(50,023)</u>     | <u>1,515,359</u>  |
| <b>EXCESS OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b>                                      | (25,651)              | (3,712)           | (210,320)         | (206,608)           | (127,111)         |
| <b>OTHER FINANCING SOURCES (USES)</b>  |                       |                   |                   |                     |                   |
| Sale of Property and Equipment   | -                     | -                 | 4,006             | 4,006               | -                 |
| Transfer to Food Service Fund  | -                     | -                 | -                 | -                   | (2,500)           |
|  | <u>-</u>              | <u>-</u>          | <u>4,006</u>      | <u>4,006</u>        | <u>(2,500)</u>    |
| <b>EXCESS OF REVENUES AND OTHER<br/>SOURCES OVER (UNDER)<br/>EXPENDITURES AND OTHER USES</b> | (25,651)              | (3,712)           | (206,314)         | (202,602)           | (129,611)         |
| <b>FUND BALANCE BEGINNING OF YEAR</b>  | <u>571,043</u>        | <u>571,043</u>    | <u>571,043</u>    | <u>-</u>            | <u>700,654</u>    |
| <b>FUND BALANCE END OF YEAR</b>  | <u>\$ 545,392</u>     | <u>\$ 567,331</u> | <u>\$ 364,729</u> | <u>\$ (202,602)</u> | <u>\$ 571,043</u> |

INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2016  
(with Comparative Actual Amounts for the Year Ended June 30, 2015)

|                                     | <u>2016</u><br><u>Actual</u> | <u>2015</u><br><u>Actual</u> |
|-------------------------------------|------------------------------|------------------------------|
| <b>FUND BALANCE ANALYSIS</b>        |                              |                              |
| <b>NONSPENDABLE FUND BALANCE</b>    |                              |                              |
| Prepaid Expenditures                | \$ 9,154                     | \$ 10,674                    |
| <b>ASSIGNED FUND BALANCES</b>       |                              |                              |
| Projected Budget Deficit            | 34,728                       | 25,651                       |
| Equipment and Program Supplies      | 16,095                       | 16,095                       |
| Field Trips                         | 13,345                       | 11,363                       |
| <b>TOTAL ASSIGNED FUND BALANCES</b> | <u>64,168</u>                | <u>53,109</u>                |
| <b>UNASSIGNED FUND BALANCE</b>      | <u>291,407</u>               | <u>507,260</u>               |
| <b>TOTAL FUND BALANCE</b>           | <u>\$ 364,729</u>            | <u>\$ 571,043</u>            |

INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - FOOD SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2016  
(with Comparative Actual Amounts for the Year Ended June 30, 2015)

|   | 2016 Budgeted Amounts |                  | 2016            |                   | 2015            |
|---|-----------------------|------------------|-----------------|-------------------|-----------------|
|   | Original              | Final            | Actual          | Variance          | Actual          |
| <b>REVENUES</b>   |                       |                  |                 |                   |                 |
| <b>Other Local and County Revenues:</b>                                       |                       |                  |                 |                   |                 |
| Miscellaneous Revenues  | \$ 300                | \$ 300           | \$ -            | \$ (300)          | \$ 300          |
| <b>Revenues From State Sources:</b>   |                       |                  |                 |                   |                 |
| School Lunch Aid  | 1,700                 | 2,000            | 2,577           | 577               | 3,004           |
| School Breakfast Program  | 2,800                 | 1,200            | 1,255           | 55                | 1,761           |
|   | <u>4,500</u>          | <u>3,200</u>     | <u>3,832</u>    | <u>632</u>        | <u>4,765</u>    |
| <b>Revenues From Federal Sources:</b>   |                       |                  |                 |                   |                 |
| School Lunch Aid  | 5,000                 | 4,000            | 5,550           | 1,550             | 4,534           |
| Free/Reduced Lunch Aid  | 15,000                | 15,000           | 23,673          | 8,673             | 20,524          |
| School Breakfast Program  | 7,000                 | 6,000            | 9,796           | 3,796             | 7,302           |
| Summer Food Service Program   | -                     | 34               | 1,514           | 1,480             | -               |
| USDA Commodities/Rebate   | 700                   | 600              | 446             | (154)             | 5,341           |
|   | <u>27,700</u>         | <u>25,634</u>    | <u>40,979</u>   | <u>15,345</u>     | <u>37,701</u>   |
| <b>Sales And Other Conversion Of Assets:</b>                                  |                       |                  |                 |                   |                 |
| Sale of Lunches   | 30,000                | 28,000           | 23,009          | (4,991)           | 25,746          |
| <b>TOTAL REVENUES</b>   | <u>62,500</u>         | <u>57,134</u>    | <u>67,820</u>   | <u>10,686</u>     | <u>68,512</u>   |
| <b>EXPENDITURES</b>   |                       |                  |                 |                   |                 |
| <b>Current:</b>   |                       |                  |                 |                   |                 |
| <b>Pupil Support Services:</b>  |                       |                  |                 |                   |                 |
| Salaries and Wages  | 25,615                | 20,749           | 20,957          | (208)             | 22,215          |
| Employee Benefits   | 3,880                 | 3,143            | 3,175           | (32)              | 3,281           |
| Purchased Services  | -                     | -                | 39              | (39)              | -               |
| Supplies and Materials  | 32,650                | 28,400           | 40,901          | (12,501)          | 35,699          |
| USDA Commodities  | -                     | -                | 223             | (223)             | 4,916           |
| Other Expenditures  | 360                   | 700              | 1,111           | (411)             | 806             |
| <b>TOTAL EXPENDITURES</b>   | <u>62,505</u>         | <u>52,992</u>    | <u>66,406</u>   | <u>(13,414)</u>   | <u>66,917</u>   |
| <b>EXCESS OF REVENUES<br/>OVER (UNDER) EXPENDITURES</b>                       | (5)                   | 4,142            | 1,414           | (2,728)           | 1,595           |
| <b>OTHER FINANCING SOURCES</b>  |                       |                  |                 |                   |                 |
| Transfer from General Fund  | -                     | -                | -               | -                 | 2,500           |
| <b>EXCESS OF REVENUES AND OTHER<br/>SOURCES OVER (UNDER)<br/>EXPENDITURES</b> | (5)                   | 4,142            | 1,414           | (2,728)           | 4,095           |
| <b>FUND BALANCE BEGINNING OF YEAR</b>   | <u>7,910</u>          | <u>7,910</u>     | <u>7,910</u>    | <u>-</u>          | <u>3,815</u>    |
| <b>FUND BALANCE END OF YEAR</b>   | <u>\$ 7,905</u>       | <u>\$ 12,052</u> | <u>\$ 9,324</u> | <u>\$ (2,728)</u> | <u>\$ 7,910</u> |
| <b>FUND BALANCE ANALYSIS</b>  |                       |                  |                 |                   |                 |
| <b>NONSPENDABLE FUND BALANCE</b>  |                       |                  |                 |                   |                 |
| Inventory   |                       |                  | \$ 3,867        |                   | \$ 2,880        |
| <b>TOTAL NONSPENDABLE FUND BALANCE</b>  |                       |                  | <u>3,867</u>    |                   | <u>2,880</u>    |
| <b>RESTRICTED FUND BALANCE</b>  |                       |                  |                 |                   |                 |
| Food Service  |                       |                  | 5,457           |                   | 5,030           |
| <b>TOTAL RESTRICTED FUND BALANCE</b>  |                       |                  | <u>5,457</u>    |                   | <u>5,030</u>    |
| <b>TOTAL FUND BALANCE</b>   |                       |                  | <u>\$ 9,324</u> |                   | <u>\$ 7,910</u> |

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2016**

**1. DEFINED BENEFIT PENSION PLANS**

**TEACHERS RETIREMENT ASSOCIATION**

Change of benefit terms. The DTRFA was merged into TRA on June 30, 2015.

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

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions from the prior measurement date.

**2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. DEFICIT SPENDING**

For the year ended June 30, 2016, the final approved budget projected deficit spending in the following fund:

|              |          |
|--------------|----------|
| General Fund | \$ 3,712 |
|--------------|----------|

**B. EXPENDITURES EXCEEDING APPROPRIATIONS**

For the year ended June 30, 2016, the District had expenditures exceeding the latest amended budget in the following funds:

| <b>Fund</b>       | <b><u>Budget</u></b> | <b><u>Expenditures</u></b> | <b><u>Excess</u></b> |
|-------------------|----------------------|----------------------------|----------------------|
| General Fund      | \$1,453,979          | \$1,504,002                | \$ 50,023            |
| Food Service Fund | \$ 52,992            | \$ 66,406                  | \$ 13,414            |

Budget revisions were last approved in February of 2016. This excess was realized since that time and is approved by the School Board upon acceptance of this report.

**OTHER SUPPLEMENTARY INFORMATION,  
REQUIRED REPORTS AND SCHEDULES**

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
GENERAL FUND - HISTORICAL ANALYSIS**

|   | <u>2007</u>      | <u>2008</u>      | <u>2009</u>      | <u>2010</u>      | <u>2011</u>      | <u>2012</u>      | <u>2013</u>      | <u>2014</u>      | <u>2015</u>      | <u>2016</u>      |
|---|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>REVENUES</b>   |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Other Local and County Revenues                         | 115,377          | 133,790          | 171,016          | 140,575          | 162,816          | 147,385          | 42,356           | 24,834           | 18,806           | 20,026           |
| Revenue From State Sources                              | 1,623,221        | 1,785,485        | 1,903,914        | 1,777,530        | 1,842,006        | 1,916,941        | 1,683,923        | 1,375,435        | 1,238,519        | 1,125,334        |
| Revenue From Federal Sources                            | 65,373           | 522,038          | 158,571          | 319,211          | 222,244          | 111,857          | 83,367           | 57,906           | 129,894          | 135,621          |
| Sales and Other Conversions of Assets                   | -                | 9,453            | 14,433           | 13,174           | 19,730           | (11,693)         | 16,857           | 8,395            | 1,029            | 16,707           |
| <b>TOTAL REVENUES</b>                                   | <b>1,803,971</b> | <b>2,450,766</b> | <b>2,247,934</b> | <b>2,250,490</b> | <b>2,246,796</b> | <b>2,164,490</b> | <b>1,826,503</b> | <b>1,466,570</b> | <b>1,388,248</b> | <b>1,297,688</b> |
| <b>EXPENDITURES - PROGRAMS</b>                          |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| District and School Admin                               | 40,709           | 51,823           | 54,432           | 56,567           | 61,483           | 48,360           | 65,929           | 39,730           | 62,613           | 60,004           |
| District Support Services                               | 130,163          | 154,445          | 141,712          | 152,488          | 151,261          | 143,762          | 143,063          | 94,967           | 115,822          | 142,334          |
| Regular Instruction                                     | 832,659          | 903,892          | 1,027,384        | 1,141,230        | 1,030,237        | 1,097,118        | 860,909          | 720,780          | 709,306          | 704,056          |
| Vocational Instruction                                  | -                | 8,085            | -                | -                | -                | -                | -                | -                | -                | 664              |
| Exceptional Instruction                                 | 207,930          | 264,848          | 287,479          | 283,622          | 319,775          | 284,353          | 216,248          | 184,077          | 163,820          | 152,527          |
| Instructional Support Services                          | 586              | 9,161            | 11,221           | 36,560           | 65,705           | 14,655           | 6,949            | 8,205            | 12,121           | 7,953            |
| Pupil Support Services                                  | 129,547          | 155,561          | 254,369          | 164,062          | 259,829          | 169,546          | 178,764          | 128,367          | 100,629          | 97,568           |
| Site, Buildings, and Equipment                          | 361,991          | 805,096          | 436,982          | 374,312          | 375,839          | 378,318          | 409,368          | 345,075          | 343,650          | 330,936          |
| Fiscal and Other Fixed Cost Programs                    | 13,575           | 5,375            | 5,792            | 5,096            | 8,707            | 6,696            | 7,328            | 5,692            | 7,398            | 7,960            |
| Transfers Out   | -                | -                | -                | -                | -                | 30,000           | 11,000           | -                | 2,500            | -                |
| <b>TOTAL EXPENDITURES</b>                               | <b>1,717,160</b> | <b>2,358,286</b> | <b>2,219,371</b> | <b>2,214,137</b> | <b>2,272,836</b> | <b>2,172,808</b> | <b>1,899,558</b> | <b>1,526,893</b> | <b>1,517,859</b> | <b>1,504,002</b> |
| <b>EXCESS OF REVENUES OVER<br/>(UNDER) EXPENDITURES</b> | <b>86,811</b>    | <b>92,480</b>    | <b>28,563</b>    | <b>36,353</b>    | <b>(26,040)</b>  | <b>(8,318)</b>   | <b>(73,055)</b>  | <b>(60,323)</b>  | <b>(129,611)</b> | <b>(206,314)</b> |
| <b>FUND BALANCE-BEGINNING</b>                           | <b>624,183</b>   | <b>710,994</b>   | <b>803,474</b>   | <b>832,037</b>   | <b>868,390</b>   | <b>842,350</b>   | <b>834,032</b>   | <b>760,977</b>   | <b>700,654</b>   | <b>571,043</b>   |
| <b>FUND BALANCE-ENDING</b>                              | <b>710,994</b>   | <b>803,474</b>   | <b>832,037</b>   | <b>868,390</b>   | <b>842,350</b>   | <b>834,032</b>   | <b>760,977</b>   | <b>700,654</b>   | <b>571,043</b>   | <b>364,729</b>   |
| <b>ADJUSTED CASH BALANCE</b>                            | <b>506,965</b>   | <b>513,916</b>   | <b>615,631</b>   | <b>361,048</b>   | <b>455,480</b>   | <b>330,622</b>   | <b>651,608</b>   | <b>748,991</b>   | <b>482,362</b>   | <b>290,850</b>   |
| <b>EXPENDITURES - OBJECTS</b>                           |                  |                  |                  |                  |                  |                  |                  |                  |                  |                  |
| Salaries and Wages                                      | 943,949          | 1,069,075        | 1,204,427        | 1,307,874        | 1,333,938        | 1,258,971        | 1,074,239        | 858,187          | 838,306          | 843,228          |
| Employee Benefits                                       | 117,269          | 140,688          | 156,865          | 171,144          | 178,178          | 175,167          | 156,864          | 130,772          | 137,244          | 148,494          |
| Purchased Services                                      | 499,359          | 874,971          | 611,891          | 501,401          | 523,378          | 514,104          | 480,725          | 434,079          | 434,173          | 392,840          |
| Supplies and Materials                                  | 99,495           | 133,105          | 125,061          | 162,794          | 124,421          | 134,633          | 93,575           | 74,197           | 81,322           | 101,340          |
| Equipment   | 48,125           | 131,282          | 106,380          | 50,269           | 103,770          | 47,535           | 58,385           | 11,401           | 16,365           | 15,798           |
| Other Expenditures/Transfers                            | 8,763            | 9,165            | 14,747           | 20,655           | 9,151            | 42,398           | 35,770           | 18,257           | 10,449           | 2,302            |
| <b>TOTAL EXPENDITURES</b>                               | <b>1,717,160</b> | <b>2,358,286</b> | <b>2,219,371</b> | <b>2,214,137</b> | <b>2,272,836</b> | <b>2,172,808</b> | <b>1,899,558</b> | <b>1,526,893</b> | <b>1,517,859</b> | <b>1,504,002</b> |

**INDEPENDENT SCHOOL DISTRICT NO. 4026**  
**EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL**  
**ECHO, MINNESOTA**  
**SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**2016-001 AUDIT ADJUSTMENTS**

**Condition:** During our audit, we proposed audit adjustments that resulted in significant changes to the District's financial statements. This finding was also reported in the prior year audit. As in the prior year, the adjustments resulted primarily from the general ledger being maintained on the cash basis of accounting rather than the modified accrual basis. The District's corrective action plan for the prior year audit filed with the Minnesota Department of Education stated that the District would continue contracting with the SW/WC Service Cooperative for bookkeeping and yearend audit preparation services. This process was in place during the year; however, there were still required audit adjustments.

**Effect:** A control deficiency 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 misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a misstatement in the financial statement not initially identified by the entity's internal controls. This could affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

**Cause:** The District contracted with the SW/WC Service Cooperative during the current fiscal year to perform various bookkeeping responsibilities. The personnel at the Service Cooperative overlooked an account balance that required adjustment and did not receive timely and accurate information from District personnel for other adjustments prior to audit field work.

**Criteria:** The District's accounting staff, or contracted service provider, should prepare necessary journal entries during the year, or at a minimum, at year end to accurately reflect all account balances on a modified accrual basis. The external auditor's staff cannot be considered to be part of the District's internal control and should not be relied upon to propose a significant number of material audit adjustments.

**Recommendation:** We recommend that the District continue to contract with the SW/WC Service Cooperative and review the account balances for proper adjustment. If the District determines that this is not attainable, the plan should be amended to reflect an attainable goal.

**Views of Responsible Officials and Planned Corrective Actions:** The District agrees with the finding and the auditor's recommendations will be adopted.

**2016-002 LACK OF ADEQUATE CONTROL OVER FOOD SERVICE FINANCES**

**Condition:** During our audit, we noted instances of inadequate control over food service receivables and revenues. This finding was also reported in the prior year audit. Procedures were put into place toward mid-year to attempt to monitor and collect on overdue student lunch balances in a timely manner, but a material receivable remained at year end. Commodity rebates of approximately \$1,500 were lost in the current year due to requests not being filed in a timely manner. The District's MDE School Nutrition Administrative visit reported various findings and required compliance in those areas before funding is received for the next fiscal year.

**Effect:** A control deficiency 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 receivable and revenue misstatements on a timely basis. This could affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. If reporting and compliance requirements to agencies are not completed timely or accurately followed, funding can be affected, which in turn affects the District's cash flow.

**Cause:** There was a lack of understanding on proper receivable and revenue procedures. Commodity request timelines were overlooked by the Food Service Director. MDE School Nutrition requirements were overlooked and not understood by the Food Service Director.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE  
FOR THE YEAR ENDED JUNE 30, 2016**

**2016-002 LACK OF ADEQUATE CONTROL OVER FOOD SERVICE FINANCES (Cont'd)**

Criteria: The District should have a billing process in place for all overdue student lunch balances and should follow its overdue lunch policy. Commodity requests should be prepared by due dates. School Nutrition guidelines should be followed to ensure compliance.

Recommendation: We recommend that the District follow their overdue lunch balance policy. Statements should be sent to all families when the account becomes overdrawn and students should not be able to partake in a hot lunch until balances are up to date. The Food Service Director should prepare commodity requests timely and work to ensure compliance with all School Nutrition guidelines.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and the auditor's recommendations will be adopted.

**2016-003 STATEMENT OF JUST CLAIM**

Condition: The District's check stock used for the Student account does not include the required declaration.

Effect: The District is not in compliance with Minnesota Statute §471.391 subd. 1.

Cause: The District overlooked the requirement for Minnesota Statute §471.391 subd. 1 on the Student account.

Criteria: Minnesota Statute §471.391 subd. 1 requires that each declaration for payment be signed to the effect that such account, claim, or demand is just and correct and that no part of it has been paid. The statute is satisfied if on the back of District's checks is a declaration as defined in Minnesota's statute §471.391 reading "I declare under the penalties of law that this account, claim or demand is just and correct and that no part of it has been paid."

Recommendation: We recommend that the District use its declaration stamp on the remaining Student account checks. We also recommend that the next time checks are ordered they have the declaration pre-printed on the back.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and the auditor's recommendations will be adopted.

**2016-004 LACK OF ADEQUATE APPROVAL OF DISBURSEMENTS**

Condition: Three of 25 (12%) purchase orders for disbursements in the sample were not approved by the appropriate personnel during the year.

Effect: Checks could have been disbursed for improper amounts, payees, or purpose.

Cause: These checks were paid without appropriate approval by the Director.

Criteria: In order to ensure the disbursements are approved, the finance department must verify appropriate authorization has been obtained before the disbursement is issued.

Recommendation: We recommend that the District Finance Coordinator verify all disbursements are approved by the purchaser and the Director or other designated authorizer before checks are issued.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and the auditor's recommendations will be adopted.



**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2016**

**2016-001 AUDIT ADJUSTMENTS**

**Auditor Recommendation**

We recommend that the District continue to contract with the SW/WC Service Cooperative and review the account balances for proper adjustment. If the District determines that this is not attainable, the plan should be amended to reflect an attainable goal.

**Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding

The District still intends to contract with SW/WC Service Cooperative for bookkeeping services and yearend audit preparation services.

3. Official Responsible for Insuring CAP

The School Board is the official responsible for insuring corrective action of the deficiency.

4. Planned Completion Date for CAP

This plan has been and will continue to be implemented for the June 30, 2017 audit.

5. Plan to Monitor Completion of CAP

The School Board will monitor this corrective action plan.

**2016-002 LACK OF ADEQUATE CONTROL OVER FOOD SERVICE FINANCES**

**Auditor Recommendation**

We recommend that the District follow their overdue lunch balance policy. Statements should be sent to all families when the account becomes overdrawn and students should not be able to partake in a hot lunch until balances are up to date. The Food Service Director should prepare commodity requests timely and work to ensure compliance with all School Nutrition guidelines.

**Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding

The Finance Coordinator and Food Service Director will monitor balances and attempt to collect overdue balances in a timely manner. The Food Service Director will also make sure commodity requests are being filed on time. The Food Service Director will also strive to follow all School Nutrition guidelines.

3. Official Responsible for Insuring CAP

The School Board is the official responsible for insuring corrective action of the deficiency.

4. Planned Completion Date for CAP

This plan will be implemented in during the 2016-2017 fiscal year.

5. Plan to Monitor Completion of CAP

The School Board will be monitoring this plan.

**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA  
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2016**

**2016-003 STATEMENT OF JUST CLAIM**

**Auditor Recommendation**

We recommend that the District use its declaration stamp on the remaining Student account checks. We also recommend that the next time checks are ordered they have the declaration pre-printed on the back.

**Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding

The Finance Coordinator will manually stamp the back of the checks until new checks are ordered.

3. Official Responsible for Insuring CAP

The School Board is the official responsible for insuring corrective action of the deficiency.

4. Planned Completion Date for CAP

This plan will be implemented for the 2016-2017 fiscal year.

5. Plan to Monitor Completion of CAP

The School Board will monitor this corrective action plan.

**2016-004 LACK OF ADEQUATE APPROVAL OF DISBURSEMENTS**

**Auditor Recommendation**

We recommend that the District Finance Coordinator verify all disbursements are approved by the purchaser and the Director or other designated authorizer before checks are issued.

**Corrective Action Plan (CAP)**

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding

The Finance Coordinator will verify all checks issued are appropriately approved.

3. Official Responsible for Insuring CAP

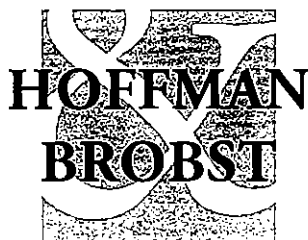
The School Board is the official responsible for insuring corrective action of the deficiency.

4. Planned Completion Date for CAP

This plan will be implemented for the 2016-2017 fiscal year.

5. Plan to Monitor Completion of CAP

The School Board will monitor this corrective action plan.



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## CERTIFIED PUBLIC ACCOUNTANTS

### 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. 4026  
Every Child Has Opportunities (ECHO) Charter School  
Echo, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's basic financial statements and have issued our report thereon dated November 30, 2016.

#### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings on Internal Control Structure and Compliance, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings on Internal Control Structure and Compliance as items 2016-001 and 2016-002 to be material weaknesses.

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A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings on Internal Control Structure and Compliance as item 2016-004 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings on Internal Control Structure and Compliance as item 2016-002. We also noted a certain matter of noncompliance that is required to be reported under Minnesota Statutes. This item of noncompliance is described in the accompanying Schedule of Findings on Internal Control Structure and Compliance as item 2016-003.

### **Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's Response to Findings**

Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's response to the findings identified in our audit is described in the accompanying Schedule of Findings on Internal Control Structure and Compliance Corrective Action Plan. Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

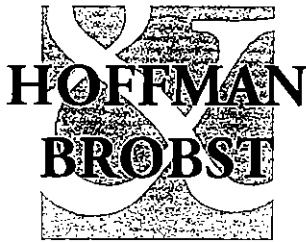
### **Purpose of this Report**

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

*Hoffman + Brobst, PLLP*

Hoffman & Brobst, PLLP  
Certified Public Accountants  
Marshall, Minnesota

November 30, 2016



PLLP

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**CERTIFIED PUBLIC ACCOUNTANTS**

**INDEPENDENT AUDITOR'S REPORT ON  
MINNESOTA LEGAL COMPLIANCE**

Members of the School Board  
Independent School District No. 4026  
Every Child Has Opportunities (ECHO) Charter School  
Echo, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains two categories of compliance to be tested in audits of charter schools: uniform financial accounting and reporting standards, and charter schools.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota, failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*, except as described in the accompanying schedule of findings on internal control structure and compliance as item 2016-003. 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 Independent School District No. 4026, Every Child Has Opportunities (ECHO), Echo, Minnesota'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.

*Hoffman & Brobst, PLLP*

Hoffman & Brobst, PLLP  
Certified Public Accountants  
Marshall, Minnesota

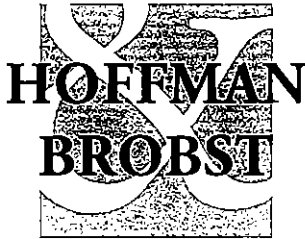
November 30, 2016

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**INDEPENDENT SCHOOL DISTRICT NO. 4026  
EVERY CHILD HAS OPPORTUNITIES (ECHO) CHARTER SCHOOL  
ECHO, MINNESOTA**

**STUDENT ACTIVITY ACCOUNT**

**FOR THE YEAR ENDED JUNE 30, 2016**



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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S COMMENT ON THE  
STUDENT ACTIVITY ACCOUNT**

Members of the School Board, Advisors, and Students  
Independent School District No. 4026  
Every Child Has Opportunities (ECHO) Charter School  
Echo, Minnesota

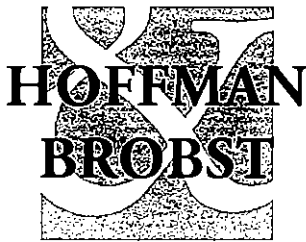
During the audit of the financial statements of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota for the year ended June 30, 2016, it was noted that the District did not have a student activity account in place. Accordingly, all activity of the District is included in the District's financial statements.

*Hoffman + Brobst, PLLP*

Hoffman & Brobst, PLLP  
Certified Public Accountants  
Marshall, Minnesota

November 30, 2016

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## CERTIFIED PUBLIC ACCOUNTANTS

### MANAGEMENT LETTER

Members of the School Board  
Independent School District No. 4026  
Every Child Has Opportunities (ECHO) Charter School  
Echo, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota, for the year ended June 30, 2016, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of the following opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control and any related significant deficiencies and material weaknesses in our report dated November 30, 2016. This letter does not affect that report or our report dated November 30, 2016, on the financial statements of Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota.

### COMMENTS AND SUGGESTIONS

- Due to the limited number of office personnel within Independent School District No. 4026, Every Child Has Opportunities (ECHO) Charter School, Echo, Minnesota, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. The District has responded to this deficiency by contracting with SW/WC Service Cooperative and implementing various oversight controls by the School Board and Management. These oversight controls help to mitigate the risk to the organization created by the lack of segregation of duties within the accounting function. However, the risks that are created by the lack of segregation of duties can never be completely eliminated. The School Board and Management should continue to be diligent in their review of financial transactions, and document these procedures by initialing invoices and approving expenditure reports.
- Student accounts need to be monitored closely. Three Student account checks were not approved in the Board minutes in May. Student account checks were also noted to be issued out of sequence.
- Board minutes should provide a level of detail that would give someone outside of the District enough information to accurately summarize the activities of the District. Minutes should be written in a fashion that are not vague and give complete and accurate detail of the business conducted by the School Board.
- Invoices should be marked as paid to prevent a paid invoice from being resubmitted.

If you have any questions regarding these items, please contact us.

*Hoffman & Brobst, PLLP*

Hoffman & Brobst, PLLP  
Certified Public Accountants  
Marshall, Minnesota

November 30, 2016

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**Fiscal Compliance Report - 6/30/2016**

**District: E.C.H.O. CHARTER SCHOOL (4026-7)**

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|  | Audit       | UFARS              | Audit -<br>UFARS |  | Audit   | UFARS          | Audit -<br>UFARS |
|--|-------------|--------------------|------------------|--|---------|----------------|------------------|
| <b>01 GENERAL FUND</b>                     |             |                    |                  | <b>06 BUILDING CONSTRUCTION</b>              |         |                |                  |
| Total Revenue                              | \$1,293,682 | <u>\$1,293,683</u> | (\$1)            | Total Revenue                                | \$0     | <u>\$0</u>     | \$0              |
| Total Expenditures                         | \$1,504,002 | <u>\$1,504,003</u> | (\$1)            | Total Expenditures                           | \$0     | <u>\$0</u>     | \$0              |
| Non Spendable:                             |             |                    |                  | Non Spendable:                               |         |                |                  |
| 4.60 Non Spendable Fund Balance            | \$9,154     | <u>\$9,154</u>     | \$0              | 4.60 Non Spendable Fund Balance              | \$0     | <u>\$0</u>     | \$0              |
| Restricted / Reserved:                     |             |                    |                  | Restricted / Reserved:                       |         |                |                  |
| 4.03 Staff Development                     | \$0         | <u>\$0</u>         | \$0              | 4.07 Capital Projects Levy                   | \$0     | <u>\$0</u>     | \$0              |
| 4.05 Deferred Maintenance                  | \$0         | <u>\$0</u>         | \$0              | 4.09 Alternative Facility Program            | \$0     | <u>\$0</u>     | \$0              |
| 4.06 Health and Safety                     | \$0         | <u>\$0</u>         | \$0              | 4.13 Project Funded by COP                   | \$0     | <u>\$0</u>     | \$0              |
| 4.07 Capital Projects Levy                 | \$0         | <u>\$0</u>         | \$0              | 4.67 LTFM                                    | \$0     | <u>\$0</u>     | \$0              |
| 4.08 Cooperative Revenue                   | \$0         | <u>\$0</u>         | \$0              | Restricted:                                  |         |                |                  |
| 4.09 Alternative Facility Program          | \$0         | <u>\$0</u>         | \$0              | 4.64 Restricted Fund Balance                 | \$0     | <u>\$0</u>     | \$0              |
| 4.13 Project Funded by COP                 | \$0         | <u>\$0</u>         | \$0              | Unassigned:                                  |         |                |                  |
| 4.14 Operating Debt                        | \$0         | <u>\$0</u>         | \$0              | 4.63 Unassigned Fund Balance                 | \$0     | <u>\$0</u>     | \$0              |
| 4.16 Levy Reduction                        | \$0         | <u>\$0</u>         | \$0              |  |         |                |                  |
| 4.17 Taconite Building Maint               | \$0         | <u>\$0</u>         | \$0              | <b>07 DEBT SERVICE</b>                       |         |                |                  |
| 4.23 Certain Teacher Programs              | \$0         | <u>\$0</u>         | \$0              | Total Revenue                                | \$0     | <u>\$0</u>     | \$0              |
| 4.24 Operating Capital                     | \$0         | <u>\$0</u>         | \$0              | Total Expenditures                           | \$0     | <u>\$0</u>     | \$0              |
| 4.26 \$25 Taconite                         | \$0         | <u>\$0</u>         | \$0              | Non Spendable:                               |         |                |                  |
| 4.27 Disabled Accessibility                | \$0         | <u>\$0</u>         | \$0              | 4.60 Non Spendable Fund Balance              | \$0     | <u>\$0</u>     | \$0              |
| 4.28 Learning & Development                | \$0         | <u>\$0</u>         | \$0              | Restricted / Reserved:                       |         |                |                  |
| 4.34 Area Learning Center                  | \$0         | <u>\$0</u>         | \$0              | 4.25 Bond Refundings                         | \$0     | <u>\$0</u>     | \$0              |
| 4.35 Contracted Alt. Programs              | \$0         | <u>\$0</u>         | \$0              | 4.51 QZAB Payments                           | \$0     | <u>\$0</u>     | \$0              |
| 4.36 State Approved Alt. Program           | \$0         | <u>\$0</u>         | \$0              | Restricted:                                  |         |                |                  |
| 4.38 Gifted & Talented                     | \$0         | <u>\$0</u>         | \$0              | 4.64 Restricted Fund Balance                 | \$0     | <u>\$0</u>     | \$0              |
| 4.40 Teacher Development and<br>Evaluation | \$0         | <u>\$0</u>         | \$0              | Unassigned:                                  |         |                |                  |
| 4.41 Basic Skills Programs                 | \$0         | <u>\$0</u>         | \$0              | 4.63 Unassigned Fund Balance                 | \$0     | <u>\$0</u>     | \$0              |
| 4.45 Career Tech Programs                  | \$0         | <u>\$0</u>         | \$0              |  |         |                |                  |
| 4.48 Achievement and Integration           | \$0         | <u>\$0</u>         | \$0              | <b>08 TRUST</b>                              |         |                |                  |
| 4.49 Safe School Crime - Crime<br>Levy     | \$0         | <u>\$0</u>         | \$0              | Total Revenue                                | \$20    | <u>\$20</u>    | \$0              |
| 4.50 Pre-Kindergarten                      | \$0         | <u>\$0</u>         | \$0              | Total Expenditures                           | \$0     | <u>\$0</u>     | \$0              |
| 4.51 QZAB Payments                         | \$0         | <u>\$0</u>         | \$0              | 4.22 Unassigned Fund Balance<br>(Net Assets) | \$7,669 | <u>\$7,669</u> | \$0              |
| 4.52 OPEB Liab Not In Trust                | \$0         | <u>\$0</u>         | \$0              |  |         |                |                  |
| 4.53 Unfunded Sev & Retirement<br>Levy     | \$0         | <u>\$0</u>         | \$0              | <b>20 INTERNAL SERVICE</b>                   |         |                |                  |
| 4.67 LTFM                                  | \$0         | <u>\$0</u>         | \$0              | Total Revenue                                | \$0     | <u>\$0</u>     | \$0              |
| Restricted:                                |             |                    |                  | Total Expenditures                           | \$0     | <u>\$0</u>     | \$0              |
| 4.64 Restricted Fund Balance               | \$0         | <u>\$0</u>         | \$0              | 4.22 Unassigned Fund Balance<br>(Net Assets) | \$0     | <u>\$0</u>     | \$0              |
| Committed:                                 |             |                    |                  |  |         |                |                  |
| 4.18 Committed for Separation              | \$0         | <u>\$0</u>         | \$0              | <b>25 OPEB REVOCABLE TRUST</b>               |         |                |                  |
| 4.61 Committed Fund Balance                | \$0         | <u>\$0</u>         | \$0              | Total Revenue                                | \$0     | <u>\$0</u>     | \$0              |
| Assigned:                                  |             |                    |                  | Total Expenditures                           | \$0     | <u>\$0</u>     | \$0              |
| 4.62 Assigned Fund Balance                 | \$64,168    | <u>\$64,169</u>    | (\$1)            | 4.22 Unassigned Fund Balance<br>(Net Assets) | \$0     | <u>\$0</u>     | \$0              |
| Unassigned:                                |             |                    |                  |  |         |                |                  |
| 4.22 Unassigned Fund Balance               | \$291,407   | <u>\$291,407</u>   | \$0              | <b>45 OPEB IRREVOCABLE<br/>TRUST</b>         |         |                |                  |
|  |             |                    |                  | Total Revenue                                | \$0     | <u>\$0</u>     | \$0              |
| <b>02 FOOD SERVICES</b>                    |             |                    |                  | Total Expenditures                           | \$0     | <u>\$0</u>     | \$0              |
| Total Revenue                              | \$67,820    | <u>\$67,820</u>    | \$0              |  |         |                |                  |

|                                 |          |                 |            |
|---------------------------------|----------|-----------------|------------|
| Total Expenditures              | \$66,406 | <u>\$66,406</u> | <u>\$0</u> |
| <i>Non Spendable:</i>           |          |                 |            |
| 4.60 Non Spendable Fund Balance | \$3,867  | <u>\$3,866</u>  | <u>\$1</u> |
| <i>Restricted / Reserved:</i>   |          |                 |            |
| 4.52 OPEB Liab Not In Trust     | \$0      | <u>\$0</u>      | <u>\$0</u> |
| <i>Restricted:</i>              |          |                 |            |
| 4.64 Restricted Fund Balance    | \$5,457  | <u>\$5,457</u>  | <u>\$0</u> |
| <i>Unassigned:</i>              |          |                 |            |
| 4.63 Unassigned Fund Balance    | \$0      | <u>\$0</u>      | <u>\$0</u> |

#### 04 COMMUNITY SERVICE

|   |     |            |            |
|---|-----|------------|------------|
| Total Revenue                           | \$0 | <u>\$0</u> | <u>\$0</u> |
| Total Expenditures                      | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Non Spendable:</i>                   |     |            |            |
| 4.60 Non Spendable Fund Balance         | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted / Reserved:</i>           |     |            |            |
| 4.26 \$25 Taconite                      | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.31 Community Education                | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.32 E.C.F.E                            | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.40 Teacher Development and Evaluation | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.44 School Readiness                   | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.47 Adult Basic Education              | \$0 | <u>\$0</u> | <u>\$0</u> |
| 4.52 OPEB Liab Not In Trust             | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Restricted:</i>                      |     |            |            |
| 4.64 Restricted Fund Balance            | \$0 | <u>\$0</u> | <u>\$0</u> |
| <i>Unassigned:</i>                      |     |            |            |
| 4.63 Unassigned Fund Balance            | \$0 | <u>\$0</u> | <u>\$0</u> |

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

#### 47 OPEB DEBT SERVICE

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