

INDEPENDENT AUDITOR'S REPORT
INDEPENDENT SCHOOL DISTRICT NO. 403
IVANHOE, MINNESOTA 56142
FOR THE YEAR ENDING JUNE 30, 2016

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
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Independent School District No. 403
Ivanhoe, Minnesota

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BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2016

BOARD OF EDUCATION

▪ Matt Landrus	Chairperson
▪ Marty Rost	Vice-Chairperson
▪ Archie Citterman	Treasurer
▪ Beth Otto	Clerk
- Adam Gillund	Director
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Dan Deitte	Superintendent
Courtney Frie	Principal
SW/WC Service Cooperative	Business Manager
Nancy Blanchette	Administrative Assistant

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Bryce L. Schelhaas, CPA

INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, 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 financials statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

The prior year partial comparative information has been derived from the District's financial statements for the year ended June 30, 2015, and in our report dated December 7, 2015, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota as of June 30, 2016, and the respective changes in financial position, and the respective budgetary comparison for General Fund and Major Special Revenue Funds (Food Service Fund and Community Service Fund) and Debt Service Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the district's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 7, 2015. 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 6 –12 and the Schedules of Proportionate Share of the Net Pension Liability and Employer Contributions on page 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 403's basic financial statements. The combining and individual fund financial statements and schedules as listed in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2016, on our consideration of the Independent School District No. 403's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independent School District No. 403's internal control over financial reporting and compliance.

Meulebroeck, Taubert & Co., PLLP

Meulebroeck, Taubert Co., PLLP
Certified Public Accountants
Pipestone, Minnesota
September 15, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2016

This section of the Independent School District No. 403's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 --*Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* issued in June 1999. Certain comparative information between the current year (2016) and the prior year (2015) is required to be presented in MD&A.

Financial Highlights

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

- Net position increased by \$436,581, or 16.23% over June 30, 2015
- Total governmental revenues increased by \$184,560 or 7.25% in comparison to fiscal year 2015, while expenditures decreased by \$110,183 or 3.78% in comparison to fiscal year 2015.
- Fund Balance increased by \$8,003,787 over June 30, 2015, mainly due to bond refinancing accounted for in the Debt Service Fund. Callable bonds will be paid off in 2018.

Overview of the Financial Statements

The financial section of the annual report consists of four parts -- Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include District-wide financial statements and fund financial statements and the notes to the financial statements.

District-Wide Statements

The District-wide statements (statement of net assets and statement of activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the District's assets and liabilities. 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 District-wide statements report the District's net position and how they have changed. Net position -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, pupil enrollment, and the condition of school facilities.

Independent School District No. 403
Ivanhoe, Minnesota

Fund Financial Statements

The fund financial statements include more detailed information about a District's individual funds.

The District maintains the following funds:

Governmental Funds - The District's services are included in this type of fund, which generally focuses 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 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 activities. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information (reconciliation schedules) immediately following 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 assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activity, a scholarship fund, is reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Position. We exclude this activity from the district-wide financial statements because the District cannot use these assets to finance operations.

Financial Analysis of the District As A Whole/Financial Analysis of the District's Funds (District-Wide Statements)

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the Independent School District No. 403, liabilities exceeded assets by \$2,253,471 at the close of the most recent fiscal year. This was a decrease of \$436,581 or 16.23% from the previous year total of \$2,690,052.

Table 1 is a summarized view of the District's Statement of Net Position.

Table 1 Statement of Net Position As of June 30, 2016		
<u>Assets</u>	<u>2016</u>	<u>2015</u>
Current and other assets	9,892,799	2,239,238
Capital assets, net of depreciation	7,596,728	8,133,525
Total Assets	17,489,527	10,372,763
<u>Deferred Outflows of Resources</u>		
Related to Pensions	171,494	133,435
Total Assets and Deferred Outflows of Resources	17,661,021	10,506,198
<u>Liabilities</u>		
Current and other liabilities	464,975	2,117,722
Long-term liabilities	18,070,261	9,385,000
Total Liabilities	18,535,236	11,502,722
<u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Year	1,128,240	1,328,122
Related to Pensions	251,016	365,406
Total Deferred Inflows of Resources	1,379,256	1,693,528
<u>Net Position</u>		
Invested in capital assets, net of related debt	(369,300)	(246,781)
Restricted	874,633	359,666
Unrestricted	(2,758,804)	(2,802,937)
Net Position	(2,253,471)	(2,690,052)
Total Liabilities and Net Position	17,661,021	10,506,198

Independent School District No. 403
Ivanhoe, Minnesota

The District's financial position is the product of numerous factors. Therefore, it is important to view the net position balance as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net assets of the District.

Table 2
Change in Net Position
For the year ended June 30, 2016

	<u>2016</u>	<u>2015</u>
<u>Revenues</u>		
Program Revenues		
Charges for Services	56,876	61,099
Operating Grants and Contributions	175,446	186,271
General Revenues		
Property Taxes	1,349,924	1,060,250
Unrestricted Federal and State Aid	1,059,103	1,159,617
Other	<u>292,777</u>	<u>84,272</u>
Total revenues	2,934,126	2,551,509
<u>Expenses</u>		
District and School Administration	22,269	32,273
District Support Services	89,174	97,718
Regular Instruction	459,420	823,086
Vocational Instruction		160
Exceptional Instruction	197,583	216,935
Instructional Support Services	50,907	31,370
Pupil Support Services	205,272	227,500
Site, Buildings, and Equipment	765,518	780,365
Fiscal and Other Fixed Cost Programs	27,034	24,405
Food Service	69,027	83,310
Community Service	84,956	76,312
Interest and Fiscal Charges on		
Long-term Liabilities	<u>526,385</u>	<u>518,482</u>
Total expenses	<u>2,497,545</u>	<u>2,911,916</u>
<u>Change in net position</u>	436,581	(360,407)
Beginning net position, as originally stated	(2,690,052)	(1,155,886)
Prior Period Adjustment		<u>(1,173,759)</u>
Beginning net position, as restated	<u>(2,690,052)</u>	<u>(2,329,645)</u>
Ending net position	<u>(2,253,471)</u>	<u>(2,690,052)</u>

The district's total revenue consisted of program revenues of \$232,322, property taxes of \$1,349,924, federal and state aid not restricted to specific purposes of \$1,059,103, and other revenues of \$292,777.

The cost of all governmental activities this year was \$2,497,545.

- The users of the district programs paid for \$56,876 or 2.28% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$175,446 or 7.02% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$1,349,924 or 54.05% of total costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

Figure A - Sources of Revenues for Fiscal Year 2016

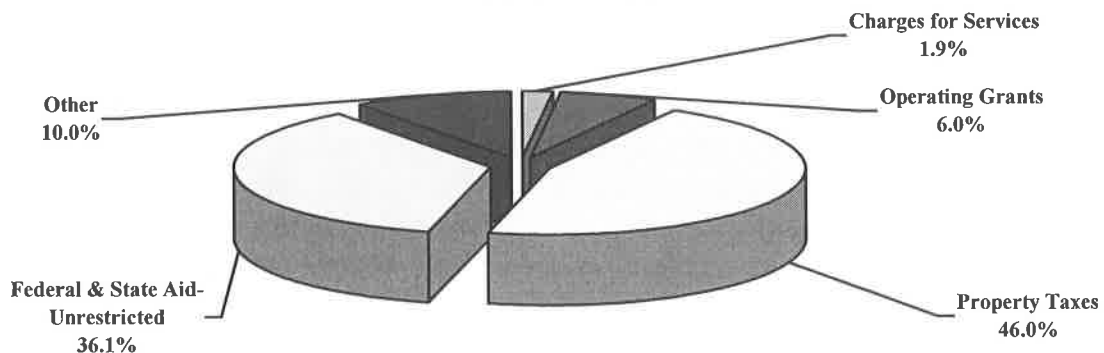
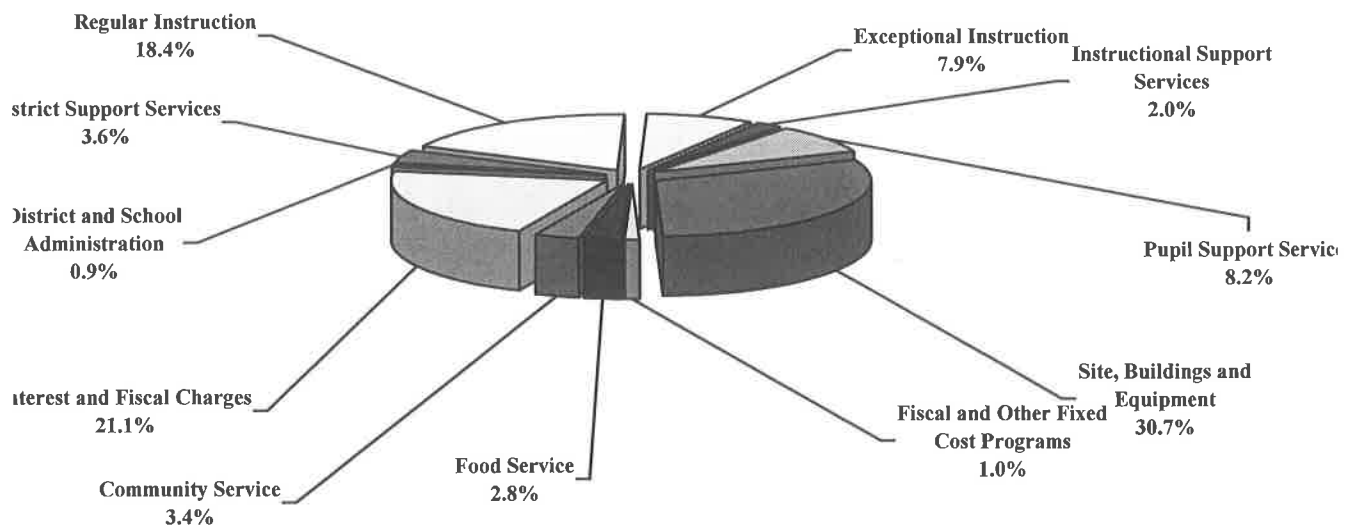


Figure B - Expenses for Fiscal Year 2016



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, the governmental funds reported a combined fund balance of \$8,277,260 which is an increase of \$8,032,932 over the prior year fund balance of \$244,328. The increase of \$8,032,932 was due primarily to the receipt of refunding bond proceeds of \$7,905,000 these bond proceeds will be expended in February of 2018 the call date on the bonds that were refinanced. The General Fund had a decrease of \$1,995. The Food Service Fund had an increase of \$6,685 which includes a transfer in of \$7,643. The Community Service Fund an increase of \$24,455. The Debt Service Fund had an increase of \$8,003,787 which includes refunding bond proceeds of \$7,905,000.

Revenues and Expenditures/Expenses

Revenues of the district's governmental funds totaled \$2,730,568 while total expenditures were \$2,807,424. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	1,715,845	1,712,056	(5,784)	(1,995)
Food Service Fund	68,069	69,027	7,643	6,685
Community Service Fund	109,411	84,956		24,455
Debt Service Fund	<u>837,243</u>	<u>941,385</u>	<u>8,107,929</u>	<u>8,003,787</u>
Total	<u>2,730,568</u>	<u>2,807,424</u>	<u>8,109,788</u>	<u>8,032,932</u>

General Fund Budgetary Analysis

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. During fiscal year 2016, the District did not revise the budget.

- Actual general fund revenues were under budget by \$48,762 primarily due to differences in state aids.
- Actual general fund expenditures under budget by \$38,427 primarily due to under budgeting expenditures for salaries, benefits.

Independent School District No. 403
Ivanhoe, Minnesota

Capital Assets

There were no additions for the fiscal year.

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2016.

Table 3
Capital Assets

	<u>2016</u>	<u>2015</u>	<u>Increase (Decrease)</u>
Land	9,694	9,694	
Land Improvements	10,093,594	10,093,594	
Buildings and Improvements	1,032,699	1,035,699	(3,000)
Equipment	297,328	307,386	(10,058)
Vehicles	20,592	20,592	
Less: Accumulated Depreciation	<u>(3,847,485)</u>	<u>(2,789,799)</u>	<u>(523,739)</u>
Total	<u>7,606,422</u>	<u>8,143,219</u>	<u>(536,797)</u>
Depreciation Expense	<u>531,671</u>	<u>533,947</u>	<u>2,276</u>

Long-Term Liabilities

In fiscal year 2016 the District had General Obligation School Building Bonds of 2008 with an outstanding balance of \$8,090,000 and General Obligation Judgment Bonds of 2014 with an outstanding balance of \$1,295,000 and General Obligation Refunding School Building Bonds of 2016 with an outstanding balance of \$7,905,000. The General Obligation Refunding School Building Bonds of 2016 will be used to pay off the General Obligation School Building Bonds of 2008 on the February 2018 call date. The funds received in this issue are being held in escrow for this payoff. Severance liability decreased by \$130,070 and pension benefits payable decreased by \$149,157. More detailed information about the district's long-term liabilities is presented in Note 9.

Factors Bearing on the District's Future

With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for the vast majority of its funding. Recent experience shows that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

Contacting the District's Management

This financial report is designed to provide a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Independent School District No. 403 at 421 N. Rebecca St., Ivanhoe, Minnesota 56136.

STATEMENT OF NET POSITION
JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
<u>Current Assets</u>		
Cash and Investments	9,239,568	1,469,714
Receivables:		
Property Taxes	518,740	648,878
Governmental Units	87,439	78,029
Other	33,073	19,545
Inventory	2,597	3,023
Prepaid Items	1,688	10,355
Capital Assets:		
Non-Depreciable	9,694	9,694
Depreciable - net of accumulated depreciation	<u>7,596,728</u>	<u>8,133,525</u>
Total Assets	<u>17,489,527</u>	<u>10,372,763</u>
 <u>Deferred Outflows of Resources</u>		
Related to Pensions	<u>171,494</u>	<u>133,435</u>
Total Assets and Deferred Outflows of Resources	<u><u>17,661,021</u></u>	<u><u>10,506,198</u></u>
 <u>Liabilities</u>		
Accounts Payable	56,449	28,593
Salaries Payable	54,020	52,597
Due to Other Governmental Units	4,769	9,022
Payroll Deductions	28,642	28,468
Deferred Revenue		
Short Term Indebtedness	321,095	524,554
Long-term Liabilities:		
Portion Due Within One Year	640,000	545,070
Portion Due in More Than One Year	16,650,000	9,385,000
Pension Benefit Payable	<u>780,261</u>	<u>929,418</u>
Total Liabilities	<u>18,535,236</u>	<u>11,502,722</u>
 <u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Year	1,128,240	1,328,122
Related to Pensions	<u>251,016</u>	<u>365,406</u>
Total Deferred Inflows of Resources	<u>1,379,256</u>	<u>1,693,528</u>
 <u>Net Position</u>		
Invested in Capital Assets, Net of Related Debt	(369,300)	(246,781)
Restricted for:		
General Fund State Mandated Purposes	1,688	150,926
Food Service		(6,685)
Community Service	132,579	108,124
Debt Service	740,366	107,301
Unrestricted	<u>(2,758,804)</u>	<u>(2,802,937)</u>
Total Net Position	<u>(2,253,471)</u>	<u>(2,690,052)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u><u>17,661,021</u></u>	<u><u>10,506,198</u></u>

See accompanying notes to the financial statements.

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

<u>Functions</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>	
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Government Activities</u>	
					<u>2016</u>	<u>2015</u>
Governmental Activities						
District and School Administration	22,269				(22,269)	(32,273)
District Support Services	89,174				(89,174)	(97,718)
Regular Instruction	459,420		56,663		(402,757)	(728,204)
Vocational Instruction	-0-				-0-	(160)
Exceptional Instruction	197,583		70,810		(126,773)	(173,638)
Instructional Support Services	50,907				(50,907)	(31,370)
Pupil Support Services	205,272				(205,272)	(227,500)
Site, Buildings and Equipment	765,518				(765,518)	(780,365)
Fiscal and Other Fixed Cost Programs	27,034				(27,034)	(24,405)
Food Service	69,027	33,381	34,688		(958)	(10,000)
Community Service	84,956	23,495	13,285		(48,176)	(40,431)
Interest and Fiscal Charges on Long-term Liabilities	526,385				(526,385)	(518,482)
Total	2,497,545	56,876	175,446	-0-	(2,265,223)	(2,664,546)
<u>General Revenues</u>						
Property Taxes Levied for:						
General Purposes					509,592	396,985
Community Service					34,906	46,474
Debt Service					805,426	616,791
Federal and State Aid Not Restricted to Specific Purposes					1,059,103	1,159,617
Earnings on Investments					1,635	398
Miscellaneous					291,142	83,874
Total General Revenues					2,701,804	2,304,139
Change in Net Position					436,581	(360,407)
Net Position - Beginning, As Originally Stated					(2,690,052)	(1,155,886)
Prior Period Adjustment						(1,173,759)
Net Position - Beginning, As Restated					(2,690,052)	(2,329,645)
Net Position - Ending					(2,253,471)	(2,690,052)

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2016	2015
<u>Assets</u>						
Cash and Investments	518,871	2,502	129,627	8,588,568	9,239,568	1,469,714
Current Property Taxes Receivable	128,459		11,307	370,344	510,110	639,018
Delinquent Property Taxes Receivable	5,824		459	2,347	8,630	9,860
Accounts Receivable		315	24,383	8,375	33,073	19,545
Due From Other Funds						6,351
Due From Department of Education	80,412		1,676	3,120	85,208	70,217
Due From Other Minnesota School Districts	2,231				2,231	1,747
Due From Federal Government						6,065
Inventory		2,597			2,597	3,023
Prepaid Items	1,688				1,688	10,355
Total Assets	<u>737,485</u>	<u>5,414</u>	<u>167,452</u>	<u>8,972,754</u>	<u>9,883,105</u>	<u>2,235,895</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>						
<u>Liabilities</u>						
Accounts Payable	13,759	720	653	41,317	56,449	28,593
Interest Payable	5,040				5,040	8,177
Salaries Payable	40,552	4,694	8,774		54,020	52,597
Short Term Indebtedness	316,055				316,055	516,377
Due to Other Funds						6,351
Due to Other Governmental Units	79				79	203
Due to Other Minnesota School Districts	4,690				4,690	8,819
Payroll Deductions	28,642				28,642	28,468
Unearned Revenue-Other						
Total Liabilities	<u>408,817</u>	<u>5,414</u>	<u>9,427</u>	<u>41,317</u>	<u>464,975</u>	<u>649,585</u>
<u>Deferred Inflows of Resources</u>						
Unearned Revenue-Delinquent Taxes	9,824		459	2,347	12,630	13,860
Property Taxes Levied for Subsequent Years	285,251		24,987	818,002	1,128,240	1,328,122
Total Deferred Inflows of Resources	<u>295,075</u>	<u>-0-</u>	<u>25,446</u>	<u>820,349</u>	<u>1,140,870</u>	<u>1,341,982</u>
<u>Fund Balance</u>						
Fund Balance-Nonspendable	1,688	2,597			4,285	13,378
Fund Balance-Restricted			132,579	8,111,088	8,243,667	225,626
Fund Balance-Committed						130,370
Fund Balance-Unassigned	31,905	(2,597)			29,308	(125,046)
Total Fund Balance	<u>33,593</u>	<u>0</u>	<u>132,579</u>	<u>8,111,088</u>	<u>8,277,260</u>	<u>244,328</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>737,485</u>	<u>5,414</u>	<u>167,452</u>	<u>8,972,754</u>	<u>9,883,105</u>	<u>2,235,895</u>

See accompanying notes to the financial statements.

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
Total Governmental Fund Balances	8,277,260	244,328
Amounts reported in Governmental Activities in The Statement of Net Assets are Different Because:		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds		
Cost of Capital Assets	11,453,907	11,466,965
Less: Accumulated Depreciation	<u>(3,847,485)</u>	<u>(3,323,746)</u>
	7,606,422	8,143,219
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred revenue.		
	12,630	13,860
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	171,494	133,435
Deferred Inflows of Resources related to Pensions	<u>(251,016)</u>	<u>(365,406)</u>
	(79,522)	(231,971)
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Bonds Payable	(17,290,000)	(9,800,000)
Pension Benefits Payable	(780,261)	(929,418)
Severance Payable	<u>(18,070,261)</u>	<u>(10,859,488)</u>
Net Position of Governmental Activities	<u>(2,253,471)</u>	<u>(2,690,052)</u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Debt Service	2016	2015
Revenues						
Local Property Tax Levies	510,822		34,906	805,426	1,351,154	1,056,421
Other Local and County Revenues	48,973		61,220	617	110,810	97,387
Revenue from State Sources	1,091,029	4,682	13,285	31,200	1,140,196	1,248,623
Revenue from Federal Sources	64,347	30,006			94,353	97,265
Other	674	33,381			34,055	46,312
Total Revenues	1,715,845	68,069	109,411	837,243	2,730,568	2,546,008
Expenditures						
District and School Administration	22,269				22,269	32,273
District Support Services	89,174				89,174	97,718
Regular Instruction	887,522				1,092,794	1,221,454
Vocational Instruction						
Exceptional Instruction	197,583				197,583	216,935
Community Education and Services			84,956		84,956	76,312
Instructional Support Services	50,907				50,907	31,370
Pupil Support Services	202,118	69,027			271,145	307,656
Site, Buildings and Equipment	235,449				235,449	254,020
Fiscal and Other Fixed Cost Programs	27,034			941,385	968,419	679,869
Total Expenditures	1,712,056	69,027	84,956	941,385	2,807,424	2,917,607
Excess Revenues (Expenditures)						
Before Other Financing Sources (Uses)	3,789	(958)	24,455	(104,142)	(76,856)	(371,599)
Other Financing Sources (Uses)						
Permanent Transfer	(7,643)	7,643				
Judgement Expense						(140,188)
Sale of Bonds				8,107,929	8,107,929	1,402,167
Sale of Equipment	1,859				1,859	1,672
Total Other Financing Sources (Uses)	(5,784)	7,643		8,107,929	8,109,788	1,672
Net Change in Fund Balance	(1,995)	6,685	24,455	8,003,787	8,032,932	1,119,552
Fund Balance-Beginning	35,588	(6,685)	108,124	107,301	244,328	(875,224)
Fund Balance-Ending	33,593	0	132,579	8,111,088	8,277,260	244,328

See accompanying notes to the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>2016</u>	<u>2015</u>
Net Change in Governmental Fund Balances	8,032,932	1,119,552

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

Governmental funds report capital outlays as expenditures, however, in the statement of activities, assets with an initial, individual cost of more than \$2,000.00 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Disposal of Assets	(5,126)			
Depreciation Expense	<u>(531,671)</u>	(536,797)	<u>(533,947)</u>	(533,947)

Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:

Bond Payments	415,000		285,000	
Bond Proceeds	(7,905,000)		(1,410,000)	
Severance	<u>130,070</u>	(7,359,930)	<u>162,789</u>	(962,211)

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, are therefore deferred in the funds.	(1,230)	3,829
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in Pension Benefits	301,606	12,370
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Change in Net Position of Governmental Activities	<u><u>436,581</u></u>	<u><u>(360,407)</u></u>
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See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Better/(Worse)
	Original	Final	Amounts	Than Final
				Budget
<u>Revenues</u>				
Local Property Tax Levies	510,717	510,717	510,822	105
Other Local and County Revenues	38,276	38,276	48,973	10,697
Revenue from State Sources	1,148,672	1,148,672	1,091,029	(57,643)
Revenue from Federal Sources	65,642	65,642	64,347	(1,295)
Other	1,300	1,300	674	(626)
Total Revenues	1,764,607	1,764,607	1,715,845	(48,762)
<u>Expenditures</u>				
District and School Administration	32,358	32,358	22,269	(10,089)
District Support Services	97,948	97,948	89,174	(8,774)
Regular Instruction	915,940	915,940	887,522	(28,418)
Exceptional Instruction	160,775	160,775	197,583	36,808
Instructional Support Services	33,909	33,909	50,907	16,998
Pupil Support Services	249,545	249,545	202,118	(47,427)
Site, Building and Equipment	232,808	232,808	235,449	2,641
Fiscal and Other Fixed Cost Programs	27,200	27,200	27,034	(166)
Total Expenditures	1,750,483	1,750,483	1,712,056	(38,427)
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	14,124	14,124	3,789	(10,335)
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer			(7,643)	(7,643)
Sale of Equipment	1,860	1,860	1,859	(1)
Total Other Financing Sources (Uses)	1,860	1,860	(5,784)	(7,644)
Net Change in Fund Balance	15,984	15,984	(1,995)	(17,979)
Fund Balance-Beginning			35,588	
Fund Balance-Ending			33,593	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Better/(Worse)
	Original	Final	Amounts	Than Final Budget
<u>Revenues</u>				
Revenue from State Sources	5,800	5,800	4,682	(1,118)
Revenue from Federal Sources	25,500	25,500	30,006	4,506
Other	35,375	35,375	33,381	(1,994)
Total Revenues	66,675	66,675	68,069	1,394
<u>Expenditures</u>				
Pupil Support Services	71,605	71,605	69,027	2,578
Total Expenditures	71,605	71,605	69,027	2,578
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(4,930)	(4,930)	(958)	3,972
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer			7,643	7,643
Total Other Financing Sources (Uses)	0	0	7,643	7,643
Net Change in Fund Balance	(4,930)	(4,930)	6,685	11,615
Fund Balance-Beginning			(6,685)	
Fund Balance-Ending			0	

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Better/(Worse)
	Original	Final	Amounts	Than Final Budget
<u>Revenues</u>				
Local Property Tax Levies	34,459	34,459	34,906	447
Other Local and County Revenues	58,950	58,950	61,220	2,270
Revenue from State Sources	12,394	12,394	13,285	891
Total Revenues	105,803	105,803	109,411	3,608
<u>Expenditures</u>				
Community Education and Services	68,826	68,826	84,956	(16,130)
Total Expenditures	68,826	68,826	84,956	(16,130)
Net Change in Fund Balance	36,977	36,977	24,455	(12,522)
Fund Balance-Beginning			108,124	
Fund Balance-Ending			132,579	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Better/(Worse)
	Original	Final	Amounts	Than Final Budget
<u>Revenues</u>				
Local Property Tax Levies	789,706	789,706	805,426	15,720
Other Local and County Revenues			617	617
Revenue from State Sources	31,202	31,202	31,200	(2)
Total Revenues	<u>820,908</u>	<u>820,908</u>	<u>837,243</u>	<u>16,335</u>
<u>Expenditures</u>				
Fiscal and Other Fixed Cost Programs	<u>808,900</u>	<u>808,900</u>	<u>941,385</u>	<u>(132,485)</u>
Total Expenditures	<u>808,900</u>	<u>808,900</u>	<u>941,385</u>	<u>(132,485)</u>
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	12,008	12,008	(104,142)	(116,150)
<u>Other Financing Sources (Uses)</u>				
Sale of Bonds			8,107,929	8,107,929
Total Other Financing Sources (Uses)	<u>-0-</u>	<u>-0-</u>	<u>8,107,929</u>	<u>8,107,929</u>
Net Change in Fund Balance	<u>12,008</u>	<u>12,008</u>	8,003,787	<u>7,991,779</u>
Fund Balance-Beginning			107,301	
Fund Balance-Ending			<u>8,111,088</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS
EXPENDABLE TRUST FUND
JUNE 30, 2016

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Cash and Investments	<u>4,081</u>	<u>4,273</u>
Total Assets	<u>4,081</u>	<u>4,273</u>
 <u>Net Position</u>		
Reserved for Scholarships	<u>4,081</u>	<u>4,273</u>
Total Net Position	<u>4,081</u>	<u>4,273</u>

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
EXPENDABLE TRUST FUND
FOR THE YEAR ENDED JUNE 30, 2016

<u>Additions</u>	<u>2016</u>	<u>2015</u>
Interest Income	<u>8</u>	<u>6</u>
Total Additions	<u>8</u>	<u>6</u>
<u>Deductions</u>		
Scholarships	<u>200</u>	<u></u>
Change in Net Position	<u>(192)</u>	<u>6</u>
Net Position - Beginning of Year	<u>4,273</u>	<u>4,267</u>
Net Position - End of Year	<u><u>4,081</u></u>	<u><u>4,273</u></u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of Independent School District No. 403 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.

B. Financial Reporting Entity

Independent School District 403, Ivanhoe, was formed and operates pursuant to applicable Minnesota laws and statutes. The Ivanhoe District operates under an elected six member Board of Education form of government. The Board has control over all activities related to the public school education in the Ivanhoe District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

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. However, in accordance with Minnesota State Statutes, the District's School Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

C. Basic Financial Statement Presentation

The District-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, except for the fiduciary funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net Position at the fund financial statement level.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies - continued

C. Basic Financial Statement Presentation- continued

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. Taxes and 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 assets are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material inter fund activity has been removed from the District-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: expendable trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide 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. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. The District-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. Federal revenue is recorded in the year in which the related expenditure is made. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Other miscellaneous revenues (except investment earnings) are 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

The District reports unavailable revenue on its balance sheet. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unavailable revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to the incurring qualified expenditures. In subsequent periods, when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for unavailable revenue is removed and revenue is recognized.

Fiduciary funds are accounted for on a flow economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the period for 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. Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies - continued

D. Basis of Accounting and Measurement Focus - continued

Governmental Funds

General Fund

The General Fund includes all financial transactions relating to the administration, instruction, maintenance, transportation, and capital expenditures of the District which are not accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specified purposes. These funds include the Food Service and Community Service funds.

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

The Community Service fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Debt Service Fund

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Fiduciary Funds

Agency Fund

The Agency Fund is used to account for the assets belonging to student organizations. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

E. Budgets and Budgetary Accounting

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles. The budgets are prepared by the school personnel and approved by the school board. Encumbrances are not considered in the budget process nor in the regular district accounting.

Once a budget is approved, it can be amended by school personnel with approval by the school board. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies - continued

F. Cash and Temporary Investments

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

The school District uses the average cash balance method of allocating investment income to the various funds.

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

H. Inventories

Inventories consist of expendable supplies held for consumption and are stated at moving, weighted average cost. Inventory of the General Fund is recorded as expenditure when items are issued from central stores. Accordingly inventory items on hand at the school are not included in inventory. Inventory of the Food Service Fund is recorded as expenditure when items are used. United States Department of Agriculture (USDA) commodities received are recorded at cost determined using the USDA standard price list and are included in the Food Service Fund inventory when received. Revenue is recognized and the expenditure is recorded when commodities are used.

I. Prepaid Items

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 expenditure at the time of consumption.

J. Property Tax Recognition

The levy certification is made in December of each year. The tax levy is collectible as of January 2nd of the following year and the taxes are due to the county treasurer in May and October of each year. The taxes levied during the fall of the year are recognized in the subsequent fiscal year for the school district.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies - continued

K. Property Tax Recognition - continued

Current taxes receivable includes the amount of Homestead Market Value Credit Aid and Disparity Reduction Aid to be received after July 1, 2016, and will be recognized as revenue during the fiscal year ending June 30, 2017. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

L. 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 at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$2,000 or more, which benefit more than one fiscal year. 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 district-wide financial statements, 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 or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and improvements, and 5 to 20 years for equipment and vehicles. Land is not depreciated.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

M. Long-Term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are also reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies - continued

N. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

O. Fund Equity

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 the resources in the governmental funds. The following are the five fund balance categories used by the District:

Non-Spendable Fund Balance

Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies - continued

O. Fund Equity- continued

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the business manager and/or superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The school district will strive to maintain a fund balance of between 25% and 34% of total operating expenditures to fund balance. The fund balance shall be defined as the sum of the restricted, committed, assigned and unassigned fund balances in the General Fund, Food Service Fund and the Community Service Fund. Total operating expenditures will include the expenditures in the funds noted above.

If resources from more than one fund balance classification could be spent, the school district established the following order for resource use: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. Journal entries at the end of the fiscal year may be used to accomplish this.

P. Net Position

Net position represents the difference between assets and liabilities in the District-wide and Fiduciary Fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Q. Pensions

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1 Summary of Significant Accounting Policies - continued

R. Certain Comparative Data and Reclassifications

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

S. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

T. Subsequent Events

Subsequent events have been evaluated through September 15, 2016, which is the date the financial statements were available to be issued.

Note 2 Deposits and Investments

A. Deposits

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, none of the District's bank balance of \$486,929 was exposed to custodial credit risk.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2 Cash and Investments - continued

B. Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

The District's investments are potentially subject to various risks including the following:
Custodial Credit Risk

The risk that in the event of a failure of the counter party to an investment transaction, a district will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk

The risk that an issuer or other counter party to an investment will not fulfill its obligations to the holder of the investment.

Concentration of Credit Risk

The risk of loss that may be caused by the District's investment in a single issuer.

Interest Rate Risk

The risk that changes in the market interest rates will adversely affect the fair value of an investment.

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2 Cash and Investments - continued

B. Investments - continued

	<u>Credit Risk</u>		<u>Concentration</u>	<u>Interest</u>	<u>Carrying</u>
	<u>Credit</u>	<u>Rating</u>	<u>Risk</u>	<u>Rate Risk</u>	
	<u>Rating</u>	<u>Agency</u>	<u>Over 5%</u>	<u>Maturity</u>	<u>Value</u>
			<u>of Portfolio</u>	<u>Date</u>	
Investment Pools:					
Minnesota School District Liquid Asset Fund Plus					
Liquid Class	AAAm	S & P	20%	N/A	134,462
MAX Class	AAAm	S & P	80%	N/A	<u>600,847</u>
Total Investments					735,309
Nonnegotiable					
Certificates of					
Deposit					3,165
Cash on Hand					750
Deposits					<u>483,947</u>
Total Cash and Investments					<u>1,223,171</u>

Cash and investments are included on the basic financial statements as follows:

Cash and temporary investments – statement of net position	1,219,090
Cash and temporary investments – statement of fiduciary net position	<u>4,081</u>
	<u>1,223,171</u>

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

The Minnesota School District Liquid Asset Fund issues a publicly available financial report. That report may be obtained on the Internet at www.msdlaf.org.

Note 3 Due From Department of Education

Amounts due from the Department of Education are aids and reimbursements receivable for the fiscal years as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2016</u>	<u>2015</u>
General Education Aid	24,913	62,609
Other State Credits	3,236	2,992
Special Education	<u>52,263</u>	<u>899</u>
Total General Fund	80,412	66,500

Special Revenue Funds

Food Service Fund

Breakfast	730
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 3 Due From Department of Education - continued

Special Revenue Funds - continued

Community Service Fund

Early Childhood and Family Education	69	35
Other State Credits	<u>1,607</u>	<u>1,163</u>
Total Community Services	<u>1,676</u>	<u>1,198</u>
Total Special Revenue Funds	<u>1,676</u>	<u>1,928</u>

Debt Service Fund

Other State Credits	<u>3,120</u>	<u>1,789</u>
Total All Funds	<u>85,208</u>	<u>70,217</u>

Note 4 Due From Federal Government Through the Department of Education

Amounts due from the federal government through the Department of Education are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2016</u>	<u>2015</u>
Federal Program - Title I		5,565
- Title II		<u>500</u>
Total General Fund	<u>-0-</u>	<u>6,065</u>

Note 5 Capital Assets

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

	<u>Balance</u> <u>07/01/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>06/30/16</u>
Capital assets not depreciated				
Land	9,694			9,694
Capital assets depreciated				
Land Improvements	10,093,594			10,093,594
Buildings	1,035,699		(3,000)	1,032,699
Equipment	307,386		(10,058)	297,328
Vehicles	20,592			20,592
Total capital assets depreciated	<u>11,457,271</u>	<u>-0-</u>	<u>(13,058)</u>	<u>11,444,213</u>
Less accumulated depreciation for				
Land Improvements	(2,271,060)	(504,680)		(2,775,740)
Buildings	(869,977)	(7,546)	480	(877,043)
Equipment	(173,700)	(16,871)	7,452	(183,119)
Vehicles	(9,009)	(2,574)		(11,583)
Total Accumulated Depreciation	<u>(3,323,746)</u>	<u>(531,671)</u>	<u>7,932</u>	<u>(3,847,485)</u>
Total capital assets depreciated – net	<u>8,133,525</u>	<u>(531,671)</u>		<u>7,596,728</u>
Net Capital Assets	<u>8,143,219</u>	<u>(531,671)</u>	<u>(5,126)</u>	<u>7,606,422</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 5 Capital Assets - continued

Depreciation expense of \$531,671 for the year ended June 30, 2016 was charged to the following governmental functions:

Regular Instruction	3,574
Pupil Support Services	3,154
Sites, Buildings, and Equipment	<u>524,943</u>
Total	<u>531,671</u>

Note 6 Due To Other Minnesota School Districts

The amounts due to other Minnesota School Districts are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2016</u>	<u>2015</u>
Independent School District No. 414	1,289	
SW/WC Service Coop – Reimbursements	<u>3,401</u>	<u>8,819</u>
Total General Fund	<u>4,690</u>	<u>8,819</u>
Total All Funds	<u>4,690</u>	<u>8,819</u>

Note 7 Due to Other Governmental Units

Amounts due to Other Governmental Units are as follows:

	<u>June 30</u>	
<u>General Fund</u>	<u>2015</u>	<u>2014</u>
Minnesota Department of Revenue		
Sales Tax	<u>79</u>	<u>203</u>
Total General Fund	<u>79</u>	<u>203</u>

Note 8 Certificates of Indebtedness

	<u>June 30,</u>			<u>June 30,</u>
	<u>2015</u>	<u>Additions</u>	<u>Retirements</u>	<u>2016</u>
Minnesota Tax and Aid Anticipation Certificates of Indebtedness, Series 2015A Maturity September 12, 2016, Interest rate 2%	-0-	316,055	-0-	316,055
Minnesota Tax and Aid Anticipation Certificates of Indebtedness, Series 2014A Maturity September 10, 2015, Interest rate 2%	<u>516,377</u>	<u>-0-</u>	<u>516,377</u>	<u>-0-</u>
Total	<u>516,377</u>	<u>316,055</u>	<u>516,377</u>	<u>316,055</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 9 Long-Term Liabilities

A. Bonds Payable

Bonds payable at June 30, 2016 are comprised of the following items:

	<u>Balance</u> <u>June 30, 2016</u>
General Obligation Judgment Bonds, Series 2014, Due in annual installments of \$115,000 to \$160,000 through February 1, 2025, Interest at 2.00% to 3.45%	1,295,000
General Obligation School Building Refunding Bonds Series 2016A, due in annual installments of \$210,000 to \$580,000 through February 1, 2034, Interest at 2.00% to 3.00%.	7,905,000
General Obligation School Building Bonds, Series 2008A, Due in annual installments of \$235,000 to \$635,000 through February 1, 2034, Interest at 3.00% to 4.15%. These bonds will be paid with the proceeds of the General Obligation School Building Refunding Bonds Series 2016A on February 1, 2018 the call date on the bonds.	<u>8,090,000</u>
Total Bonds Payable	<u>17,729,000</u>

The annual requirements to amortize the bonds payable outstanding as of June 30, 2016, including interest payments, are listed below.

<u>Year Ended</u>			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	640,000	467,968	1,107,968
2018	1,545,000	519,675	2,064,675
2019	735,000	473,125	1,208,125
2020	760,000	451,725	1,211,725
2021	785,000	429,525	1,214,525
2022-2026	4,280,000	1,788,125	6,068,125
2027-2031	5,050,000	1,105,270	6,155,270
2032-2036	3,495,000	253,693	3,748,693
Total	<u>17,290,000</u>	<u>5,489,106</u>	<u>22,779,106</u>

B. Changes in Long-Term Liabilities

The following is a schedule of the changes in Long-Term Liabilities:

	<u>Balance</u> <u>7/1/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/16</u>	<u>Due Within</u> <u>One Year</u>
Bonds Payable	9,800,000	7,905,000	415,000	17,290,000	640,000
Pension Benefits	929,418		149,157	780,261	
Severance Pay	130,070	-0-	130,070	-0-	-0-
Total	<u>10,859,488</u>	<u>7,905,000</u>	<u>694,227</u>	<u>18,070,291</u>	<u>640,000</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 10 Fund Balances

Non-Spendable Fund Balance

The District has the following non-spendable fund balances as of June 30, 2016:

General Fund

Prepaid Expenses	1,688
Total General Fund	1,688

Special Revenue Funds

Food Service

Inventory	2,597
Total Special Revenue Funds	2,597
Total All Funds	4,285

Restricted Fund Balance

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2016:

General Fund

Deferred Maintenance	5,348
Staff Development	1
Operating Capital	28,912
Gifted & Talented	1,543
Health & Safety	(42,106)
Safe Schools	837
UFARS Balance	(5,465)
GASB 54 Elimination of Negative Restricted Balances	5,465
Total General Fund	-0-

Special Revenue Funds

Community Services

Community Education	41,829
Early Childhood and Family Education	36,475
School Readiness	52,014
Restricted	2,261
Total Special Revenue Funds	132,579

Debt Service

Bond Refundings	8,019,278
Restricted	91,810
Total Debt Service Fund	8,111,088
Total All Funds	8,243,667

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 10 Fund Balances – continued

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

The District has no committed fund balances as of June 30, 2016.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the district finance director and superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

The District has no assigned fund balances as of June 30, 2016.

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The District has the following unassigned fund balances as of June 30, 2016:

General Fund

UFARS Balance	37,370
GASB 54 Elimination of Negative Restricted Balances	<u>(5,465)</u>
Total General Fund	31,905

Special Revenue Fund

Food Service	<u>(2,597)</u>
Total All Funds	<u>29,308</u>

Stabilization Amounts

Amounts formally set aside by the governmental unit for use in emergency situations such as revenue shortages or budgetary imbalances.

The District has no stabilization amounts as of June 30, 2016.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans

A. Public Employees Retirement Association (PERA)

1. Plan Description

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

1. General Employees Retirement Plan (GERF)

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

2. Benefits Provided

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

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

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

1. 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

2. Benefits Provided-continued

1. GERF Benefits-continued

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.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were \$12,524. The District's contributions were equal to the required contributions for each year as set by state statute.

4. Pension Costs

At June 30, 2016, the District reported a liability of \$155,476 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 0.0030%, which was a decrease of .0006% 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

4. Pension Costs - continued

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 \$13,679 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:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Differences between expected and actual economic experience		\$7,839
Changes in actuarial assumptions		
Difference between projected and actual investment earnings	\$14,718	
Changes in proportion		\$21,139
Contributions paid to PERA subsequent to the measurement date	\$12,524	
Total	\$27,242	\$28,978

\$14,718 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:

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

4. Pension Costs -continued

Year ended June 30:	Pension Expense Amount
2017	8,959
2018	(\$3,565)
2019	(\$3,565)
2020	(\$3,565)

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:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) – continued

5. Actuarial Assumptions – continued

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

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.

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proportionate share of the GERS net pension liability:	\$244,463	\$155,476	\$81,986

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

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

2. Benefits Provided

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

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

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1 st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 st 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).

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, for favorable to the members, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

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 (A-1) 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.

Per Minnesota Statute, Chapter 354 sets the contribution rates for employers and employees. Contribution rates can only be modified by the state legislature. Rates for each fiscal year were:

	June 30, 2015		June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	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 the Schedule of Employer and Non-Employer Pension Allocations.

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

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

3. Contribution Rate - continued

Amounts reported in the allocation schedules may not precisely agree with the 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. 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 generation 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 expenses 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.

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2016

rates of return by the target asset allocation percentage and by adding expected inflation.

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

4. Actuarial Assumptions - continued

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

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

The TRA actuary had determined the average of the expected remaining service lives of all members for fiscal year 2015 is 5.73 years. The “Difference between expected and actual experience” and “Changes of Assumptions” use the amortization period of 5.73 years in the schedule presented. The amortization period for “Net difference between projected and actual investment earnings on pension plan investments” is over a period of 5 years as required by GASB 68. The “Changes in proportion” uses a rounded amortization period of 5.0 years.

5. Discount Rate

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%. 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.

6. Net Pension Liability

On June 30, 2016, the District reported a liability of \$624,785 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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

6. Net Pension Liability - continued

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

District's proportionate share of net pension liability	\$624,785
State's proportionate share of the net pension Liability associated with the District	\$76,373

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 \$14,385. It also recognized \$13,502 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$593	
Net difference between projected and actual earnings on plan inv.	\$61,953	
Change in assumptions	\$48,029	
Changes in proportion		\$222,038
Contributions paid to TRA subsequent to measurement date	\$33,677	
Total	\$144,252	\$222,038

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

6. Net Pension Liability – continued

\$33,677 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 will be recognized in the pension expense as follows:

2017	\$61,543
2018	\$27,866
2019	\$27,866
2020	\$27,866

7. 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.

	1% Decrease (7.0%)	Discount Rate (8.0%)	1% Increase (9.0%)
District's proportionate share of NPL:	\$951,003	\$624,785	\$352,546

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.

8. 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 may be accessed at the TRA Web site www.tra.state.mn.us. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St Paul MN 55103-4000
(651) 296-2409
(800) 657-3669

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 12 Vacation and Sick Leave

Full-time year around employees receive vacation based on their years of service. In the event of termination an employee who has completed at least six months of service is reimbursed for any unused accumulated vacation. Maximum vacation accrual is 30 days at the end of any fiscal year. Vacation pay is charged to operations when taken by the employees of the district.

Full-time year round employees accrue 14 sick days per year and school year employees accrue 11 sick days per year. All employees may accumulate up to 8 times their respective yearly allowance. Sick days do not vest under the District's policy, and accordingly, employees can be paid sick leave only for qualifying absences. Since the employee's accumulating rights to receive compensation for future absences are contingent upon the absences being caused by qualifying events and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

Full-time and school year employees are granted personal days which are subject to approval by the superintendent and charged to sick leave. Teachers earn 2 personal days per year and are allowed to accrue up to 5 days. Any contingent liability for unused personal days is not recognized in the financial statements.

Note 13 Risk Management

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year.

The Minnesota School Boards Association Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for member school districts. The district pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

Note 14 Subsequent Events

Subsequent events have been evaluated through September 15, 2016, which is the date the financial statements were available to be issued.

Note 15 Transfers

The following is a schedule of the transfers for the year ended June 30, 2016:

	<u>Transfer In</u>	<u>Transfer Out</u>
General		7,643
Food Service	7,643	

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 16 Changes in Accounting Principle/Prior Period Adjustment

During fiscal year 2015, the District adopted new accounting guidance by implementing the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. This implementation allows the District to report its proportionate share of collective net pension liability, deferred inflows/outflows of resources, and pension expense and to reflect an actuarially determined liability for the present value of projected future benefits for retired and active employees less the pension plan's fiduciary net position on the financial statements.

The beginning net position of the governmental activities has been decreased to reflect this change in accounting principle. Beginning governmental activities net position has been restated from (\$1,155,886) to (\$2,359,645) (a decrease of \$1,173,759). Prior year partial comparative information does not reflect this change in accounting principle because the cost-sharing multiple-employer defined benefit pension plans in which the District participates have not made this information available.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND EMPLOYER CONTRIBUTIONS
JUNE 30, 2016

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>					
PERA					
June 30, 2015	0.0030%	155,476	184,654	84.2%	78.7%
TRA					
June 30, 2015	0.0101%	624,785	502,632	124.3%	81.5%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a - b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
<u>Pensions</u>					
PERA					
2015	12,828	13,023	(195)	184,654	7.1%
TRA					
2015	38,499	35,514	2,985	502,632	7.1%

See Note 11, Defined Benefit Pension Plans, for more information

The District implemented GASB Statement No. 68 for fiscal year ended June 30, 2015.
Information for prior years is not available. Additional years will be reported as they become available.

GENERAL FUND
BALANCE SHEET
JUNE 30, 2016

<u>Assets</u>	<u>2016</u>	<u>2015</u>
Cash and Investments	518,871	820,566
Current Property Taxes Receivable	128,459	244,065
Delinquent Property Taxes Receivable	5,824	5,769
Accounts Receivable		250
Prepays	1,688	10,355
Due from Other Funds		6,351
Due From Department of Education	80,412	66,500
Due From Other Minnesota School Districts	2,231	1,747
Due From Federal Government		6,065
Total Assets	<u>737,485</u>	<u>1,161,668</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Salaries Payable	40,552	43,995
Accounts Payable	13,759	24,076
Short Term Indebtedness	316,055	516,377
Interest Payable	5,040	8,177
Due to Other Governmental Units	79	203
Due to Other Minnesota School Districts	4,690	8,819
Payroll Deductions	<u>28,642</u>	<u>28,468</u>
Total Liabilities	<u>408,817</u>	<u>630,115</u>
<u>Deferred Inflows of Resources</u>		
Unearned Revenue-Delinquent Taxes	9,824	9,769
Property Taxes Levied for Subsequent Years	<u>285,251</u>	<u>486,196</u>
Total Deferred Inflows of Resources	<u>295,075</u>	<u>495,965</u>
<u>Fund Equity</u>		
Fund Balance-Nonspendable	1,688	10,355
Fund Balance-Restricted		10,201
Fund Balance-Committed		130,370
Fund Balance-Unassigned	<u>31,905</u>	<u>(115,338)</u>
Total Fund Equity	<u>33,593</u>	<u>35,588</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>737,485</u>	<u>1,161,668</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30			
	2016			2015
			Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	510,717	510,822	105	393,156
	510,717	510,822	105	393,156
 <u>Other Local and County Revenues</u>				
County Apportionment	5,925	7,796	1,871	7,559
Gifts	7,250	15,982	8,732	7,083
Interest Income	400	793	393	258
Rent of Facilities	2,476	2,476		2,476
Other Revenues	22,225	21,926	(299)	28,635
Total Other Local and County Revenues	38,276	48,973	10,697	46,011
 <u>Revenue From State Sources</u>				
Disparity Reduction Aid	1,917	1,917	(2,481)	981
Endowment Fund Apportionment	4,398	4,460	2,543	5,654
General Education Aid	1,097,440	1,003,811	(93,629)	1,159,627
Market Value Credit	12,469	12,470	1	2,487
Other State Aids	7,448	7,881	433	11,572
Special Education	25,000	60,490	35,490	31,756
Total Revenue From State Sources	1,148,672	1,091,029	(57,643)	1,212,077
 <u>Revenue From Federal Sources</u>				
Federal Aid Programs	65,642	64,347	(1,295)	67,831
 <u>Sales and Other Conversion of Assets</u>				
Sale of Materials	1,300	674	(626)	9,128
Total Sales and Other Conversion of Assets	1,300	674	(626)	9,128
Total Revenues	1,764,607	1,715,845	(48,762)	1,728,203

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30			
	2016		2015	
			Over/(Under)	
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>District and School Administration</u>				
Dues and Memberships	4,050	4,049	(1)	3,868
Fixed Charges and Employee Benefits	3,308	1,953	(1,355)	3,283
Professional Services	2,500	2,570	70	1,998
Salaries	22,500	13,638	(8,862)	22,325
Supplies		59	59	
Travel and Transportation				799
Total District and School Administration	32,358	22,269	(10,089)	32,273
<u>District Support</u>				
Dues and Memberships				6,750
Equipment Leased	840	840		840
Principal	10,736	10,406	(330)	6,114
Fixed Charges and Employee Benefits	6,757	5,809	(948)	6,642
Professional Services	40,300	40,696	396	34,200
Salaries	36,835	29,223	(7,612)	41,362
Other		81	81	
Supplies	2,150	1,789	(361)	1,568
Travel and Transportation	330	330		242
Total District Support Services	97,948	89,174	(8,774)	97,718
<u>Regular Instruction</u>				
<u>Elementary School</u>				
Equipment	4,050	1,759	(2,291)	1,870
Fixed Charges and Employee Benefits	136,858	74,551	(62,307)	77,316
Professional Services	3,300	2,258	(1,042)	3,294
Rent	9,000	7,822	(1,178)	8,999
Repairs and Maintenance	575	627	52	320
Salaries	451,316	494,585	43,269	550,697
Supplies	18,411	14,030	(4,381)	13,901
Travel and Transportation	9,675	4,140	(5,535)	9,894
Total Elementary	633,185	599,772	(33,413)	666,291

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30			
	2016			2015
			Over/(Under)	
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Regular Instruction - continued</u>				
<u>Secondary School</u>				
Instructional Supplies	1,850	2,849	999	1,669
Travel and Transportation	2,655	15,719	13,064	33,073
Tuition to Other Minnesota School Districts	278,250	269,182	(9,068)	292,921
Total Secondary	282,755	287,750	4,995	327,663
Total Regular Instruction	915,940	887,522	(28,418)	993,954
 <u>Exceptional Instruction</u>				
Fixed Charges and Employee Benefits	21,849	35,394	13,545	35,443
Instructional Supplies	1,840	1,661	(179)	4,370
Professional Services	25	22	(3)	294
Salaries	71,828	67,740	(4,088)	96,056
Travel and Transportation	4,122	3,870	(252)	7,793
Tuition to Other Minnesota School Districts	61,111	88,896	27,785	72,979
Total Exceptional Instruction	160,775	197,583	36,808	216,935
 <u>Instructional Support Services</u>				
Fixed Charges and Employee Benefits	672	2,498	1,826	167
Instructional Supplies	275	153	(122)	251
Dues	500	311	(189)	1,463
Professional Services	25,562	28,754	3,192	27,136
Salaries	5,081	16,487	11,406	1,264
Supplies	400	447	47	311
Travel and Transportation	1,419	2,257	838	778
Total Instructional Support	33,909	50,907	16,998	31,370

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30			
	2016		2015	
	Budget	Actual	Over/(Under)	Actual
<u>Expenditures - continued</u>				
<u>Pupil Support</u>				
Fixed Charges and Employee Benefits	3,646	22,154	18,508	33,047
Fuel	26,500	16,948	(9,552)	26,350
Insurance	2,500	2,410	(90)	2,620
Professional Services	6,500	4,403	(2,097)	3,089
Pupil Transportation	188,500	165,141	(23,359)	198,707
Salaries	18,999	16,453	(2,546)	18,221
Supplies	200	174	(26)	80
Transportation Chargebacks	(45,000)	(63,654)	(18,654)	(55,335)
Travel and Transportation	47,700	38,089	(9,611)	(2,433)
Total Pupil Support	249,545	202,118	(47,427)	224,346
<u>Site, Building and Equipment</u>				
Equipment	6,000	5,148	(852)	
Fixed Charges and Employee Benefits	15,070	13,814	(1,256)	19,811
Fuel	2,400	3,182	782	2,323
Other	45	50	5	45
Professional Services	13,885	15,907	2,022	46,634
Repair and Maintenance Service	31,300	30,004	(1,296)	29,792
Salaries	63,958	63,223	(735)	50,393
Supplies	12,450	12,386	(64)	7,707
Utilities	87,700	91,735	4,035	97,315
Total Site, Building and Equipment	232,808	235,449	2,641	254,020
<u>Fixed Cost Programs</u>				
Interest	4,300	4,139	(161)	4,049
Property Insurance	22,900	22,895	(5)	20,356
Total Fixed Cost Programs	27,200	27,034	(166)	24,405
Total Expenditures	1,750,483	1,712,056	(38,427)	1,875,021
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	14,124	3,789	(10,335)	(146,818)
<u>Other Financing Sources (Uses)</u>				
Permanent Transfer		(7,643)	(7,643)	(3,447)
Judgement Expense				(140,188)
Sale of Bonds				1,402,167
Sale of Equipment	1,860	1,859	(1)	1,672
Total Other Financing Sources (Uses)	1,860	(5,784)	(7,644)	1,260,204
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	15,984	(1,995)	(17,979)	1,113,386
Fund Balance-July 1		35,588		(1,077,798)
Fund Balance-June 30		33,593		35,588

ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

			Total	
			(Memo Only)	
<u>Assets</u>	<u>Food</u>	<u>Community</u>	<u>2016</u>	<u>2015</u>
	<u>Service</u>	<u>Service</u>		
Cash and Investments	2,502	129,627	132,129	107,841
Current Property Taxes Receivable		11,307	11,307	9,840
Delinquent Property Taxes Receivable		459	459	534
Accounts Receivable	315	24,383	24,698	19,295
Due from Department of Education		1,676	1,676	1,928
Inventory	2,597		2,597	3,023
Total Assets	<u>5,414</u>	<u>167,452</u>	<u>172,866</u>	<u>142,461</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Accounts Payable	720	653	1,373	4,517
Salaries Payable	4,694	8,774	13,468	8,602
Due to Other Funds				6,351
Total Liabilities	5,414	9,427	14,841	19,470
<u>Deferred Inflows of Resources</u>				
Unearned Revenue - Delinquent Taxes		459	459	534
Property Taxes Levied for Subsequent Years		24,987	24,987	21,018
Total Deferred Inflows of Resources	<u>-0-</u>	<u>25,446</u>	<u>25,446</u>	<u>21,552</u>
<u>Fund Equity</u>				
Fund Balance-Restricted		132,579	132,579	108,124
Fund Balance-Nonspendable	2,597		2,597	3,023
Fund Balance-Unassigned	(2,597)		(2,597)	(9,708)
Total Fund Equity	<u>0</u>	<u>132,579</u>	<u>132,579</u>	<u>101,439</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>5,414</u>	<u>167,452</u>	<u>172,866</u>	<u>142,461</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Food</u>	<u>Community</u>	<u>Total</u>	
	<u>Service</u>	<u>Service</u>	<u>(Memo Only)</u>	
<u>Revenues</u>			<u>2016</u>	<u>2015</u>
Local Property Tax Levy		34,906	34,906	46,474
Other Local and County Revenues		61,220	61,220	51,271
Revenue from State Sources	4,682		4,682	6,692
Revenue from Federal Sources	30,006	13,285	43,291	41,400
Other	33,381		33,381	37,184
Total Revenues	<u>68,069</u>	<u>109,411</u>	<u>177,480</u>	<u>183,021</u>
 <u>Expenditures</u>				
Community Education and Services		84,956	84,956	76,312
Pupil Support Services	69,027		69,027	83,310
Total Expenditures	<u>69,027</u>	<u>84,956</u>	<u>153,983</u>	<u>159,622</u>
 Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(958)	24,455	23,497	23,399
 <u>Other Financing Sources</u>				
Permanent Transfer	7,643			
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	<u>6,685</u>	<u>24,455</u>	<u>23,497</u>	<u>23,399</u>
 Excess Revenues (Expenditures)	6,685	24,455	31,140	23,399
Fund Balance-July 1	(6,685)	108,124	101,439	78,040
Fund Balance-June 30	<u>0</u>	<u>132,579</u>	<u>132,579</u>	<u>101,439</u>

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30			
	2016		Over/(Under)	2015
	Budget	Actual		Actual
<u>Revenues</u>				
<u>Revenue From State Sources</u>				
Lunch Reimbursement	2,400	2,151	(249)	2,441
Other State Aid	3,400	2,531	(869)	4,251
Total Revenue from State Sources	5,800	4,682	(1,118)	6,692
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	5,500	6,050	550	6,908
Commodities	3,000	6,577	3,577	6,355
Lunch Reimbursement	17,000	17,379	379	16,171
Total Revenue From Federal Sources	25,500	30,006	4,506	29,434
<u>Sales and Other Conversion of Assets</u>				
Sale of Lunches	35,375	33,381	(1,994)	37,184
Total Revenues	66,675	68,069	1,394	73,310
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Commodities	3,000	6,577	(3,577)	6,354
Fixed Charges and Employee Benefits	3,884	3,823	61	4,812
Food	26,560	22,291	4,269	21,028
Milk	7,050	6,614	436	6,215
Other	850	640	210	578
Repairs and Maintenance	1,000	770	230	1,139
Salaries	27,611	27,660	(49)	41,832
Supplies	1,600	652	948	1,352
Travel	50		50	
Total Expenditures	71,605	69,027	2,578	83,310
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	(4,930)	(958)	3,972	(10,000)
<u>Other Financing Sources</u>				
Permanent Transfer		7,643	7,643	
Excess Revenues (Expenditures) After				
Other Financing Sources (Uses)	(4,930)	6,685	11,615	(10,000)
Fund Balance-July 1		(6,685)		3,315
Fund Balance-June 30		-0-		(6,685)

COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30			2015
	2016		Over/(Under)	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	34,459	34,546	87	46,474
Misc. Local Taxes		360	360	
Total Local Property Tax Levies	34,459	34,906	447	46,474
<u>Other Local and County Revenues</u>				
Fees from Patrons	21,425	23,495	2,070	23,915
Grant	37,500	37,500	-	27,321
Interest Income	25	225	200	35
Total Other Local and County Revenues	58,950	61,220	2,270	51,271
<u>Revenue From State Sources</u>				
Disparity Aid	107	107		141
Homestead/Agriculture Credit	694	694		357
Other State Aids	11,593	12,484	891	11,468
Total Revenue From State Sources	12,394	13,285	891	11,966
Total Revenues	105,803	109,411	3,608	109,711
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Equipment				1,295
Fixed Charges and Employee Benefits	7,021	7,660	(639)	7,829
Instructional Supplies	2,300	3,843	(1,543)	328
Other	2,000	2,173	(173)	1,610
Rent	2,600	8,331	(5,731)	2,476
Salaries	49,805	53,406	(3,601)	57,838
Supplies	4,400	7,835	(3,435)	4,711
Travel	700	1,708	(1,008)	225
Total Expenditures	68,826	84,956	(16,130)	76,312
Excess Revenues (Expenditures)	36,977	24,455	(12,522)	33,399
Fund Balance-July 1		108,124		74,725
Fund Balance-June 30		132,579		108,124

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30			
	2016			2015
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Better/(Worse) Than Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	789,706	791,379	1,673	616,791
Misc. Local Taxes		14,047	14,047	
Total Local Property Tax Levy	789,706	805,426	15,720	616,791
<u>Other Local and County Revenues</u>				
Interest Income		617	617	105
Total Other Local and County Revenues	-0-	617	617	105
<u>Revenue From State Sources</u>				
Disparity Aid	4,158	4,157	(1)	5,059
Market Value Credit	27,044	27,043	(1)	12,829
Total Revenue From State Sources	31,202	31,200	(2)	17,888
Total Revenues	820,908	837,243	16,335	634,784
<u>Expenditures</u>				
Bond Interest	391,350	391,346	4	347,123
Bond Principal	415,000	415,000		285,000
Other Bond Expenses	2,550	135,039	(132,489)	23,341
Total Expenditures	808,900	941,385	(132,485)	655,464
Excess Revenues (Expenditures)				
Before Other Financing Sources (Uses)	12,008	(104,142)	(116,150)	(20,680)
<u>Other Financing Sources (Uses)</u>				
Sale of Bonds		8,107,929	8,107,929	
Transfers In				3,447
Total Other Financing Sources (Uses)	-0-	8,107,929	8,107,929	3,447
Excess Revenues and Other Financing Sources Over Expenditures and Other Uses	12,008	8,003,787	7,991,779	(17,233)
Fund Balance-July 1		107,301		124,534
Fund Balance-June 30		8,111,088		107,301

UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2016

	Audit	UFARS	Audit - UFARS
<u>01 GENERAL FUND</u>			
Total Revenues	1,715,845	1,715,845	0
Total Expenditures	1,712,056	1,712,054	2
Non Spendable:			
4.60 Non Spendable	1,688	1,688	-0-
Restricted:			
4.03 Staff Development	1	1	-0-
4.05 Deferred Maintenance	5,348	5,349	(1)
4.06 Health and Safety	(36,641)	(42,106)	5,465
4.24 Operating Capital	28,912	28,912	-0-
4.38 Gifted & Talented	1,543	1,543	-0-
4.49 Safe Schools	837	837	-0-
Committed:			
4.18 Designated - Severance	0	0	-0-
Unassigned:			
4.22 Unassigned	31,905	37,370	(5,465)
<u>02 FOOD SERVICE</u>			
Total Revenues	68,069	68,071	(2)
Total Expenditures	69,027	69,028	(1)
Non Spendable:			
4.60 Non Spendable	2,597	2,597	-0-
Unreserved:			
4.63 Unassigned	(2,597)	(2,597)	-0-
<u>04 COMMUNITY SERVICE</u>			
Total Revenues	109,411	109,411	-0-
Total Expenditures	84,956	84,956	0
Restricted:			
4.31 Community Education	41,829	41,829	-0-
4.32 Early Child & Family Education	36,475	36,475	-0-
4.44 School Readiness	52,014	52,014	-0-
4.64 Restricted Fund Balance	2,261	2,260	1
Unassigned:			
4.63 Unassigned	-0-	-0-	-0-
<u>07 DEBT SERVICE</u>			
Total Revenues	837,243	837,244	(1)
Total Expenditures	941,385	941,389	(4)
Restricted:			
4.25 Bond Refundings	8,019,278	8,019,278	-0-
4.64 Restricted	91,810	91,810	-0-
<u>07 TRUST</u>			
Total Revenues	8	9	(1)
Total Expenditures	200	200	-0-
Unassigned:			
4.22 Unassigned	4,081	4,081	-0-

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

To The Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Independent School District No. 403's basic financial statements and have issued our report thereon dated September 15, 2016.

Internal Control Financial Reporting

In planning and performing our audit, we considered the Independent School District No. 403's internal control over financial reporting to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Independent School District No. 403's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 403's internal control over financial reporting.

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Independent School District No. 403's financial statements will not be prevented, or detected and corrected on a timely basis. 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 did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be material weaknesses 2016-I and 2016-II.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independent School District No. 403's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven main categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the Independent School District No. 403 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Independent School District No. 403's noncompliance with the above referenced provisions.

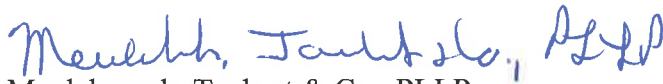
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Independent School District No. 403's Response to Findings

The Independent School District No. 403's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Independent School District No. 403'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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting 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 over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

September 15, 2016

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INDEPENDENT AUDITOR'S REPORT ON THE
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
OF THE STUDENT ACTIVITY FUND

To the Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

Report on the Financial Statements

We have audited the statement of cash receipts and disbursements of the student activity fund of Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota for the year ended June 30, 2016.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the 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 error or fraud.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

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

Basis for Qualified Opinion

The district has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the accounts recorded.

Because these financial statements are prepared on the basis of cash receipts and disbursements, revenue is recorded when received rather than when earned and expenses are recognized when paid rather than when the obligations are incurred. Accordingly, the accompanying financial statements are not intended to present financial position and results of operation in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter discussed in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly, in all material respects, the cash transactions of the district’s student activity account for the year ended June 30, 2016, and the cash balance at that date.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated December 7, 2016, on our consideration of the District’s compliance with the provisions of the *Manual for Activity Fund Accounting* issued by the Minnesota Department of Education, pursuant to Minnesota Statutes §123B.49. The purpose of that report is to determine if the district has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

September 15, 2016

STUDENT ACTIVITY FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Organization</u>	<u>07-01-15</u> <u>Balance</u>	<u>2015-16</u> <u>Receipts</u>	<u>2015-16</u> <u>Disbursements</u>	<u>06-30-16</u> <u>Balance</u>
Jr. Class	2,678		2,678	
"L" Club	64		64	
"L" Club Baseball	225		225	
"L" Club BBB	922		922	
"L" Club FB	144		144	
General	1,502	2	100	1,404
Music	7,030	5,712	6,078	6,664
Art Club	2,215		2,215	
SADD	750		53	697
Spanish	2,666		2,666	
FFA	5,505		5,505	
Student Enrichment	4,712	15,427	14,466	5,673
NHS	20		20	
Yearbook	2,922	291	339	2,874
Youth BB		182		182
Jr Rebels	59		59	
Total	<u>31,414</u>	<u>21,614</u>	<u>35,534</u>	<u>17,494</u>

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INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH LAWS AND REGULATIONS
APPLICABLE TO THE STUDENT ACTIVITY FUND

To the Board of Education
Independent School District No. 403
Ivanhoe Public Schools
Ivanhoe, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statement of Cash Receipts and Disbursements of the student activity accounts of Independent School District No. 403, Ivanhoe Public Schools, Ivanhoe, Minnesota for the year ended June 30, 2016, and have issued our report thereon dated December 7, 2016.

The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123.49, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

In connection with our audit, nothing came to our attention that caused us to believe that the district failed to comply with the provisions of the *Manual for Student Activity Accounting*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the district's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing 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.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

September 15, 2016

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

I. Financial Statement Audit-Internal Controls

Previously Reported Items Not Resolved

2016-I Lack of Segregation of Duties

Due to the limited number of office personnel within the accounting department, proper segregation of the accounting functions necessary to ensure adequate internal accounting control in the areas of bank reconciliation, receipts, disbursements, payroll, journal entries and budgets are not possible. Although this is not unusual in small office situations, management should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from an internal control point of view.

The District has implemented internal control procedures which utilize the existing staff to provide for segregation of duties in accounting functions whenever possible.

We recommend that the District's management be aware of the lack of segregation of the accounting functions and, if possible, implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff.

Corrective Action Plan (CAP)

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the district implemented internal control procedures that will address the areas of segregation the district is lacking, including bank reconciliation's, receipts, disbursements, payroll, journal entries, and budget. The procedures will utilize staff and board members to the extent possible.

Official responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned completion date for CAP:

December 31, 2016

Plan to monitor completion of CAP:

The Superintendent and Board of Education will monitor the internal control system.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2016

I. Financial Statement Audit-Internal Controls-continued

Previously Reported Items Not Resolved-continued

2016-II GAAP Financial Statements

District personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Corrective Action Plan (CAP):

Evaluation of disagreement with audit findings:

There is no disagreement with the audit findings.

Actions planned in response to the finding:

The District will continue to have the auditor prepare the financial statements; however, the district has established an internal control policy to document the annual review of the financial statements, disclosures and schedules.

Official Responsible for Ensuring CAP:

The District's Superintendent in conjunction with the Board of Education is the official responsible for ensuring corrective action.

Planned Completion Date for CAP:

December 31, 2016

Plan to Monitor Completion of CAP:

The Superintendent and Board of Education will monitor the internal control system to ensure it is functioning as the internal control policy states.