



Financial Statements
June 30, 2016



**Independent School
District No. 2168**
New Richland, Minnesota

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BOARD OF EDUCATION

Rick Schultz	Chair
Michele Moxon	Vice Chair
Lori Routh	Clerk
Joann Maloney	Treasurer
Mike Moen	Director
Travis Routh	Director
Mark Tollefson	Director



Independent Auditor's Report

Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168, New Richland, Minnesota, (District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Mankato, Minnesota
October 10, 2016

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

This section of Independent School District No. 2168 – NRHEG Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by 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. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes reporting requirements that include additional financial statements, expanded disclosure, and supplemental information, including this MD&A, which contains certain comparative information between the current fiscal year and the prior fiscal year.

FINANCIAL HIGHLIGHTS

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

- Overall revenues were \$10,737,112 while overall expenses totaled \$9,638,426.
- The district's overall fund balance increased by \$177,570.
- The District's net outstanding long-term debt decreased by \$439,239 or 9.41 percent.

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 other required reports. The basic financial statements include two kinds of statements that present different views of the District:

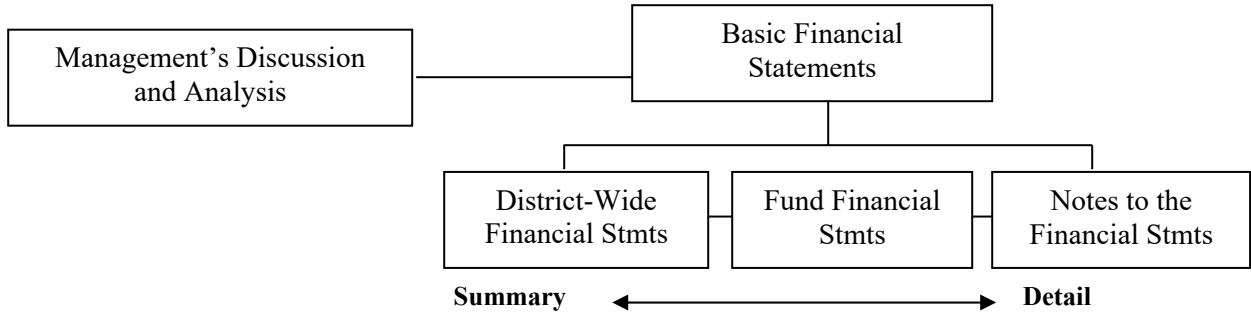
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund-financial statements* that focus on individual parts of the District, reporting the District's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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The diagram below shows how the various parts of this annual report are arranged and relate to one another.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.



Fund Financial Statements			
	District-Wide	Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances 	<ul style="list-style-type: none"> • Statement of fiduciary net position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows/inflows of resources, 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, deferred outflows/inflows of resources, and liabilities – are one way to measure the District's financial health or position.

Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or difference) between them.

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 activities (consisting only of agency funds held for others) are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

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

Net Position

The District's net position was \$6,873,049 on June 30, 2016 (see details in Table A-1). This represents a increase when compared to the \$5,774,363 balance on June 30, 2015.

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
ASSETS			
Current and other assets	\$ 4,433,400	\$ 4,309,883	2.87%
Capital assets	13,418,200	13,604,744	-1.37%
Total assets	<u>17,851,600</u>	<u>17,914,627</u>	-0.35%
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	<u>1,473,414</u>	<u>868,164</u>	69.72%
LIABILITIES			
Other liabilities	6,543,958	5,416,044	20.83%
Long-term liabilities	<u>4,349,187</u>	<u>4,762,080</u>	-8.67%
Total liabilities	<u>10,893,145</u>	<u>10,178,124</u>	7.03%
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	1,183,033	1,265,024	-6.48%
Pension plan	<u>375,787</u>	<u>1,565,280</u>	-75.99%
Total deferred outflows of resources	<u>1,558,820</u>	<u>2,830,304</u>	-44.92%
NET POSITION			
Net investment in capital assets	9,494,234	9,257,559	2.56%
Restricted for specific purposes	235,656	251,299	-6.22%
Unrestricted	<u>(2,856,841)</u>	<u>(3,734,495)</u>	-23.50%
Total Net Position	<u>\$ 6,873,049</u>	<u>\$ 5,774,363</u>	19.03%

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Change in Statement of Activities

Table A-2

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
REVENUES			
Program revenues			
Charges for services	\$ 682,931	\$ 646,961	5.56%
Operating grants and contributions	2,165,346	2,260,897	-4.23%
Capital grants and contributions	2,999	2,311	29.77%
General			
Property taxes	1,269,522	1,492,654	-14.95%
Aids and payments from state and other	6,409,264	6,284,321	1.99%
Miscellaneous revenues	207,050	131,997	56.86%
Total revenues	<u>10,737,112</u>	<u>10,819,141</u>	-0.76%
EXPENSES			
District and school administration	552,549	512,651	7.78%
District support services	260,161	263,683	-1.34%
Regular instruction	3,683,946	4,176,661	-11.80%
Vocational instruction	210,937	205,004	2.89%
Special education instruction	1,555,356	1,539,856	1.01%
Community education and services	197,100	184,777	6.67%
Instructional support services	427,129	438,316	-2.55%
Pupil support services	1,311,512	1,288,839	1.76%
Site, buildings and equipment	1,243,546	1,295,984	-4.05%
Fiscal and other fixed-cost programs	45,750	47,365	-3.41%
Interest and fiscal charges on long-term liabilities	<u>150,440</u>	<u>169,747</u>	-11.37%
Total expenses	<u>9,638,426</u>	<u>10,122,883</u>	-4.79%
Change in Net Position	<u>1,098,686</u>	<u>696,258</u>	57.80%
Net Position - Beginning, as restated for 2015	<u>5,774,363</u>	<u>5,078,105</u>	13.71%
Net Position - Ending	<u>\$ 6,873,049</u>	<u>\$ 5,774,363</u>	19.03%

Changes in Net Position. The District's total revenues were \$10,737,112 for the year ended June 30, 2016. (See Table A-2)

Unallocated federal and state aid along with property taxes accounted for 71.51 percent of the total revenue for the year. Operating and capital grants and contributions for specific programs contributed 20.20 percent and the remainder 8.29 percent from fees charged for services and miscellaneous sources. (See Table A-3 below).

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

The total cost of all programs and services was \$9,638,426. The District's expenses are predominantly related to student education and student educational support, 76.64 percent. The District's administrative activities accounted for 5.73 percent of the total costs. (See Table A-4 below). Total revenue was more than total expenses increasing net position by \$1,098,686 over last year.

**Table A-3
Sources of ISD #2168 Revenues for Fiscal Year**

	<u>2016</u>	<u>2015</u>
Charges for services	6.36%	5.98%
Operating grants and contributions	20.17%	20.90%
Capital grants and contributions	0.03%	0.02%
Property taxes	11.82%	13.80%
Aids and payments from state and other	59.69%	58.09%
Miscellaneous revenues	1.93%	1.21%

**Table A-4
ISD #2168 Expenses for Fiscal Year**

	<u>2016</u>	<u>2015</u>
District and school administration	5.73%	5.06%
District support services	2.70%	2.60%
Regular instruction	38.22%	41.26%
Vocational instruction	2.19%	2.03%
Special education instruction	16.15%	15.21%
Community education and services	2.04%	1.83%
Instructional support services	4.43%	4.33%
Pupil support services	13.61%	12.73%
Site, buildings and equipment	12.90%	12.80%
Fiscal and other fixed-cost programs	0.47%	0.47%
Interest and fiscal charges on long-term liabilities	1.56%	1.68%

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

Governmental Activities:

Table A-5 shows the net cost of each major activity of the District. The net cost is the total cost less the program revenues applicable to each activity.

Table A-5

	Total Cost of Services			Percentage <u>Change</u>	Net Cost of Services		
	<u>2016</u>	<u>2015</u>			<u>2016</u>	<u>2015</u>	<u>Change</u>
District and school administration	\$ 552,549	\$ 512,651	7.78%	\$ 552,549	\$ 512,651	7.78%	
District support services	260,161	263,683	-1.34%	260,161	263,683	-1.34%	
Regular instruction	3,683,946	4,176,661	-11.80%	2,572,398	2,982,471	-13.75%	
Vocational instruction	210,937	205,004	2.89%	204,191	199,475	2.36%	
Special education instruction	1,555,356	1,539,856	1.01%	611,250	585,148	4.46%	
Community education and services	197,100	184,777	6.67%	48,521	59,959	-19.08%	
Instructional support services	427,129	438,316	-2.55%	427,129	438,316	-2.55%	
Pupil support services	1,311,512	1,288,839	1.76%	742,628	725,412	2.37%	
Sites and buildings	1,243,546	1,295,984	-4.05%	1,172,133	1,228,487	-4.59%	
Fiscal and other fixed-cost programs	45,750	47,365	-3.41%	45,750	47,365	-3.41%	
Interest and fiscal charges	150,440	169,747	-11.37%	150,440	169,747	-11.37%	
Total	<u>\$ 9,638,426</u>	<u>\$ 10,122,883</u>	-4.79%	<u>\$ 6,787,150</u>	<u>\$ 7,212,714</u>	-5.90%	

- The cost of all governmental activities this year was \$9,638,426.
- The users of the District's programs finance \$682,931 of the cost of services.
- Operating and capital grants and contributions financed \$2,168,345 of the cost of services.
- District and state taxpayers finance \$7,678,786 of the District's costs. This portion of governmental activities was financed with \$1,269,522 in property taxes, and \$6,409,264 of unrestricted state aid based on the statewide education aid formula.
- The remaining balance is financed from other sources.

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

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2015-2016 fiscal year, the District's governmental funds reported combined fund balances of \$2,850,110 compared to \$2,672,540 for the previous year. Total revenues and expenditures for the District's governmental funds were \$10,739,944 and \$10,673,346, respectively.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

General Fund:

The General Fund is used to account for all revenues and expenditures of the School District not accounted for elsewhere. This fund is used to account for: K-12 educational activities, District instructional and student support programs, expenditures for both District and School administration, normal operations and maintenance, pupil transportation, capital expenditures, and all other legal expenditures not specifically designated to be accounted for in any other fund. (See Table A-6 for a summary of the revenues, expenditures, and fund balances for all of the District's Governmental funds, including the General Fund).

Revenues:

Fiscal Year 2016 revenues totaled \$9,574,738. This increase was mainly a result of increased local property taxes received due to the new Local Optional Revenue bill that was signed into law by Governor Dayton in 2014. This new equalized program allows local boards to secure up to \$724 per pupil in funding. We also saw an increase in third party billing dollars along with increased state aid due to a two percent funding formula increase and steady enrollment.

Expenditures:

Fiscal Year 2016 expenditures totaled \$9,497,197; this increase in expenditure can mostly be attributed to increases in labor costs, a slight increase in special education costs along with the purchase of a new school bus and additional land adjacent to our elementary site.

Fund Balance:

The unassigned fund balance is \$2,506,656, the committed fund balance is \$31,078, and the various restricted fund balances (i.e.; Staff Development, Severance, Safe Schools Crime Levy, Operating Capital, and Health & Safety) total \$51,885.

The single best measurement of the District's overall financial health in the General Fund is the Unreserved/Undesignated Fund Balance. The District closely monitors this fund balance through a major budget revision in the spring of each fiscal year.

Food Service Fund:

The Food Service Fund is used to record financial activities of the School District's food service program. Food service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school and community service activities. (See Table A-6 for a summary of the revenues, expenditures and fund balances for all of the District's Governmental funds, including the Food Service Fund). After allocating appropriate allowed costs to food service we saw a decrease in fund balance of \$2,793.

Community Service Fund:

The Community Service Fund is used to record all financial activities of the Community Service program. The Community Service Fund is comprised of five components, each with its own fund balance. The five components are Community Service, Community Education, Early Childhood Family Education (ECFE), Adult Basic Education, and School Readiness. (See Table A-6 for a summary of the revenues, expenditures and fund

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NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

balances for all of the District's Governmental funds, including the Community Service Fund). The Community Service Fund remained strong at \$74,374 due to the popularity of programs such as clay target team and elementary cheer competition.

Debt Service Fund:

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction or operating capital, and whether for initial or refunding bonds. (See Table A-6 for a summary of the revenues, expenditures and fund balances for all of the District's Governmental funds, including the Debt Service Fund).

**Table A-6
Revenue and Expenditures – Governmental Funds**

	<u>Revenue</u>	<u>Expenditures</u>	Net Increase (Decrease)	Other Financing Sources/Uses	Fund Balance as of <u>6/30/16</u>	Fund Balance as of <u>6/30/15</u>
General Fund	\$ 9,574,738	\$ 9,497,197	\$ 77,541	\$ 110,972	\$ 2,618,422	\$ 2,429,909
Food Service Fund	527,265	530,058	(2,793)	-	19,710	22,503
Community Service	218,063	195,413	22,650	-	74,374	51,724
Building Construction	-	315	(315)	-	74,593	74,908
Debt Service Fund	419,878	450,363	(30,485)	-	63,011	93,496
Total	<u>\$ 10,739,944</u>	<u>\$ 10,673,346</u>	<u>\$ 66,598</u>	<u>\$ 110,972</u>	<u>\$ 2,850,110</u>	<u>\$ 2,672,540</u>

General Fund Budgetary Highlights:

During the year ending June 30, 2016, the District operated under the approved budget that was set in June 2015. This approved budget showed a general fund increase of \$214,503. The budget was revised in the spring of 2016 and the projected general fund increase was lowered to \$41,477.

- The revised budget showed revenues that were \$43,238 more than originally approved because of a slight increase in enrollment and an increase third party revenue.
- The revised budget expenditures were \$216,264 more than budgeted primarily due to increased employee costs, the purchase of a new school bus that originally was not planned, new staff computers for our elementary building and added costs to complete a community survey followed by strategic planning work.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

By the end of fiscal year 2016, the District had invested \$26,834,042 in a broad range of capital assets, including school buildings, land, computer and audio-visual equipment, and other equipment for various instructional programs (see Table A-7). Total depreciation expense for the year was \$711,576. More detailed information about capital assets can be found in Note 3(C) to financial statements.

**Table A-7
Capital Assets Governmental Activities
June 30, 2016 and 2015**

	2016	2015	Percentage Change
Land	\$ 211,320	\$ 148,688	42.12%
Buildings	19,239,005	19,216,470	0.12%
Land improvements	1,079,082	1,052,802	2.50%
Eligible Pupil Vehicles	837,525	808,074	3.64%
Equipment	5,467,110	5,263,855	3.86%
Accumulated depreciation	(13,415,842)	(12,885,145)	4.12%
 Total capital assets	 <u>\$ 13,418,200</u>	 <u>\$ 13,604,744</u>	 -1.37%

Long-Term Liabilities:

For the fiscal year ended June 30, 2016, the District had \$2,850,000 general obligation building bonds outstanding. This is a decrease of 10.80% from last year (see Table A-8).

**Table A-8
Outstanding Long-Term Liabilities
June 30, 2016 and 2015**

	2016	2015	Percentage Change
General Obligation Bonds Payable	\$ 2,850,000	\$ 3,195,000	-10.80%
Capital Lease Payable	1,073,966	1,152,185	-6.79%
Severance Payable	304,525	320,545	-5.00%
	<u>\$ 4,228,491</u>	<u>\$ 4,667,730</u>	-9.41%

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

The District had a Net pension liability of \$6,112,686 at year end due to the implementation of GASB Statement No. 68, which required the reporting of a liability as well as other pension amounts on the statement of activities.

Factors Bearing on the District's Future:

- Enrollment continues to be an area of concern weighing on the District's financial future. Since Minnesota school districts are paid on pupil units served, any decline in enrollment results in less revenue. The District's student enrollment, which determines the pupil units for the purpose of funding, has been on a slight, but manageable decline.
- For years, many Minnesota school district referendums for facilities maintenance projects did not pass. The Legislature, recognizing an important need to maintain district facilities, requested input on how to create a more equitable and sustainable financing process for public school facilities. As a result, the School Facilities Financing Working Group was created and provided recommendations. New legislation was passed during a special session in July 2015 that provides revenue increases for school districts not currently eligible to participate in the Alternative Facilities Bonding and Levy program. The new program, referred to as Long Term Facilities Maintenance (LTFM) Revenue, includes a three year phased approach beginning in FY 2017. Districts will receive up to \$193 per pupil of revenue the first year, then in FY 2018, districts can obtain up to \$292 per pupil and up to \$380 per pupil in FY 2019. These figures are prorated for districts with an average building age of 35 years or less. This replaces the former Health and Safety and Deferred Maintenance revenue programs and associated funding. This additional funding will provide dollars for our district to pay for ongoing deferred maintenance expenditures.
- Labor costs account for over 80% of the District expenses. As cost of benefits continue to skyrocket, it becomes more important during the negotiations of labor contracts that the District be cognizant to this potential unknown long-term liability. The District must continue to follow enrollment trends and maintain a responsible balance between staffing and student enrollment.

Contacting the District's Financial Management:

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact the District Office, ISD No. 2168, 306 Ash Ave S, New Richland, MN 56072.

Independent School District No. 2168
New Richland, Minnesota
Statement of Position
June 30, 2016

Assets	
Cash and investments	\$ 2,776,223
Receivables	
Current property taxes	636,171
Delinquent property taxes	11,885
Accounts	5,755
Due from other Minnesota school districts	7,446
Due from Minnesota Department of Education	760,309
Due from Federal through Minnesota Department of Education	199,235
Prepaid items	28,803
Inventories	7,573
Capital assets not being depreciated	
Land	211,320
Capital assets, net of accumulated depreciation	
Land improvements	467,602
Buildings	11,348,703
Equipment	1,180,518
Eligible pupil vehicles	210,057
Total Assets	<u>17,851,600</u>
Deferred Outflows of Resources	
Pension plans	<u>1,473,414</u>
Liabilities	
Salaries payable	18,292
Accounts payable	83,964
Interest payable	42,900
Due to other Minnesota school districts	13,587
Payroll deductions	220,669
Unearned revenue	51,860
Noncurrent liabilities	
Net pension liability	6,112,686
Due within one year	545,670
Due in more than one year	<u>3,803,517</u>
Total Liabilities	<u>10,893,145</u>
Deferred Inflows of Resources	
Unavailable revenue-property taxes	1,183,033
Pension plans	<u>375,787</u>
Total Deferred Inflows of Resources	<u>1,558,820</u>
Net Position	
Net investment in capital assets	9,494,234
Restricted	
Debt service	66,376
Food service	19,710
Community service	74,977
Building construction	74,593
Unrestricted	<u>(2,856,841)</u>
Total Net Position	<u>\$ 6,873,049</u>

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168
New Richland, Minnesota
Statement of Activities
Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Administration	\$ 552,549	\$ -	\$ -	\$ -	\$ (552,549)
District support services	260,161	-	-	-	(260,161)
Regular instruction	3,683,946	206,954	904,594	-	(2,572,398)
Vocational instruction	210,937	-	6,746	-	(204,191)
Special education instruction	1,555,356	121,296	822,810	-	(611,250)
Community education and services	197,100	114,412	31,168	2,999	(48,521)
Instructional support services	427,129	-	-	-	(427,129)
Pupil support services	1,311,512	233,506	335,378	-	(742,628)
Sites and buildings	1,243,546	6,763	64,650	-	(1,172,133)
Fiscal and other fixed cost programs	45,750	-	-	-	(45,750)
Interest and fiscal charges	150,440	-	-	-	(150,440)
Total governmental activities	<u>\$ 9,638,426</u>	<u>\$ 682,931</u>	<u>\$ 2,165,346</u>	<u>\$ 2,999</u>	<u>(6,787,150)</u>
General Revenues					
Property taxes					1,269,522
State aid not restricted to specific purposes					6,409,264
Interest					17,312
Gain on sale of equipment					1,200
Miscellaneous					188,538
Total general revenues					<u>7,885,836</u>
Changes in Net Position					1,098,686
Net Position - Beginning					<u>5,774,363</u>
Net Position - Ending					<u>\$ 6,873,049</u>

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168

New Richland, Minnesota

Balance Sheet – Governmental Funds

June 30, 2016

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 2,192,670	\$ 296,223	\$ 287,330	\$ 2,776,223
Receivables				
Current property taxes	389,819	214,712	31,640	636,171
Delinquent property taxes	7,917	3,365	603	11,885
Accounts	5,755	-	-	5,755
Due from other Minnesota school districts	7,446	-	-	7,446
Due from Minnesota Department of Education	755,605	1,252	3,452	760,309
Due from Federal through Minnesota Department of Education	199,235	-	-	199,235
Inventory	-	-	7,573	7,573
Prepaid items	28,803	-	-	28,803
Total Assets	\$ 3,587,250	\$ 515,552	\$ 330,598	\$ 4,433,400
Liabilities				
Salaries payable	\$ 14,174	\$ -	\$ 4,118	\$ 18,292
Accounts payable	10,922	-	73,042	83,964
Due to other Minnesota school districts	13,587	-	-	13,587
Payroll deductions	220,669	-	-	220,669
Unearned revenue	32,142	-	19,718	51,860
Total Liabilities	291,494	-	96,878	388,372
Deferred Inflows of Resources				
Unavailable revenue-property taxes	669,417	449,176	64,440	1,183,033
Unavailable revenue-delinquent taxes	7,917	3,365	603	11,885
Total deferred inflows of resources	677,334	452,541	65,043	1,194,918
Fund Balances				
Nonspendable				
Prepaid items	28,803	-	-	28,803
Inventory	-	-	7,573	7,573
Restricted				
Staff development	43,274	-	-	43,274
Teacher development and evaluation	8,611	-	-	8,611
Community education	-	-	13,994	13,994
Early childhood family education	-	-	24,323	24,323
School readiness	-	-	11,905	11,905
Other fund activities	-	63,011	110,882	173,893
Committed				
Student activities	31,078	-	-	31,078
Unassigned	2,506,656	-	-	2,506,656
Total Fund Balances	2,618,422	63,011	168,677	2,850,110
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,587,250	\$ 515,552	\$ 330,598	\$ 4,433,400

Independent School District No. 2168

New Richland, Minnesota

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2016

Total Fund Balances for Governmental Funds \$ 2,850,110

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets is \$26,834,042 and the accumulated depreciation is \$13,415,842. 13,418,200

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 11,885

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Accrued interest for long-term debt is \$42,900. (42,900)

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds. 1,097,627

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

Bonds payable	\$ 2,850,000	
Capital leases	1,073,966	
Net pension liability	6,112,686	
OPEB obligation	120,696	
Severance	304,525	
		(10,461,873)

Total Net Position for Governmental Activities \$ 6,873,049

Independent School District No. 2168
New Richland, Minnesota

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

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Local property tax levies	\$ 912,760	\$ 392,450	\$ 69,376	\$ 1,374,586
Other local and county sources	537,895	-	115,862	653,757
State sources	7,754,770	27,428	69,061	7,851,259
Federal sources	346,046	-	257,523	603,569
Local sales and insurance recovery	23,267	-	233,506	256,773
Total Revenues	9,574,738	419,878	745,328	10,739,944
Expenditures				
Administration	552,431	-	-	552,431
District support services	257,846	-	-	257,846
Regular instruction	4,472,278	-	-	4,472,278
Vocational instruction	207,575	-	-	207,575
Special education instruction	1,555,546	-	-	1,555,546
Community education and services	-	-	195,413	195,413
Instructional support services	425,285	-	-	425,285
Pupil support services	804,404	-	530,058	1,334,462
Sites and buildings	943,563	-	315	943,878
Fiscal and other fixed cost programs	45,750	-	-	45,750
Debt service				
Principal	187,191	345,000	-	532,191
Interest and fiscal charges	45,328	105,363	-	150,691
Total Expenditures	9,497,197	450,363	725,786	10,673,346
Excess (Deficiency) of Revenues Over (Under) Expenditures	77,541	(30,485)	19,542	66,598
Other Financing Sources				
Sales of equipment	2,000	-	-	2,000
Capital lease	108,972	-	-	108,972
Total other financing sources	110,972	-	-	110,972
Net Change in Fund Balances	188,513	(30,485)	19,542	177,570
Fund Balances - Beginning	2,429,909	93,496	149,135	2,672,540
Fund Balances - Ending	\$ 2,618,422	\$ 63,011	\$ 168,677	\$ 2,850,110

Independent School District No. 2168

New Richland, Minnesota

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

Total Net Change in Fund Balances for Governmental Funds \$ 177,570

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$525,832) is less than depreciation expense (\$711,576) in the current period. (185,744)

In the statement of activities, only the gain/loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the capital assets less the accumulated depreciation. (800)

In governmental funds, issuance of capital lease is reported as a source of financing. However, in the statement of activities, a new capital lease is not revenue, rather it constitutes a long-term liability in the statement of net position. (108,972)

The governmental funds report severance costs as expenditures when paid, on the other hand, the statement of activities reports severance costs as expenditures as the employees earn the compensated absences. In the statement of net position, the payment of severance results in a reduction of the liability. This amount is the net effect of these differences. 16,020

The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 345,000

In governmental funds, OPEB liabilities are measured by the amount of resources used. However, in the statement of activities, an increase in an OPEB liability is based on the amount earned by the employees during the period. This amount is the net effect of these differences. (26,346)

In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense. 698,548

The governmental funds report repayment of capital lease principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 187,191

Long-term debt 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, regardless of when it is due. There was \$42,900 and \$43,151 of accrued interest at June 30, 2016 and 2015, respectively. 251

Property taxes levied and due in previous fiscal years that have not been received as of the end of the current fiscal year are recorded as deferred inflows - delinquent taxes (not considered available revenues) in the governmental funds. In the statement of activities, these taxes are considered revenue in the period for which they are levied. deferred property tax inflows decreased this year. (4,032)

Change in Net Position of Governmental Activities \$ 1,098,686

Independent School District No. 2168
New Richland, Minnesota
Statement of Fiduciary Net Position – Fiduciary Fund
June 30, 2016

	<u>Private Purpose Trust Fund</u>
Assets	
Cash and investments	\$ 122,905
Interest receivable	350
	<hr/>
Total Assets	\$ 123,255
	<hr/> <hr/>
Net Position	
Restricted for scholarships	\$ 123,255
	<hr/> <hr/>

Independent School District No. 2168
New Richland, Minnesota
Statement of Changes in Fiduciary Net Position – Fiduciary Fund
Year Ended June 30, 2016

	<u>Private Purpose Trust Fund</u>
Additions	
Other local and county revenues	<u>\$ 703</u>
Deductions	
Pupil support services	<u> 4,000</u>
Change in net position	(3,297)
Net Position - Beginning of Year	<u> 126,552</u>
Net Position - End of Year	<u><u> \$ 123,255</u></u>

Note 1 - Summary of Significant Accounting Policies

The Independent School District No. 2168 (District) is a school district governed by a board elected by eligible voters of the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant School District accounting policies are described below.

A. Financial Reporting Entity

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

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is used to account for educational activities, District instructional and student support programs, and expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund. The District's Student Activity Funds of \$31,078 are under board control and are reported and audited in the general fund as committed funds.

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

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

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

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Investments

Cash balances of the District's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the District. Investments include amounts in the Minnesota School District Liquid Asset Fund Plus (MSDLAF), an external investment pool, stated at cost which approximates fair value.

2. Receivables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, state and federal aids, and revenue from other Minnesota school districts. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible.

Interest and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

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

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

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

Property tax revenue is recorded under the intact levy concept whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning with the year of collection. Current taxes receivable represent taxes levied in 2015 which are not payable until 2016 less amounts received before June 30, 2016. Delinquent taxes receivable represent levies collectible during 2015 and prior years. Delinquent taxes are recorded as unearned revenue. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2015, but not payable until 2016 and are not expendable by the District until the 2016-2017 school year, adjusted for the property tax shift amount.

3. Inventories, Commodities, and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the Statement of Net Position and the Balance Sheet.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Plumbing and electrical	30
Building improvements interior, portable classrooms, and fire system	25
Heating and ventilation system, long-term admin software, furniture and fixtures, outdoor equipment, roofing, and site improvements	20
Custodial equipment, grounds equipment, kitchen equipment, and machinery and tools	15
All other equipment, short-term admin software, and long-term instructional software	10
Vehicles and buses	8
Carpet replacement	7
Computer hardware, copiers, short-term instructional software, and library books	5

5. Long-Term Obligations

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

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences - It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Qualifying employees may be compensated for unused sick leave upon termination of employment under terms of severance pay. Vacation leave is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees. A liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements. All unused vacation leave at June 30, 2016 has expired.

403(b) Salary Deferral/Matching Retirement Plan - Independent School District No. 2168 provides for early retirement severance pay which qualifies as a termination benefit. Any teacher who has twenty or more years of service to the District and was employed before the 1998-99 school year and has not elected to participate in the 403(b) matching fund can receive severance pay based on a formula outlined in the master agreement between the District and Education Minnesota - NRHEG. An employee who has ten or more years of service to the District can receive severance pay based on a formula outlined in the labor agreement between the District and the American Federation of State, County, and Municipal Employees, AFL-CIO Local Union No. 2438.

6. Postemployment Benefits

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

7. Pensions

The District has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. 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.

8. Deferred Outflows/Inflows of Resources

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

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

9. Net Position and Fund Equity

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. The School Board has the authority to assign a fund balance.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District strives to maintain as a minimum unassigned general fund balance of two to three months of operating expenses. If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

E. Inter-Fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers have been removed from the government-wide financial statements.

F. Use of Estimates

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

G. Property Tax Shift

Each year the State of Minnesota requires school districts to shift property taxes and general education aid in accordance with state statutes. During prior years the District shifted \$147,695 in property tax revenues and general education aid; the state decreased the shift amount by \$2,666 during the current year. The District has recognized as an increase in property tax revenues an amount equal to this shifted amount. The net amount shifted to date has reduced taxes levied for subsequent years by \$145,029 in the general fund. Of this total shifted amount, \$48,795 was for career tech and \$6,975 was for reemployment shifted at 100% of the 2015 payable 2016; and \$77,590 was for the 2000 pay 2001 referendum shifted at 31 percent; \$11,669 was for the decrease in the pay 1994 levy due to net of changes in the allocation of HACA and the increase in referendum equalization aid.

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

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The actual revenues, expenditures, and transfers for the year ended June 30, 2016, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

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

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2016, expenditures exceeded appropriations in the food service fund and the community service fund (the legal level of budgetary control) by \$28,489 and \$14,948, respectively. These over expenditures were funded by greater than anticipated revenues and available fund balance.

Note 3 - Detailed Notes on All Funds

A. Cash and Investments

1. Cash

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2016, none of the District's bank balances were exposed to custodial credit risk.

2. Investments

As of June 30, 2016, the District had an investment in Minnesota School District Liquid Asset Fund (MSDLAF) with a fair value of \$281,969. MSDLAF is a money market account and is available to service the District's financial needs immediately. The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pools shares.

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

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

Credit Risk. The District may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds in the MSDLAF are invested in accordance with Minnesota Statutes Section 475.66. Each Minnesota school district owns a pro-rata share of each investment which is held in the name of the funds. The District has no investment policy that would further limit its investment choices. As of June 30, 2016, the District's MSDLAF accounts were rated AAAM by S&P.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District's investments are invested in the MSDLAF (100%).

B. Receivables

Receivables as of the year end for the District are reported on the Statement of Net Position and the Balance Sheet.

The Balance Sheet reports unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The Statement of Net Position and the Balance Sheet also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of unearned revenue reported was as follows:

	Received but Unearned
Prepaid food service meals (food service fund)	\$ 9,123
Deferred revenue (general fund)	32,142
Prepaid enrollment (community service fund)	\$ 10,595
	\$ 51,860

C. Capital Assets

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

Administration	\$ 118
District support services	2,315
Regular instruction	162,456
Vocational education instruction	3,362
Special education instruction	3,585
Community services	1,687
Instructional support services	3,157
Pupil support services	68,497
Sites and buildings	466,399
Total Depreciation Expense	\$ 711,576

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$ 148,688	\$ 62,632	\$ -	\$ 211,320
Capital Assets, being depreciated				
Land improvements	1,052,802	26,280	-	1,079,082
Buildings	19,216,470	22,535	-	19,239,005
Equipment	5,263,855	325,993	122,738	5,467,110
Eligible pupil vehicles	808,074	88,392	58,941	837,525
Total Capital Assets, being depreciated	<u>26,341,201</u>	<u>463,200</u>	<u>181,679</u>	<u>26,622,722</u>
Less Accumulated Depreciation				
Land improvements	580,126	31,354	-	611,480
Buildings	7,486,540	403,762	-	7,890,302
Equipment	4,180,953	227,577	121,938	4,286,592
Eligible pupil vehicles	637,526	48,883	58,941	627,468
Total Accumulated Depreciation	<u>12,885,145</u>	<u>711,576</u>	<u>180,879</u>	<u>13,415,842</u>
Total Capital Assets Being Depreciated, Net	<u>13,456,056</u>	<u>(248,376)</u>	<u>800</u>	<u>13,206,880</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,604,744</u>	<u>\$ (185,744)</u>	<u>\$ 800</u>	<u>\$ 13,418,200</u>

D. Operating Leases

The District entered into a noncancelable five year lease agreement for school buses, beginning August 2015. Rent is paid in annual installments of \$20,522 each year until the lease agreement is met. Total cost for the lease was \$20,522 for the year ended June 30, 2016. The District also entered into a noncancelable four year lease agreement for school buses, beginning August 2016. Rent is paid in annual installments of \$21,018 until the lease agreement is met. Total cost for the lease was \$21,018 for the year ended June 30, 2016. Lease payments were made from the general fund. The future minimum lease payments for these leases are as follows:

Years Ending June 30,	
2017	\$ 41,540
2018	41,540
2019	41,540

E. Capital Leases

The District entered into a lease agreement in December 2007 as lessee for the financing of energy cost savings projects. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in monthly installments of \$12,351 over fifteen years through November 2023 at a 4.25% interest rate.

The District entered into a lease agreement in July 2014 as lessee for the financing of technology equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in three annual installments of \$54,643 through July 2016 at a 2.73% interest rate.

The District entered into a lease agreement in July 2015 as lessee for the financing of computer technology equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in three annual installments of \$29,660 through July 2019 at a 5.98% interest rate.

Capital leases are paid from the general fund.

Annual debt service requirements to maturity for capital lease payments are as follows:

<u>Years Ending June 30,</u>	
2017	\$ 232,520
2018	177,877
2019	177,877
2020	148,217
2021	148,217
2022-2026	<u>358,191</u>
Total Capital Lease Payments	1,242,899
Less: Amount Representing Interest	<u>(168,933)</u>
Present Value of Capital Lease Payments	<u><u>\$ 1,073,966</u></u>

The assets acquired through capital leases are as follows:

<u>Asset:</u>	
Energy Savings Upgrades	\$ 5,199,531
iPads	159,610
Chromebooks	108,972
Accumulated Depreciation	<u>(734,809)</u>
Total Value of Assets Acquired	<u><u>\$ 4,733,304</u></u>

F. Long-Term Debt

General Obligation Bonds. The District issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District, and are paid from the debt service fund. The original amount of general obligation bonds issued in prior years was \$4,770,000. The District issued General obligation bonds currently outstanding are as follows:

Bond Description	Final Maturities	Interest Rate	Original Principal	Outstanding Balance
General Obligation Alternative Facilities Bonds of 2008A	2/1/2023	3.50% - 4.25%	\$ 3,045,000	\$ 135,000
General Obligation Capital Facilities Bonds of 2008B	2/1/2018	3.50% - 4.00%	510,000	1,730,000
General Obligation Capital Facilities Bonds of 2013A	2/1/2028	0.30% - 2.50%	1,215,000	<u>985,000</u>
				<u>\$ 2,850,000</u>

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

Years Ending June 30,	Governmental Activities	
	Principal	Interest
2017	\$ 360,000	\$ 93,288
2018	370,000	81,287
2019	315,000	68,888
2020	325,000	58,567
2021	335,000	47,848
2022-2026	965,000	84,353
2027-2028	<u>180,000</u>	<u>6,750</u>
Total	<u>\$ 2,850,000</u>	<u>\$ 440,981</u>

Severance Payable. The District has 16 current employees who have qualified for severance benefits. Current year severance payments, as were prior year severance payments, were made from the general fund of the governmental funds.

Annual debt service requirements to maturity for severance payments are as follows:

Years Ending June 30,	
2017	\$ 22,142
2018	25,915
2019	51,964
2020	33,690
2021	54,669
2022-2026	105,812
2027-2031	10,333
Total	<u>\$ 304,525</u>

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

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016	Due Within One Year
General obligation bonds	\$ 3,195,000	\$ -	\$ 345,000	\$ 2,850,000	\$ 360,000
Severance	320,545	44,571	60,591	304,525	22,142
Capital lease	1,152,185	108,972	187,191	1,073,966	163,528
	<u>\$ 4,667,730</u>	<u>\$ 153,543</u>	<u>\$ 592,782</u>	<u>\$ 4,228,491</u>	<u>\$ 545,670</u>

Legal Debt Margin. Minnesota State Statutes do not allow net debt (as defined in Minn. Stat. Para. 475.51 subd. 4) to exceed 15 percent of the actual market value of all taxable property within the District. The District's market value per the School Tax Report 2015 Payable 2016 was \$302,171,165.

G. Other Post-Employment Benefits

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

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

Annual OPEB Cost and Net OPEB Obligation – The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

	2016
Annual Required Contribution	\$ 87,006
ARC Adjustment with Interest	(5,042)
Interest on Net OPEB Obligation	3,302
Annual OPEB Cost	85,266
Contributions Made	(58,920)
Change in Net OPEB Obligation	26,346
Net OPEB Obligation, beginning of year	94,350
Net OPEB Obligation, end of year	\$ 120,696

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Annual OPEB Cost Contributed	Net Ending OPEB Obligation
6/30/2014	\$ 72,198	\$ 50,991	70.6%	\$ 66,932
6/30/2015	71,830	44,412	61.8	94,350
6/30/2016	85,266	58,920	69.1	120,696

Funded Status and Funding Progress – As of July 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$688,098, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$688,098. The covered payroll (annual payroll of active employees covered by the plan) was \$4,198,248, and the ratio of the UAAL to the covered payroll was 16.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

H. Fund Balance

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

	GASB Balance	Reconciling Transfers	UFARS Balance
Nonspendable			
Inventory	\$ 7,573	\$ -	\$ 7,573
Prepaid items	28,803	-	28,803
Total Nonspendable	36,376	-	36,376
Restricted			
Staff development	43,274	-	43,274
Health and safety	-	72,778	(72,778)
Teacher development and evaluation	8,611	-	8,611
Safe schools	-	5,111	(5,111)
Food service	12,137	-	12,137
Community education	13,994	-	13,994
Early childhood and family education	24,323	-	24,323
School readiness	11,905	-	11,905
Community service	24,152	-	24,152
Capital project	74,593	-	74,593
Debt service	63,011	-	63,011
Total Restricted	276,000	77,889	198,111
Committed			
Student activities	31,078	-	31,078
Unassigned	2,506,656	(77,889)	2,584,545
Total Fund Balance	\$ 2,850,110	\$ -	\$ 2,850,110

Note 4 - Defined Benefit Pension Plans

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

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

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

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

2. Teachers Retirement Fund (TRA)

TRA is an administration 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 city of St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

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

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

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

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

1. General Employees Retirement Fund (GERF)

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. Teachers Retirement Fund (TRA)

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

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

Tier I Benefits

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

With these provisions:

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

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

C. Contributions

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

1. General Employees Retirement Fund (GERF)

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan member and 7.5% for the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2016, were \$102,244. The District's contributions were equal to the required contributions for each year as set by state statute.

2. Teachers Retirement Fund (TRA)

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

	Ending June 30, 2015		Ending June 30, 2016	
	Employees	Employers	Employees	Employers
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2016, were \$305,544. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. General Employees Retirement Fund (GERF)

At June 30, 2016, the District reported a liability of \$1,145,337 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 0.0221%, which was an decrease of 0.0019% from its proportion as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$130,358 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	\$ 10,622	\$ 57,744
Changes in actuarial assumptions	71,328	-
Difference between projected and actual investment earnings	108,423	210,380
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	66,939
District's contributions to GERF subsequent to the measurement date	102,244	-
Total	\$ 292,617	\$ 335,063

The \$102,244 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:

Years Ended June 30,	Pension Expense Amount
2016	\$ (43,607)
2017	(43,608)
2018	(84,582)
2019	27,107

2. Teachers Retirement Fund (TRA)

At June 30, 2016, the District reported a liability of \$4,967,349 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on The District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0803% at the end of the measurement period and 0.0844% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 4,967,349
State's proportionate share of the net pension liability associated with the district	\$ 608,958

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 \$545,518. It also recognized \$107,656 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	\$ 4,715	\$ -
Changes in actuarial assumptions	381,857	-
Difference between projected and actual investment earnings	492,558	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	40,724
District's contributions to TRA subsequent to the measurement date	301,667	-
Total	\$ 1,180,797	\$ 40,724

The \$301,667 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2017	\$ 209,602
2018	209,602
2019	209,602
2020	209,600

E. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.75% per year	3.0%
Active Member Payroll Growth	3.50% per year	3.5 - 12% based on years of service
Investment Rate of Return	7.90% per year	8.0%
Cost of Living Adjustment	0.0%	2.0%

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

GERF actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in GERF was for the period July 1, 2004, to 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 limited scope experience study addressed only inflation and long-term rate of return for the GASB 67 valuation.

TRA 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 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.

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

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

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

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

F. Discount Rate

The discount rate used for GERS to measure the total pension liability was 7.9% for GERS and 8.0% for TRA. This is a decrease from the discount rate at the prior measurement date of 8.25% for TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
GERF discount rate	6.90%	7.90%	8.90%
District’s proportionate share of the GERF net pension liability	\$ 1,800,876	\$ 1,145,337	\$ 603,962
TRA discount rate	7.00%	8.00%	9.00%
District’s proportionate share of the TRA net pension liability	\$ 7,560,948	\$ 4,967,349	\$ 2,802,916

H. Pension Plan Fiduciary Net Position

Detailed information about GERS’s defined benefit 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 (800) 652-9026.

Detailed information about TRA’s fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling (651)-296-2409 or (800)-657-3669.

Note 5 - 403(b) Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan beginning their fourth year of service with the District. Some employees are eligible to receive a match of employee contributions up to the qualifying amount set forth in their contract. Contributions are invested in tax deferred annuities hosted by a vendor from whom the District has obtained. The District's contributions for the years ended June 30, 2016, 2015, and 2014 are \$36,103, \$37,356, and \$37,292, respectively. The related employee contributions were \$105,274, \$57,203, and \$77,940 for the years ended June 30, 2016, 2015, and 2014, respectively.

Note 6 - Other Information

A. Contingent Liabilities

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

B. Joint Ventures

The District, in conjunction with South Central Service Cooperative (SCSC), created a joint powers agreement for group employee benefits and other financial and risk management services. The SCSC's board is defined in the Joint Powers Agreement. A member may withdraw upon written notice given to the Board. In the event of dissolution, amounts received from participants to the benefit fund reserve shall be used exclusively for the payment of benefits to or on behalf of enrolled employees, payment of reasonable expenses, and payment of taxes. Separate financial statements of the joint venture may be obtained from SCSC. The joint venture is in good financial health. It is not anticipated to be a burden on the District.

Note 7 - Subsequent Events

Subsequent to June 30, 2016, the District issued \$1,300,000 of General Obligation Crossover Refunding Bonds. The bonds were issued to refund the General Obligation Alternative Facilities Bonds of 2008A and obtain a better interest rate.



Required Supplementary Information
June 30, 2016

**Independent School District No.
2168**
New Richland, Minnesota

Independent School District No. 2168

New Richland, Minnesota

Schedule of Funding Progress as Required by Statement No. 45 of the Governmental Accounting Standards Board
Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	\$ -	\$ 619,499	\$ 619,499	0.0%	\$3,759,533	16.5%
7/1/2012	\$ -	\$ 598,793	\$ 598,793	0.0%	\$4,259,566	14.1%
7/1/2015	\$ -	\$ 688,098	\$ 688,098	0.0%	\$4,198,248	16.4%

Note to the Schedule of Funding Progress

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

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

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated from the projection of RP 2000 rates to 2012 to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 were also updated.
- The discount rate was changed from 4.50% to 3.50%.

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

- None

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

Pension Plan	Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (d) (a+b)	Employer's Covered-Employee Payroll (e)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (d/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2015	0.0221%	\$ 1,145,337	N/A	\$ 1,145,337	\$ 1,375,166	83.3%	78.2%
	6/30/2014	0.0240%	\$ 1,127,400	N/A	\$ 1,127,400	\$ 1,346,698	83.7%	78.8%
TRA	6/30/2015	0.0803%	\$ 4,967,349	608,958	\$ 5,576,307	\$ 4,155,898	119.5%	76.8%
	6/30/2014	0.0844%	\$ 3,889,091	273,479	\$ 4,162,570	\$ 3,903,735	99.6%	81.5%

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

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

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d) **	Contributions as a Percentage of Covered-Employee Payroll (b/d)
PERA	6/30/2016	\$ 102,244	\$ 102,244	\$ -	\$ 1,438,567	7.1%
	6/30/2015	\$ 96,843	\$ 96,843	\$ -	\$ 1,375,166	7.0%
TRA	6/30/2016	\$ 305,544	\$ 305,544	\$ -	\$ 4,073,920	7.5%
	6/30/2015	\$ 305,984	\$ 305,984	\$ -	\$ 4,155,898	7.4%

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

** District covered-employee payroll was calculated by dividing total employer contributions reported to TRA by the required contribution rate (7.5%).

Independent School District No. 2168
New Richland, Minnesota
Budgetary Comparison Schedule
General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget-Favorable (Unfavorable)
	Original	Final		
Revenues				
Local property tax levies	\$ 817,960	\$ 925,336	912,760	\$ (12,576)
Other local and county sources	416,900	478,050	537,895	59,845
State sources	7,936,042	7,806,454	7,754,770	(51,684)
Federal sources	373,000	361,100	346,046	(15,054)
Local sales and insurance recovery	11,500	17,700	23,267	5,567
Total Revenues	9,555,402	9,588,640	9,574,738	(13,902)
Expenditures				
Administration	544,350	559,072	552,431	6,641
District support services	266,532	270,990	257,846	13,144
Regular instruction	4,411,689	4,351,426	4,472,278	(120,852)
Vocational instruction	203,959	204,583	207,575	(2,992)
Special education instruction	1,566,445	1,588,178	1,555,546	32,632
Instructional support services	460,407	475,486	425,285	50,201
Pupil support services	789,964	863,545	804,404	59,141
Sites and buildings	901,335	956,664	943,563	13,101
Fiscal and other fixed cost programs	48,000	46,000	45,750	250
Debt service				
Principal	105,755	187,455	187,191	264
Interest and fiscal charges	42,463	45,763	45,328	435
Total Expenditures	9,340,899	9,549,162	9,497,197	51,965
Excess (deficiency) of revenues over (under) expenditures	214,503	39,478	77,541	38,063
Other Financing Sources (Uses)				
Sales of equipment	-	2,000	2,000	-
Capital lease	-	-	108,972	108,972
Total other financing sources (uses)	-	2,000	110,972	108,972
Net Change in Fund Balances	214,503	41,478	188,513	147,035
Fund Balances - Beginning	2,429,909	2,429,909	2,429,909	-
Fund Balances - Ending	<u>\$ 2,644,412</u>	<u>\$ 2,471,387</u>	<u>2,618,422</u>	<u>\$ 147,035</u>

1. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The actual revenues, expenditures, and transfers for the year ended June 30, 2016, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

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



Supplementary Information
June 30, 2016

**Independent School District No.
2168**
New Richland, Minnesota

Independent School District No. 2168
New Richland, Minnesota
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2016

	Special Revenue		Capital Projects	Total Nonmajor Funds
	Food Service	Community Service	Building Construction	
Assets				
Cash and investments	\$ 37,390	\$ 123,481	\$ 126,459	\$ 287,330
Receivables				
Current property taxes	-	31,640	-	31,640
Delinquent property taxes	-	603	-	603
Due from Minnesota Department of Education	-	3,452	-	3,452
Inventory	7,573	-	-	7,573
Total Assets	\$ 44,963	\$ 159,176	\$ 126,459	\$ 330,598
Liabilities				
Salaries payable	\$ -	\$ 4,118	\$ -	\$ 4,118
Accounts payable	16,130	5,046	51,866	73,042
Unearned revenue	9,123	10,595	-	19,718
Total Liabilities	25,253	19,759	51,866	96,878
Deferred Inflows of Resources				
Unavailable revenue-property taxes	-	64,440	-	64,440
Unavailable revenue-delinquent taxes	-	603	-	603
Total deferred inflows of resources	-	65,043	-	65,043
Fund Balances				
Nonspendable				
Inventory	7,573	-	-	7,573
Restricted				
Community education	-	13,994	-	13,994
Early childhood family education	-	24,323	-	24,323
School readiness	-	11,905	-	11,905
Other fund activities	12,137	24,152	74,593	110,882
Total Fund Balances	19,710	74,374	74,593	168,677
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 44,963	\$ 159,176	\$ 126,459	\$ 330,598

Independent School District No. 2168

New Richland, Minnesota

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year Ended June 30, 2016

	Special Revenue		Capital Projects	Total
	Food Service	Community Service	Building Construction	Nonmajor Funds
Revenues				
Local property tax levies	\$ -	\$ 69,376	\$ -	\$ 69,376
Other local and county sources	-	115,862	-	115,862
State sources	36,236	32,825	-	69,061
Federal sources	257,523	-	-	257,523
Local sales and insurance recovery	233,506	-	-	233,506
Total Revenues	527,265	218,063	-	745,328
Expenditures				
Community education and services	-	195,413	-	195,413
Pupil support services	530,058	-	-	530,058
Sites and buildings	-	-	315	315
Total Expenditures	530,058	195,413	315	725,786
Excess (deficiency) of revenues over (under) expenditures	(2,793)	22,650	(315)	19,542
Fund Balances - Beginning	22,503	51,724	74,908	149,135
Fund Balances - Ending	\$ 19,710	\$ 74,374	\$ 74,593	\$ 168,677



Report on Minnesota Legal Compliance

Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168 as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 10, 2016.

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

In connection with our audit nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota
October 10, 2016

Independent School District No. 2168
New Richland, Minnesota
Uniform Financial Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2016

01 GENERAL FUND

Total Revenue	\$9,574,738	<u>\$9,574,739</u>	<u>(\$1)</u>
Total Expenditures	\$9,497,197	<u>\$9,497,198</u>	<u>(\$1)</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$28,803	<u>\$28,803</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$43,274	<u>\$43,274</u>	<u>\$0</u>
4.05 Deferred Maintenance	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	(\$72,778)	<u>(\$72,778)</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.09 Alternative Facility Program	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>
4.23 Certain Teacher Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.24 Operating Capital	\$0	<u>\$0</u>	<u>\$0</u>
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$8,611	<u>\$8,611</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.45 Career Tech Programs	\$0	<u>\$0</u>	<u>\$0</u>
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	(\$5,111)	<u>(\$5,111)</u>	<u>\$0</u>
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
4.53 Unfunded Sev & Retiremt Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>			
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>
4.61 Committed Fund Balance	\$31,078	<u>\$31,078</u>	<u>\$0</u>
<i>Assigned:</i>			
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.22 Unassigned Fund Balance	\$2,584,545	<u>\$2,584,545</u>	<u>\$0</u>

02 FOOD SERVICES

Total Revenue	\$527,265	<u>\$527,266</u>	<u>(\$1)</u>
Total Expenditures	\$530,058	<u>\$530,058</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$7,573	<u>\$7,573</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$12,137	<u>\$12,137</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

04 COMMUNITY SERVICE

Total Revenue	\$218,063	<u>\$218,062</u>	<u>\$1</u>
Total Expenditures	\$195,413	<u>\$195,413</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$13,994	<u>\$13,994</u>	<u>\$0</u>
4.32 E.C.F.E	\$24,323	<u>\$24,323</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	\$11,905	<u>\$11,905</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$24,152	<u>\$24,152</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

06 BUILDING CONSTRUCTION

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$315	<u>\$315</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.09 Alternative Facility Program	\$0	<u>\$0</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$74,593	<u>\$74,593</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

07 DEBT SERVICE

Total Revenue	\$419,878	<u>\$419,876</u>	<u>\$2</u>
Total Expenditures	\$450,363	<u>\$450,363</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$63,011	<u>\$63,010</u>	<u>\$1</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

08 TRUST

Total Revenue	\$703	<u>\$703</u>	<u>\$0</u>
Total Expenditures	\$4,000	<u>\$4,000</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$123,255	<u>\$123,255</u>	<u>\$0</u>

20 INTERNAL SERVICE

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

25 OPEB REVOCABLE TRUST

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

45 OPEB IRREVOCABLE TRUST

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

47 OPEB DEBT SERVICE

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



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 Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168 (District), New Richland, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated October 10, 2016.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying summary of audit findings costs to be material weaknesses: 2016-A, 2016-B, and 2016-C.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free 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 or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

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

Purpose of this Report

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



Mankato, Minnesota
October 10, 2016

Material Weakness – previously reported items not resolved

2016-A Segregation of Duties

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

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

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

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

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

Corrective Action Plan:

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

2016-B Significant Journal Entries

Condition: During the course of our engagement, we proposed material audit adjustments to the trial balance.

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

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

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

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

Corrective Action Plan:

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

2016-C Preparation of Financial Statements

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

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

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

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

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

Corrective Action Plan:

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