

INDEPENDENT SCHOOL DISTRICT NO. 518

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FINANCIAL STATEMENTS  
AS OF JUNE 30, 2016

INDEPENDENT SCHOOL DISTRICT NO. 518

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY SECTION	
School District Officials	i
FINANCIAL SECTION	
Independent Auditor's Report	1-3
Management's Discussion and Analysis	4-18
<u>Basic Financial Statements</u>	
Government – Wide Financial Statements:	
Statements of Net Position	19-20
Statements of Activities	21-22
Fund Financial Statements:	
Balance Sheets	23-24
Reconciliation of the Balance Sheet Governmental Funds to the Statement of Net Position	25
Statements of Revenues, Expenditures, and Changes in Fund Balances	26
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds to the Statement of Activities	27-28
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual General and Special Revenue Funds	29
Statement of Fiduciary Net Position	30
Statement of Changes in Fiduciary Net Position	31
Notes to Financial Statements	32-66
<u>Combining and Individual Fund Schedules</u>	
General Fund:	
Schedules of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual	67-74
Food Service Special Revenue Fund:	
Schedules of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual	75
Community Services Special Revenue Fund:	
Schedules of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual	76-77
Capital Projects Fund:	
Schedules of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual	78
Debt Service Fund:	
Schedules of Revenues, Expenditures and Changes in Fund Balance- Budget and Actual	79
Trust and Agency Funds:	
Schedules of Fiduciary Net Position	80

	<u>Page</u>
FINANCIAL SECTION (Continued)	
<u>Combining and Individual Fund Schedules (continued)</u>	
Trust Fund:	
Schedules of Changes in Fiduciary Net Position-Budget and Actual	81
Agency Fund:	
Schedules of Changes in Fiduciary Assets and Liabilities	82
Schedules of Changes in Capital Assets	83
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Funding Progress for Other Postemployment Benefits Plan	84
Schedules of Proportionate Share of Net Pension Liability and Employer Contributions	85
ADDITIONAL REPORTS	
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 <i>Government Auditing Standards</i>	86-87
Independent Auditor's Report on Compliance for each Major Program and Internal Control Over Compliance required by the Uniform Guidance	88-89
Schedule of Expenditures of Federal Awards	90-91
Schedule of Findings and Questioned Costs	92-94
Summary Schedule of Prior Audit Findings	95-97
Independent Auditor's Report on Legal Compliance Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	98
Schedule of Findings and Responses on Compliance with Minnesota Statutes	99
SUPPLEMENTARY INFORMATION	
Uniform Financial Accounting and Reporting Standards Compliance Table	101

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHOOL DISTRICT OFFICIALS

JUNE 30, 2016

Mr. Stephen Schneider	December 31, 2016	Chairman
Ms. Lori Dudley	December 31, 2018	Vice-Chairman
Mr. Joel Lorenz	December 31, 2016	Clerk
Mr. Bradley Shaffer	December 31, 2016	Treasurer
Dr. Ann Mills	December 31, 2018	Director
Mr. Linden Olson	December 31, 2016	Director
Mr. Scott Rosenberg	December 31, 2018	Director
Mr. John Landgaard		Superintendent
Mr. David Skog		Director of Management Services

# DREALAN KVILHAUG HOEFKER & Co., P.A.



Member  
Division for CPA Firms AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

## CERTIFIED PUBLIC ACCOUNTANTS

WAYNE W. DREALAN, CPA  
ELLEN K. HOEFKER, MBA, CPA  
GREG H. KVILHAUG, CPA, CFP

COLE M. BAUMGARD, CPA  
VICKIE L. KUIPERS, EA  
MARILYN B. McDOWELL, CPA  
CINDY M. PENNING, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Members of the School Board  
Independent School District No. 518  
Worthington, 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. 518 (the 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information the District, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund, food service fund, and the community service fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report of Summarized Comparative Information**

We have previously audited the District's 2015 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 9, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for postemployment benefits plan and the schedules of proportionate share of net pension liability and employer contributions on pages 4-18, 83 and 84 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The uniform financial accounting and reporting standards compliance table and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The uniform financial accounting and reporting standards compliance table, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting

and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

*Dreelan Kvithavn Hoefke & Co., P.A.*

Worthington, Minnesota  
October 10, 2016

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016

This section of Worthington Schools - Independent School District 518's 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. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is presented in the MD&A.

**FINANCIAL HIGHLIGHTS**

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

- Overall actual revenues in the Statement of Activities were more than \$45,344,000 and over \$6,543,000 more than expenses.
- The District's General Fund unassigned fund balance (under the governmental fund presentation) increased \$1,016,341 from the prior year compared to a projected decrease of \$1,006,823. Overall expenditures were less than budgeted combined with increased revenue due to enrollments above projections and a significant increase in the English Language Learner funding.
- Construction of a 20,000 square foot addition to provide additional classrooms at the High School was completed and occupied in January 2016.
- Increased enrollment, participation, and formula funding increases allowed the District to maintain financial stability while expanding services to students and the community.
- The District issued Series 2016 A General Obligation refunding Bonds that will be used to refund the Series 2010 B General Obligation Alternative Facilities for portions of the bond interest due in the years 2016-2018 along with the remaining maturities at the call date of February 1, 2019. This will result in savings to the District of \$1,400,000 over the life of the bond issue.
- The District purchased 157 acres of land south of the Middle School as a potential site for a new school building and athletic complex



INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-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 government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

**Government-Wide Statements**

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

The two government-wide statements report the District's net position and how they have changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health.

- Over time, increases or decreases in the District's net position are indicators 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 government-wide financial statements, the District's activities are shown in one category titled "governmental activities":

- 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 these activities.

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

**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.

For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America

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

The District maintains two kinds of funds:

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

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

Net position. The District's combined net position was \$14,311,363 on June 30, 2016. (See Table A-1.)

Table A-1  
Independent School District No. 518  
Net Position-Governmental Activities  
As of June 30

	2016	2015	Percentage Change
Current and other assets	\$ 31,217,184	\$ 28,424,366	9.83%
Capital assets	37,683,751	30,118,918	25.12%
Total assets	\$ 68,900,935	\$ 58,543,284	17.69%
Deferred Outflows of Resources-pensions	\$ 6,828,226	\$ 3,618,877	88.68%
Long-term liabilities	\$ 47,796,675	\$ 40,742,200	17.31%
Other liabilities	3,924,035	3,694,966	6.20%
Total liabilities	\$ 51,720,710	\$ 44,437,166	16.39%
Deferred Inflows of Resources	4,883,103	4,296,642	13.65%
Deferred Inflows of Resources-pensions	4,814,914	5,660,586	(14.94%)
Total Deferred Inflows of Resources	\$ 9,698,017	\$ 9,957,228	(2.60%)
Net Position			
Net investment in capital assets	\$ 13,338,751	\$ 10,095,733	32.12%
Restricted	9,147,954	3,051,829	199.75%
Unrestricted	(8,176,271)	(5,379,795)	51.98%
Total net position	\$ 14,310,434	\$ 7,767,767	84.23%

The District's financial position decreased during the year. One factor contributed to this decrease with three other factors reducing the effect of that decrease:

- The continued enrollment revenue increases exceed expenditure increases.
- Increase in the formula funding amounts for English Language Learners.

**Changes in net position.** The District's total revenues were \$45,344,025 for the year ended June 30, 2016. Property taxes and state formula aid accounted for 59.91% of total revenue for the year. (See Figure A-3.) Another 0.57% came from other general revenues combined with investment earnings and the remainder from program revenues.

The total cost of all programs and services was \$38,787,957. The District's expenses are predominantly related to educating and caring for students (80.78%). (See Figure A-4.) The purely administrative activities of the District accounted for just 2.69% of total costs.

Total revenues exceeded expenditures, increasing net position \$6,542,667 from last year.

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

**Changes in net position (continued)**

Table A-2 is similar to the fund financial statements except it is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. It also includes depreciation expense and excludes capital asset purchase costs, debt issuance proceeds and the repayment of debt principal.

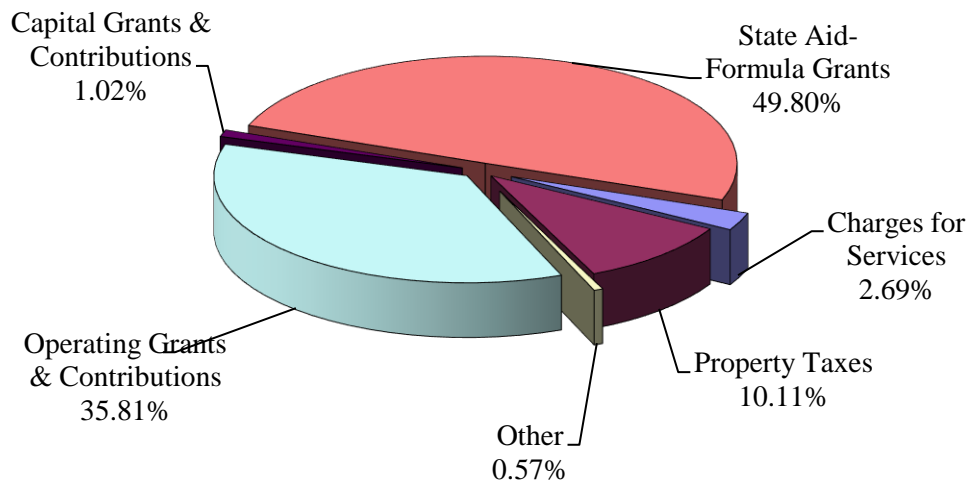
Table A-2  
Independent School District No. 518  
Change in Net Position  
For the Year Ended June 30

	2016	2015	Percentage Change
Revenues			
Program revenues			
Charges for services	\$ 1,221,777	\$ 1,113,000	9.77%
Operating grants and contributions	16,236,448	14,289,789	13.62%
Capital grants and contributions	460,968	753,145	(38.79%)
General revenues			
Property taxes	4,583,126	4,664,661	(1.75%)
State aid - formula grants	22,711,692	21,406,676	6.10%
Other	130,014	68,003	91.19%
Total revenues	<u>\$ 45,344,025</u>	<u>\$ 42,295,274</u>	7.21%
Expenses			
District and school administration	\$ 1,043,630	\$ 816,389	27.83%
District support services	807,884	715,061	12.98%
Regular instruction	17,561,914	16,147,956	8.76%
Exceptional instruction	5,829,750	5,408,894	7.78%
Vocational instruction	553,718	561,332	(1.36%)
Instructional support services	2,371,014	2,374,781	(0.16%)
Pupil support services	5,015,124	5,047,270	(0.64%)
Site, buildings and equipment	3,405,815	3,333,394	2.17%
Fiscal and other fixed cost programs	584,844	577,153	1.33%
Community education and services	1,614,264	1,420,651	13.63%
Total expenses	<u>\$ 38,787,957</u>	<u>\$ 36,402,881</u>	6.55%
Change in net position before special item	\$ 6,556,068	\$ 5,892,393	
Special items	<u>(13,401)</u>	<u>(12,895)</u>	
Change in net position	\$ 6,542,667	\$ 5,879,498	
Beginning net position	<u>7,767,767</u>	<u>1,888,269</u>	
Net position - June 30	<u><u>\$ 14,310,434</u></u>	<u><u>\$ 7,767,767</u></u>	

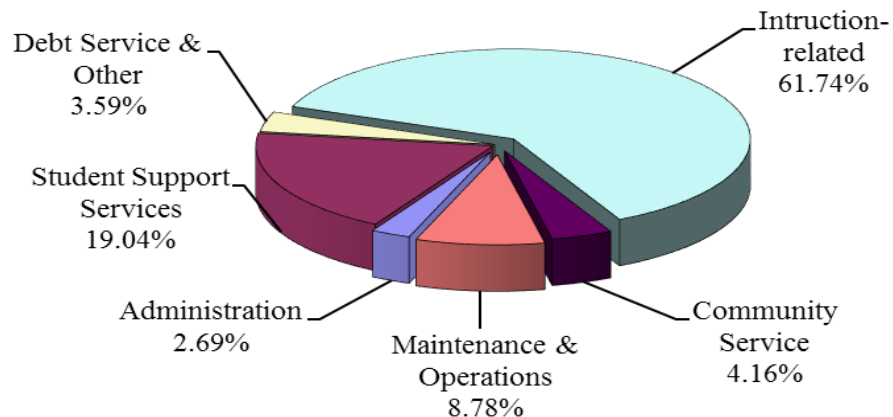
INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

**Figure A-3 Sources of Independent School District 518's Revenues for Fiscal Year 2016**



**Figure A-4 Independent School District 518's Expenses for Fiscal Year 2016**



- The cost of all governmental activities this year was \$38,787,957.
- Some of the cost was paid by the users of the District's programs (\$1,221,777).
- The federal and state governments subsidized certain programs with grants and contributions (\$16,236,448 operating, \$460,968 capital).
- Most of the District's costs (\$20,868,764), however, were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$4,583,126 in property taxes, \$22,580,091 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)**

Table A-3  
Independent School District No. 518  
Net Cost of Governmental Activities  
For the Year Ended June 30

	2016		2015
	Total Cost of Services	Net Cost of Services	Net Cost of Services
District and school administration	\$ 1,043,630	\$ 1,028,816	\$ 814,659
District support services	807,884	803,599	708,694
Regular instruction	17,561,914	9,569,431	9,245,977
Exceptional instruction	5,829,750	1,431,617	1,553,166
Vocational instruction	553,718	529,391	521,469
Instructional support services	2,371,014	1,883,541	1,868,632
Pupil support services	5,015,124	2,069,124	2,256,932
Site, buildings and equipment	3,405,815	2,867,506	2,555,421
Fiscal and other fixed cost programs	584,844	584,844	577,153
Community education and services	1,614,264	100,895	144,844
Total	<u>\$ 38,787,957</u>	<u>\$ 20,868,764</u>	<u>\$ 20,246,947</u>

The total cost of district services was \$38,787,957 as compared to the prior year total cost of district services of \$36,402,881, an increase of \$2,385,076.

When program specific revenues are considered, the net service cost was \$20,868,764, which represents an increase of \$621,817 from the prior year.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$22,640,394, an increase of \$1,990,999 from the June 30, 2015 combined fund balance of \$20,649,395, or a 9.64% increase.

Revenues for the District's governmental funds were \$44,992,781, while total expenditures were \$47,942,234, including the capital project expenditures of \$9,773,955.

**General Fund**

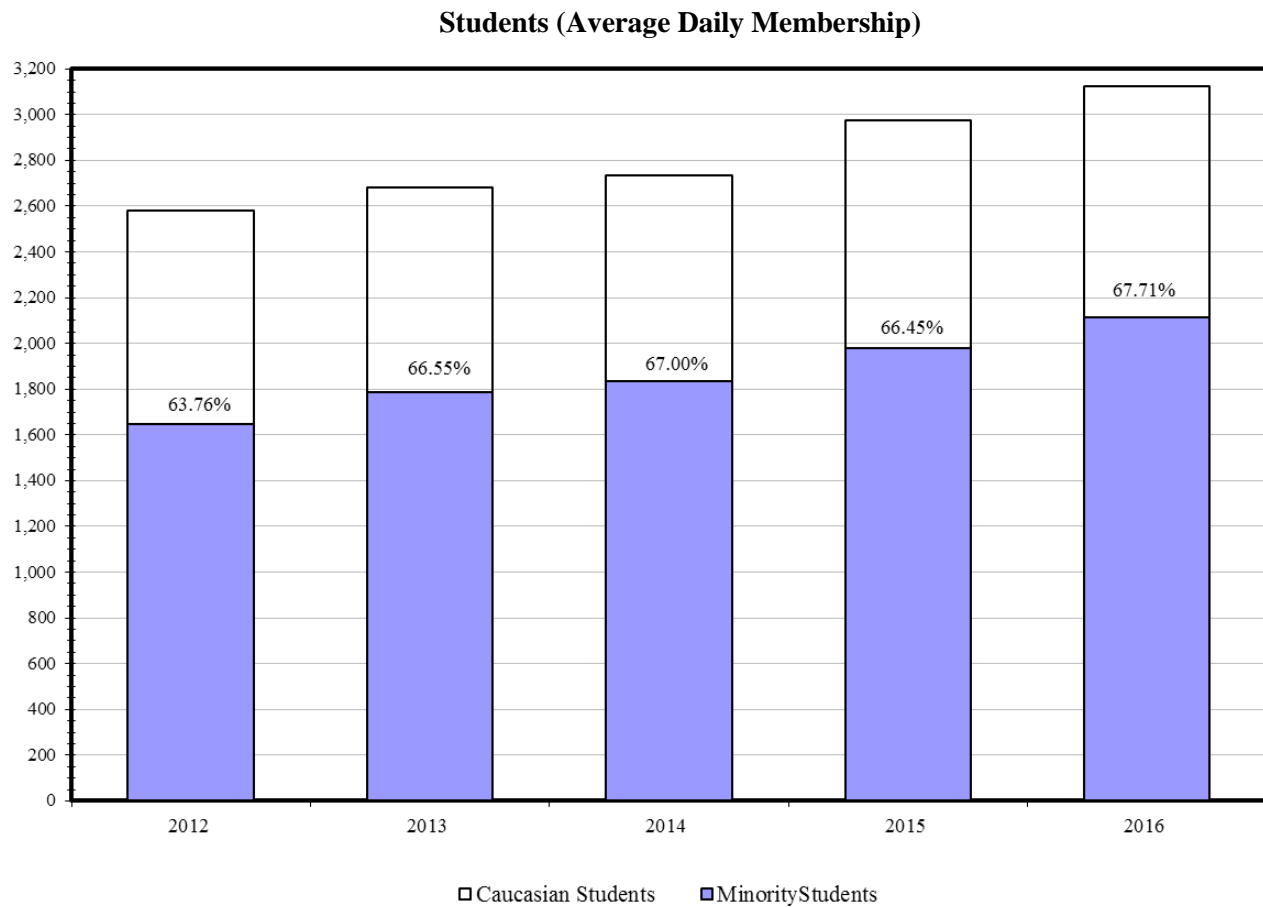
The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)**

**General Fund (continued)**

The following graph shows that the total number of students has increased over the last few years, while the number of minority students has increased.



Over the past few years, the District has seen an increasing enrollment. Based on the District's birth to age 5 census counts, we anticipate enrollment increases the next few years. New residents along with an increase in the number of students open enrolling in our District are factors in the increase. Additionally a tuition agreement with Round Lake/Brewster District 2907 to serve their ninth through twelfth grade resident students contributed to the enrollment increase. During the 2015-16 school year the District's on-line education program enrollment increased significantly.

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)**

**General Fund (continued)**

The following schedule presents a summary of General Fund revenues (including operating, pupil transportation, and capital expenditure accounts).

	Year Ended June 30, 2015	Year Ended June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property taxes	\$ 2,448,543	\$ 2,367,735	\$ (80,808)	(3.30%)
Interest earnings	44,620	77,601	32,981	73.92%
Other	826,421	1,035,098	208,677	25.25%
State sources	32,220,236	34,139,405	1,919,169	5.96%
Federal sources	1,005,460	1,249,474	244,014	24.27%
Total revenues	\$ 36,545,280	\$ 38,869,313	\$ 2,324,033	6.36%
Other financing sources				
Land and equipment sales	10,969	2,143	(8,826)	(80.46%)
Total	<u>\$ 36,556,249</u>	<u>\$ 38,871,456</u>	<u>\$ 2,315,207</u>	6.33%

Total General Fund revenue increased by \$2,315,207 or 6.33% from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue including excess levy referendum and the property tax shift involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.



INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)**

**General Fund (continued)**

The following schedule presents a summary of General Fund Expenditures (including operating, pupil transportation, and capital expenditure accounts).

	Year Ended June 30, 2015	Year Ended June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 19,010,277	\$ 20,118,607	\$ 1,108,330	5.83%
Benefits	5,473,550	5,747,004	273,454	5.00%
Purchased Services	5,140,494	4,681,522	(458,972)	(8.93%)
Supplies, Materials and Equipment	2,505,426	5,323,965	2,818,539	112.50%
Other	1,253,772	5,771,535	4,517,763	360.33%
Total	<u>\$ 33,383,519</u>	<u>\$ 41,642,633</u>	<u>\$ 8,259,114</u>	24.74%

Total General Fund expenditures increased \$8,259,114 or 24.74% from the previous year.

The significant increase has a number of components with current year construction increasing by nearly \$5,340,000 and the purchase of land (\$3,026,837) for a future building and sports complex site.

In fiscal 2016, salaries increased 5.83% with the addition of staff to meet the needs of increased enrollment. Employee benefits increased by 5.00%. The District continues to investigate cost containment measures to minimize the effect rising insurance premiums have on the costs of the District's employee compensation packages.

Purchased services decreased while supplies, materials and equipment showed an increase in part due to a change in categorization by the Minnesota Department of Education for software licensing costs.

Other expenditures include the high school building construction.

In 2015-2016, General Fund expenditures exceeded revenues and other financing sources by \$2,773,321. Therefore, total fund balance decreased to \$15,283,941 at June 30, 2016. After deducting statutory restrictions, the unassigned fund balance increased from \$9,387,340 at June 30, 2015, to \$10,403,681 at June 30, 2016.

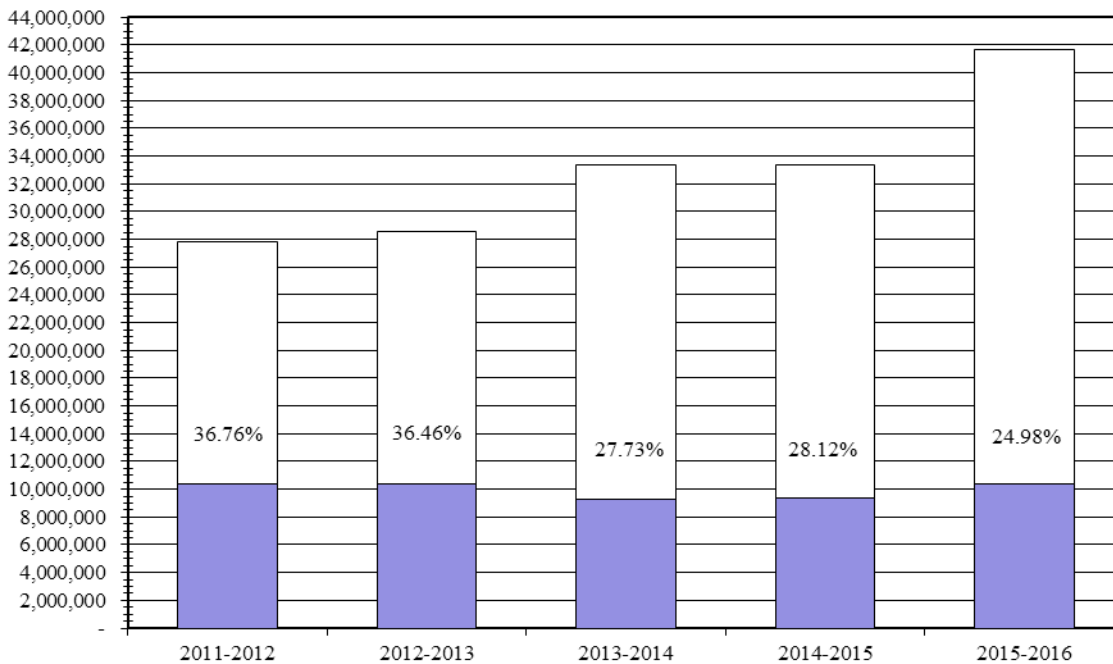
INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)**

**General Fund (continued)**

The following graph shows the General Fund unassigned fund balance as a percentage of expenditures.

**General Fund Unassigned Fund Balance as a  
Percent of Expenditures**



The graph above is the single best measure of overall financial health. The unassigned fund balance of \$10,403,681 at June 30, 2016, represents 24.98% of annual expenditures or thirteen weeks of operations. Given the current state funding legislation and other economic conditions, the District will continue to monitor its spending and fund balances closely.

	<u>2011-2012</u>	<u>2012-2013</u>	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>
Unassigned fund balance	\$ 10,339,754	\$ 10,411,065	\$ 9,243,373	\$ 9,387,340	\$ 10,403,681
% Increase (decrease)	8.22%	0.69%	(11.22%)	1.56%	10.83%
Expenditures	\$ 28,125,544	\$ 28,551,830	\$ 33,337,874	\$ 33,383,519	\$ 41,642,634
% Increase (decrease)	11.36%	1.52%	16.76%	0.14%	24.74%
	36.76%	36.46%	27.73%	28.12%	24.98%

**INDEPENDENT SCHOOL DISTRICT NO. 518**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)**

**General Fund Budgetary Highlights**

Over the course of the year, the District revised the annual operating budget. The budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, debt refunding, and budgeting for clearing, resale, and gifts.
- Increases in appropriations for significant unbudgeted costs.

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	\$ 36,092,664	\$ 36,755,834	\$ 663,170	1.84%
Expenditure	\$ 39,253,773	\$ 43,247,348	\$ 3,993,575	10.17%
Other financing Sources (Uses)	\$ 1,000	\$ 2,585	\$ 1,585	

While the District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$6,488,929, the actual results for the year show that expenditures and other financing uses exceeded revenues and other financing sources by \$2,771,178.

- Actual revenues were \$2,113,479 more than expected, a variance of 5.75%, due to higher than estimated basic formula pupil units and increased English Language services funding.
- The actual expenditures were \$1,604,714 under budget or a 3.71% variance.

**Other Governmental Funds**

The Debt Service Fund revenues and other financing sources exceeded expenditures and other financing uses by \$5,734,065 in 2015-2016 compared to a budgeted increase of \$8,563 due to the issuance of the 2016A refunding bonds. (\$4,938,309) The fund balance increased to \$6,218,085 at June 30, 2016, and is available for meeting future debt service obligations including the call of the remaining 2010B Alternative Facility Bonds in 2019.

The Food Service Fund revenues exceeded expenditures by \$198,855. The Food Service fund balance increased to \$790,517 or 37.31% of annual operating expenditures. Student lunch and breakfast prices have seen mandated increases in the past couple of years. Increased free and reduced lunch eligibility helps the Food Service fund to continue to operate on a sound financial basis.

The Community Service Fund revenues exceeded expenditures by \$111,072 leaving a year-end fund balance of \$347,851 or 21.78% of annual expenditures. Increased Adult Basic Education funding, and the continued Pathways II early learning scholarship grants helped increase programming and fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of June 2016, the District had invested \$60,068,286 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Table A-4.) (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$2,205,387.

Additional technology equipment, building security entrance doors, custodial equipment, were among the capital asset additions for the year. Disposals included equipment no longer usable and land no longer suitable for District purposes.

Table A-4  
Independent School District No. 518  
Capital Assets

	2016	2015	Increase (Decrease)
Land	\$ 3,509,122	\$ 482,285	\$ 3,026,837
Land Improvements	3,413,142	2,179,842	1,233,300
Buildings	42,385,199	36,992,206	5,392,993
Equipment	10,484,708	10,090,385	394,323
Vehicles	276,115	276,115	-
Construction in progress	-	822,747	(822,747)
Less accumulated depreciation	(22,384,535)	(20,724,662)	(1,659,873)
Total	<u>\$ 37,683,751</u>	<u>\$ 30,118,918</u>	<u>\$ 7,564,833</u>
Depreciation Expense	<u>\$ 2,205,387</u>	<u>\$ 2,046,342</u>	<u>\$ 159,045</u>

**Construction - Next Five Years**

The Board of Education has committed to asking the voters for approval of general obligation bonds to construct a new High School.

Replacement of the High School gymnasium roof will take place during the summer of 2016.

Playground cushion resurfacing of four playgrounds at Prairie Elementary will take place in September 2016.

In coordination with the City of Worthington, Nobles County, Minnesota West Community and Technical College, and other partner; the District is assessing community needs for athletic facilities and grounds.

Routine maintenance such as replacement of roofs, parking lots and building repairs will be funded through the General Fund.

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)**

**Long-Term Liabilities**

At year-end, the District had \$24,345,000 in general obligation bonds and certificates of participation payable outstanding.

- The District retired \$1,765,000 of outstanding bonds and other long-term debt during 2015-2016.
- The District issued District a \$ 4,805,000 2016A refunding issue for a portion of the interest for the 2010B bond issue during 2015-2016 thereby reducing future interest payments by over 1.4 million dollars

The District's general obligation bonds carry a rating of Aa1.

**Limitations on Debt**

The state limits the amount of general obligation debt the District can issue to 15% of the assessed value of all taxable property within the District's corporate limits. Our outstanding debt of \$24,345,000 is significantly below this limit which is currently \$306,255,450.

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

To meet the facility needs resulting from increased enrollment, the Board of Education has approved a November 8, 2016 general election ballot question asking for voter approval of a \$79,000,000 bond issue. Passage would construct a new building and restructure the existing grade alignment to provide sufficient space for existing k-12 programs and expanding early-learning programs.

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Although there were still budget reductions in some areas, the success of this operating referendum made it possible for the School Board to increase total FTE teachers to accommodate projected enrollment increases and program changes for the 2016-2017 school year.

Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. Requests for increased programming will need to be closely scrutinized for sustainability.

To meet these financial challenges, the District will continue to utilize the Site Based Budgeting process. This process has been successful in the past and will improve our allocation of resources according to District priorities. The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

INDEPENDENT SCHOOL DISTRICT NO. 518  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

**FACTORS BEARING ON THE DISTRICT'S FUTURE (Continued)**

The District continues to strive to meet Adequate Yearly Progress (AYP) as required by statute. Between 2015 and 2016, District 518 made gains in meeting AYP in some buildings and student groups while failing to meet AYP in areas such as Special Education, Free and Reduced and Limited English Proficiency in certain buildings. Areas considered to not be meeting AYP will be targeted for additional assistance in an effort to bring all groups and subgroups into compliance.

The District's Community Service fund, early childhood program was awarded a Pathways II continuation grant in the amount of \$139,117 for fiscal year 2017.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administration Building:

Independent School District No. 518  
1117 Marine Avenue  
Worthington, Minnesota 56187-1610  
(507) 372-2172

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF NET POSITION

JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2015)

	Governmental Activities	
	2016	2015
ASSETS:		
Cash and investments	\$ 16,877,937	\$ 19,001,275
Cash and investments held by trustee	5,708,495	-
Receivables-		
Current property taxes	2,315,460	2,057,669
Delinquent property taxes	22,345	58,115
Other school districts and governmental units	250,453	244,923
Department of Education	3,816,356	3,521,990
Federal government	218,217	232,920
Accounts and interest receivable	65,167	47,214
Inventory	158,367	109,262
Prepaid items	337,426	321,470
Restricted assets - temporarily restricted-		
Cash and investments for debt service	1,446,961	1,547,713
Cash and investments for construction	-	1,281,815
Capital assets (net of accumulated depreciation)-		
Land	3,509,122	482,285
Land improvements	2,522,659	1,413,725
Buildings	27,491,920	23,070,997
Equipment	4,088,273	4,233,894
Vehicles	71,777	95,270
Construction in progress	-	822,747
Total assets	\$ 68,900,935	\$ 58,543,284
DEFERRED OUTFLOWS OF RESOURCES:		
Related to Pensions	6,828,226	3,618,877
Total assets and deferred outflows of resources	\$ 75,729,161	\$ 62,162,161

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518  
STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2015)

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
<b>LIABILITIES:</b>		
Accounts payable	\$ 643,958	\$ 676,397
Salaries payable	1,200,683	1,090,801
Accrued payroll taxes and other payroll deductions	1,800,796	1,621,048
Accrued interest payable	252,693	274,752
Due to other school districts and governmental units	4,427	4,739
Unearned revenue	21,478	27,229
Long-term liabilities-		
Due within one year	2,109,791	2,066,831
Due in more than one year	45,686,884	38,675,369
	<u>51,720,710</u>	<u>44,437,166</u>
Total liabilities	\$	\$
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Property taxes levied for subsequent year's expenditures	\$ 4,883,103	\$ 4,296,642
Related to pensions	4,814,914	5,660,586
	<u>9,698,017</u>	<u>9,957,228</u>
Total deferred inflows of resources	\$	\$
<b>NET POSITION:</b>		
Net investment in capital assets	\$ 13,338,751	\$ 10,095,733
Restricted for-		
Debt service	6,218,085	484,020
Food service	790,517	591,662
Community service	347,851	236,779
Disabled accessibility	64,511	65,893
Capital projects	629,113	537,315
Area learning center	361,297	305,147
Health and safety	145,489	124,864
Other purposes	591,091	706,149
Unrestricted	(8,176,271)	(5,379,795)
	<u>14,310,434</u>	<u>7,767,767</u>
Total net position	\$	\$
Total liabilities, deferred inflows of resources, and net position	<u>\$ 75,729,161</u>	<u>\$ 62,162,161</u>

The accompanying notes are an integral part of these financial statements.



INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

Functions/Programs	2016				2016	2015
	Program Revenues		Net (Expense)		Net (Expense)	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Total Governmental Activities
<u>Governmental Activities</u>						
Instruction-						
Regular instruction	\$ 17,561,914	\$ 432,284	\$ 7,560,199	\$ -	\$ (9,569,431)	\$ (9,245,977)
Exceptional instruction	5,829,750	237,781	4,160,352	-	(1,431,617)	(1,553,166)
Vocational instruction	553,718	-	24,327	-	(529,391)	(521,469)
Total instruction	<u>\$ 23,945,382</u>	<u>\$ 670,065</u>	<u>\$ 11,744,878</u>	<u>\$ -</u>	<u>\$ (11,530,439)</u>	<u>\$ (11,320,612)</u>
Support services-						
Instructional support services	\$ 2,371,014	\$ 68,489	\$ 418,984	\$ -	\$ (1,883,541)	\$ (1,868,632)
Pupil support services	5,015,124	320,465	2,625,535	-	(2,069,124)	(2,256,932)
District and school administration	1,043,630	-	14,814	-	(1,028,816)	(814,659)
District support services	807,884	1,000	3,285	-	(803,599)	(708,694)
Site, buildings and equipment	2,540,300	10,667	66,674	460,968	(2,001,991)	(1,724,035)
Community education and services	1,614,264	151,091	1,362,278	-	(100,895)	(144,844)
Fiscal and other fixed cost programs	584,844	-	-	-	(584,844)	(577,153)
Depreciation expense - unallocated	865,515	-	-	-	(865,515)	(831,386)
Total support services	<u>\$ 14,842,575</u>	<u>\$ 551,712</u>	<u>\$ 4,491,570</u>	<u>\$ 460,968</u>	<u>\$ (9,338,325)</u>	<u>\$ (8,926,335)</u>
Total governmental activities	<u>\$ 38,787,957</u>	<u>\$ 1,221,777</u>	<u>\$ 16,236,448</u>	<u>\$ 460,968</u>	<u>\$ (20,868,764)</u>	<u>\$ (20,246,947)</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518  
STATEMENTS OF ACTIVITIES (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

<u>General Revenue</u>	<u>2016</u>	<u>2015</u>
Taxes-		
Property taxes, levied for general purposes	\$ 1,353,867	\$ 1,783,568
Property taxes, levied for debt service	1,990,239	1,988,604
Property taxes, levied for specific purpose-		
Integration collaborative	237,888	209,476
Vocational programs	120,313	109,188
Health and Safety projects	75,547	(10,176)
Building Lease	429,620	238,687
Community Service	197,169	190,121
Safe Schools	111,772	113,689
Other local taxes	66,711	41,504
Property tax replacement aid	131,601	105,113
State aid not restricted to specific purpose-		
General Education aid	22,580,091	21,300,226
Other state aids	-	1,337
Interest and investment earnings	89,208	49,946
Other local revenue	40,806	18,057
	<u>\$ 27,424,832</u>	<u>\$ 26,139,340</u>
Subtotal, general revenues		
Excess of revenues over expenses before		
special items	<u>\$ 6,556,068</u>	<u>\$ 5,892,393</u>
<u>Special Items</u>		
Sale or disposal of surplus property and equipment	<u>\$ (13,401)</u>	<u>\$ (12,895)</u>
Subtotal, special items	<u>\$ (13,401)</u>	<u>\$ (12,895)</u>
Total general revenues and special items	<u>\$ 27,411,431</u>	<u>\$ 26,126,445</u>
Change in net position	\$ 6,542,667	\$ 5,879,498
NET POSITION, Beginning of year	<u>7,767,767</u>	<u>1,888,269</u>
NET POSITION, End of year	<u><u>\$ 14,310,434</u></u>	<u><u>\$ 7,767,767</u></u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS

GOVERNMENTAL FUNDS

JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2015)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2016	2015
ASSETS:							
Cash and investments	\$ 15,945,618	\$ 627,527	\$ 304,792	\$ -	\$ 1,446,961	\$ 18,324,898	\$ 21,830,803
Cash and investments held by trustee	-	-	-	-	5,708,495	5,708,495	-
Receivables-							
Current property taxes	1,446,514	-	85,116	-	783,830	2,315,460	2,057,669
Delinquent property taxes	16,066	-	559	-	5,720	22,345	58,115
Accounts and interest receivable	36,923	10,921	17,323	-	-	65,167	47,214
Due from Other school districts and governmental units	112,512	-	137,941	-	-	250,453	244,923
Due from Department of Education-							
General education aid	3,290,627	-	-	-	-	3,290,627	3,024,686
Special education aid	395,779	-	-	-	-	395,779	365,910
Other education aid	86,705	-	30,257	-	-	116,962	111,448
State lunch aid	-	-	-	-	-	-	9,578
Market value credit aid	1,510	-	376	-	3,782	5,668	3,047
Disparity aid	1,950	-	486	-	4,884	7,320	7,321
Due from Federal government-							
Federal title programs	131,073	-	4,228	-	-	135,301	69,984
School lunch program	-	82,916	-	-	-	82,916	162,936
Inventory	70,211	88,156	-	-	-	158,367	109,262
Prepaid items	324,759	-	12,667	-	-	337,426	321,470
Total assets	\$ 21,860,247	\$ 809,520	\$ 593,745	\$ -	\$ 7,953,672	\$ 31,217,184	\$ 28,424,366
LIABILITIES:							
Salaries payable	\$ 1,200,683	\$ -	\$ -	\$ -	\$ -	\$ 1,200,683	\$ 1,090,801
Accrued payroll taxes and other payroll deductions	1,800,796	-	-	-	-	1,800,796	1,621,048
Accounts payable	591,235	2,525	49,198	-	1,000	643,958	676,397
Due to other school districts and governmental units	1,072	-	3,355	-	-	4,427	4,739
Unearned revenue	-	16,478	5,000	-	-	21,478	27,229
Total liabilities	\$ 3,593,786	\$ 19,003	\$ 57,553	\$ -	\$ 1,000	\$ 3,671,342	\$ 3,420,214
DEFERRED INFLOWS OF RESOURCES:							
Property taxes levied for subsequent year's expenditures	\$ 2,966,454	\$ -	\$ 187,782	\$ -	\$ 1,728,867	\$ 4,883,103	\$ 4,296,642
Unavailable revenue - Delinquent taxes	16,066	-	559	-	5,720	22,345	58,115
Total deferred inflows of resources	\$ 2,982,520	\$ -	\$ 188,341	\$ -	\$ 1,734,587	\$ 4,905,448	\$ 4,354,757

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS (CONTINUED)

GOVERNMENTAL FUNDS

JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2015)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2016	2015
FUND BALANCES:							
Nonspendable for-							
Nonspendable amounts	\$ 394,970	\$ 88,156	\$ 12,667	\$ -	\$ -	\$ 495,793	\$ 430,732
Restricted for-							
Operating capital	\$ 629,113	\$ -	\$ -	\$ -	\$ -	\$ 629,113	\$ 537,315
Health and safety	145,489	-	-	-	-	145,489	124,864
Disabled accessibility	64,511	-	-	-	-	64,511	65,893
Deferred maintenance	418,399	-	-	-	-	418,399	298,939
Gifted and talented	50,788	-	-	-	-	50,788	39,716
Area learning center	361,297	-	-	-	-	361,297	305,147
Safe schools	35,452	-	-	-	-	35,452	36,715
Staff development	37,354	-	-	-	-	37,354	69,282
Food service	-	702,361	-	-	-	702,361	520,274
Community education	-	-	47,205	-	-	47,205	33,311
Adult basic education	-	-	212,418	-	-	212,418	124,083
School readiness	-	-	28,068	-	-	28,068	21,461
Early childhood family education	-	-	46,454	-	-	46,454	56,627
Certificates of participation	49,098	-	-	-	-	49,098	261,497
Alternative facilities	-	-	-	-	-	-	1,281,815
Refunding	-	-	-	-	5,710,494	5,710,494	-
Debt service	-	-	-	-	507,591	507,591	484,020
Restricted for other purposes	-	-	1,039	-	-	1,039	1,297
Total restricted fund balances	\$ 1,791,501	\$ 702,361	\$ 335,184	\$ -	\$ 6,218,085	\$ 9,047,131	\$ 4,262,256
Committed for-							
Separation	\$ 193,789	\$ -	\$ -	\$ -	\$ -	\$ 193,789	\$ 269,067
Projects	-	-	-	-	-	-	4,800,000
Total committed fund balances	\$ 193,789	\$ -	\$ -	\$ -	\$ -	\$ 193,789	\$ 5,069,067
Assigned for-							
Projects	\$ 2,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,500,000	\$ 1,500,000
Total assigned fund balances	\$ 2,500,000	\$ -	\$ -	\$ -	\$ -	\$ 2,500,000	\$ 1,500,000
Unassigned	\$ 10,403,681	\$ -	\$ -	\$ -	\$ -	\$ 10,403,681	\$ 9,387,340
Total fund balances	\$ 15,283,941	\$ 790,517	\$ 347,851	\$ -	\$ 6,218,085	\$ 22,640,394	\$ 20,649,395
Total liabilities, deferred inflows of resources and fund balances	\$ 21,860,247	\$ 809,520	\$ 593,745	\$ -	\$ 7,953,672	\$ 31,217,184	\$ 28,424,366

INDEPENDENT SCHOOL DISTRICT NO. 518  
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
Total fund balances - governmental funds	\$ 22,640,394	\$ 20,649,395
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the funds.		
Land	3,509,122	482,285
Construction in progress	-	822,747
Land improvements, net of accumulated depreciation	2,522,659	1,413,725
Buildings, net of accumulated depreciation	27,491,920	23,070,997
Equipment and vehicles, net of accumulated depreciation	4,160,050	4,329,164
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	6,828,226	3,618,877
Deferred Inflows of Resources Related to Pensions	(4,814,914)	(5,660,586)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Bonds principal payable	(24,873,520)	(21,785,568)
Pension Benefits Payable	(22,764,789)	(18,663,950)
Capital leases payable	-	(169,637)
Other post employment benefits	(89,719)	(52,864)
Accrued compensated absences payable	(68,647)	(70,181)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
	22,345	58,115
Governmental funds do not report a liability for accrued interest until due and payable.		
	<u>(252,693)</u>	<u>(274,752)</u>
Total net position - governmental activities	<u>\$ 14,310,434</u>	<u>\$ 7,767,767</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	General	Food Service	Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
						2016	2015
REVENUES:							
Local property tax levies	\$ 2,367,735	\$ -	\$ 197,169	\$ -	\$ 2,003,551	\$ 4,568,455	\$ 4,641,331
Other local and county revenues	764,467	3,220	341,199	2,528	5,777	1,117,191	862,209
Revenues from state sources	34,139,405	134,314	1,034,002	-	86,662	35,394,383	33,272,855
Revenues from federal sources	1,249,474	1,787,753	134,889	-	-	3,172,116	2,810,238
Sales and other conversion of assets	92,349	392,189	215	-	-	484,753	386,747
Interdistrict revenues	255,883	-	-	-	-	255,883	283,122
Total revenues	\$ 38,869,313	\$ 2,317,476	\$ 1,707,474	\$ 2,528	\$ 2,095,990	\$ 44,992,781	\$ 42,256,502
EXPENDITURES:							
Current expenditures-							
District and school administration	\$ 991,593	\$ -	\$ -	\$ -	\$ -	\$ 991,593	\$ 992,140
District support services	776,541	-	-	-	-	776,541	705,613
Regular instruction	16,476,495	-	-	-	-	16,476,495	15,702,689
Vocational instruction	525,734	-	-	-	-	525,734	496,494
Exceptional instruction	5,728,584	-	-	-	-	5,728,584	5,437,245
Community education and services	-	-	1,586,978	-	-	1,586,978	1,418,248
Instructional support services	2,286,091	-	-	-	-	2,286,091	2,250,931
Pupil support services	2,878,643	2,118,621	9,424	-	-	5,006,688	5,001,591
Site and building services	2,162,678	-	-	-	-	2,162,678	2,224,317
Fiscal and other fixed cost programs	477,539	-	-	-	-	477,539	464,878
Capital outlay	9,338,736	-	-	435,219	-	9,773,955	2,141,302
Debt service-							
Principal	-	-	-	-	1,500,000	1,500,000	1,415,000
Interest and other financing costs	-	-	-	-	649,358	649,358	688,301
Total expenditures	\$ 41,642,634	\$ 2,118,621	\$ 1,596,402	\$ 435,219	\$ 2,149,358	\$ 47,942,234	\$ 38,938,749
Excess (Deficiency) of revenues over (under) expenditures	\$ (2,773,321)	\$ 198,855	\$ 111,072	\$ (432,691)	\$ (53,368)	\$ (2,949,453)	\$ 3,317,753
OTHER FINANCING SOURCES (USES):							
Sale of capital assets	\$ 2,143	\$ -	\$ -	\$ -	\$ -	\$ 2,143	\$ 10,969
Debt issuance	-	-	-	-	4,938,309	4,938,309	-
Transfer from Capital Projects fund to Debt Service fund	-	-	-	(849,124)	849,124	-	-
Total other financing sources (uses)	\$ 2,143	\$ -	\$ -	\$ (849,124)	\$ 5,787,433	\$ 4,940,452	\$ 10,969
Net change in fund balances	\$ (2,771,178)	\$ 198,855	\$ 111,072	\$ (1,281,815)	\$ 5,734,065	\$ 1,990,999	\$ 3,328,722
FUND BALANCE, Beginning of year	18,055,119	591,662	236,779	1,281,815	484,020	20,649,395	17,320,673
FUND BALANCE, End of year	\$ 15,283,941	\$ 790,517	\$ 347,851	\$ -	\$ 6,218,085	\$ 22,640,394	\$ 20,649,395

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
Total net changes in fund balances - governmental funds	\$ 1,990,999	\$ 3,328,722

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  
are allocated over the estimated useful lives as depreciation  
expense.

Capital outlays	9,785,764	2,335,517
Depreciation expense	(2,205,387)	(2,046,342)

The amount of bond proceeds used to refund prior school building  
bonds is reported in the governmental funds as an other  
financing source. Bond proceeds are not revenues in the  
statements of activities, but rather constitute long-term liabilities.  
Issuing debt increases long-term liabilities and does not affect  
the statement of activities.

(4,938,309)	-
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Repayment of debt principal is an expenditure in the governmental  
funds, but the repayment reduces the long term liabilities in  
the statement of net assets.

1,765,000	1,670,000
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Some capital asset additions are financed through capital leases.

In governmental funds, a capital lease arrangement is  
considered a source of financing, but in the statement of  
net position, the lease obligation is reported as a liability.  
Repayment of capital lease principal is an expenditure in  
the governmental funds, but repayment reduces the lease  
obligation in the statement of net assets.

Principal payments – capital leases	169,637	165,895
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The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

TO THE STATEMENT OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>	<u>2015</u>
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	\$ 22,059	\$ 80,838
In the Statement of Activities, certain operating expenses - pension, other post-employment benefits and compensated absences-are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
Pensions	(45,818)	341,876
Compensated absences	1,534	(8,883)
Other post employment benefits	(36,855)	(34,442)
In the statement of activities, only the loss on disposal of capital assets is reported. However, in the governmental funds, proceeds from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the disposed assets.	(15,544)	(23,864)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	(35,770)	(4,112)
Governmental funds report debt premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported net of debt in the Government-wide financial statements.	<u>85,357</u>	<u>74,203</u>
Change in net position - governmental activities	<u>\$ 6,542,667</u>	<u>\$ 5,879,408</u>

The accompanying notes are an integral part of these financial statements.



INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	General Fund				Food Service Fund				Community Service Fund			
	Budgeted Amounts		Variance with		Budgeted Amounts		Variance with		Budgeted Amounts		Variance with	
	Original	Final			Original	Final			Original	Final		
REVENUE:												
Local property tax levies	\$ 2,162,527	\$ 2,225,915	\$ 2,367,735	\$ 141,820	\$ -	\$ -	\$ -	\$ -	\$ 194,751	\$ 195,106	\$ 197,169	\$ 2,063
Other local and county revenues	421,025	576,305	764,467	188,162	1,200	1,450	3,220	1,770	228,290	260,425	341,199	80,774
Revenues from state sources	32,140,612	32,431,723	34,139,405	1,707,682	98,300	115,200	134,314	19,114	791,937	899,635	1,034,002	134,367
Revenues from federal sources	1,091,000	1,237,741	1,249,474	11,733	1,554,500	1,705,500	1,787,753	82,253	119,559	140,326	134,889	(5,437)
Sales and other conversion of assets	12,500	25,150	92,349	67,199	387,800	372,300	392,189	19,889	-	-	215	215
Interdistrict revenues	265,000	259,000	255,883	(3,117)	-	-	-	-	-	-	-	-
Total revenues	\$ 36,092,664	\$ 36,755,834	\$ 38,869,313	\$ 2,113,479	\$ 2,041,800	\$ 2,194,450	\$ 2,317,476	\$ 123,026	\$ 1,334,537	\$ 1,495,492	\$ 1,707,474	\$ 211,982
EXPENDITURES:												
Current expenditures-												
District and school administration	\$ 1,183,954	\$ 1,084,939	\$ 991,593	\$ 93,346	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District support services	893,202	953,745	776,541	177,204	-	-	-	-	-	-	-	-
Regular instruction	16,516,434	16,825,625	16,476,495	349,130	-	-	-	-	-	-	-	-
Vocational instruction	521,911	522,400	525,734	(3,334)	-	-	-	-	-	-	-	-
Exceptional instruction	5,606,523	5,836,850	5,728,584	108,266	-	-	-	-	-	-	-	-
Community education and services	-	-	-	-	-	-	-	-	1,297,318	1,458,748	1,586,978	(128,230)
Instructional support services	2,271,355	2,336,278	2,286,091	50,187	-	-	-	-	-	-	-	-
Pupil support services	3,292,943	3,314,493	2,878,643	435,850	2,070,000	2,173,375	2,118,621	54,754	9,861	9,386	9,424	(38)
Site and building services	7,654,039	2,587,310	2,162,678	424,632	-	-	-	-	-	-	-	-
Fiscal and other fixed cost programs	472,235	477,235	477,539	(304)	-	-	-	-	-	-	-	-
Capital outlay	841,177	9,308,473	9,338,736	(30,263)	-	-	-	-	-	-	-	-
Total expenditures	\$ 39,253,773	\$ 43,247,348	\$ 41,642,634	\$ 1,604,714	\$ 2,070,000	\$ 2,173,375	\$ 2,118,621	\$ 54,754	\$ 1,307,179	\$ 1,468,134	\$ 1,596,402	\$ (128,268)
Excess (deficit) of revenues over (under) expenditures	\$ (3,161,109)	\$ (6,491,514)	\$ (2,773,321)	\$ 3,718,193	\$ (28,200)	\$ 21,075	\$ 198,855	\$ 177,780	\$ 27,358	\$ 27,358	\$ 111,072	\$ 83,714
OTHER FINANCING SOURCES (USES):												
Sale of capital assets	\$ 1,000	\$ 2,585	\$ 2,143	\$ (442)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total other financing sources (uses)	\$ 1,000	\$ 2,585	\$ 2,143	\$ (442)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net change in fund balances	\$ (3,160,109)	\$ (6,488,929)	\$ (2,771,178)	\$ 3,717,751	\$ (28,200)	\$ 21,075	\$ 198,855	\$ 177,780	\$ 27,358	\$ 27,358	\$ 111,072	\$ 83,714
FUND BALANCE, Beginning of year	18,055,119	18,055,119	18,055,119	-	591,662	591,662	591,662	-	236,779	236,779	236,779	-
FUND BALANCE, End of year	\$ 14,895,010	\$ 11,566,190	\$ 15,283,941	\$ 3,717,751	\$ 563,462	\$ 612,737	\$ 790,517	\$ 177,780	\$ 264,137	\$ 264,137	\$ 347,851	\$ 83,714

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2016

ASSETS

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Cash and investments	\$ 357,288	\$ 66,839
Receivables-		
Due from school districts and governmental units	-	10,000
Total assets	\$ 357,288	\$ 76,839

LIABILITIES AND NET POSITION

LIABILITIES:		
Salaries payable	\$ -	\$ 39,421
Accounts payable	1,190	37,418
Total liabilities	\$ 1,190	\$ 76,839
NET POSITION:		
Held in trust	\$ 356,098	\$ -

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Other local and county revenues-	
Interest income	\$ 344
Other local revenues	<u>14,266</u>
Total additions	<u>\$ 14,610</u>
DEDUCTIONS:	
Pupil support services	\$ <u>59,303</u>
Total deductions	<u>\$ 59,303</u>
Change in net position	\$ (44,693)
NET POSITION, Beginning of year	<u>400,791</u>
NET POSITION, End of year	<u><u>\$ 356,098</u></u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Presentation-

Independent School District No. 518 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a seven-member school board elected by voters of the District to serve four year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

b. Financial Reporting Entity-

Independent School District No. 518 is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the district.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

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

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has elected not to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

c. Basic Financial Statement Presentation-

The Government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net Position at the Fund Financial Statement level.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Basic Financial Statement Presentation (continued)-

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

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the Government-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, investment trust, private-purpose trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third-party and cannot be used for activities or obligations of the District, these funds are excluded from the district-wide statements.

d. Measurement Focus and Basis of Accounting-

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is 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 generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (continued)-

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month period of availability is generally used for other fund revenue.
2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

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

Private Purpose Trust Funds are reported using the economic resources measurement focus. All fiduciary funds use the accrual basis of accounting as described earlier in these notes.

Description of Funds-

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

*Major Governmental Funds-*

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

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (continued)-

Description of Funds (continued)-

*Major Governmental Funds (continued)-*

Debt Service Funds – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation bond principal, interest, and related costs.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues recorded in this fund include meal sales to pupils along with state and federal reimbursements for meals.

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, or other similar services. Revenues recorded in this fund include property taxes restricted for Community Service purposes and tuition and fees charged for Community Education.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific bond issues.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service, except for refunding bond issues, for which a separate refunding bond trust account has been established.

Fiduciary Fund Types-

Private Purpose Trust Fund – The Foundation Private Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties.

Agency Fund – Agency Funds are established to account for cash and other assets held by the District as the agent for others. These funds are used to account for the Nobles County Integration Collaborative.

e. Deferred Outflows/Inflows of Resources-

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources from pensions on the government wide statement of net position result from the differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, changes in proportion, and contributions paid to the pension subsequent to the measurement date.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. Deferred Outflows/Inflows of Resources (continued)-

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources consists of property taxes and pensions. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund balance sheet and represents receivables which will not be collected within the available period. Pensions deferred inflows on the government wide statement of net position result from the differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, and changes in proportion. For the District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

f. Budgeting-

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Capital Projects – Building Construction, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the amended budget as adopted by the school board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to the budgeted amounts must be approved by the School Board. Individual amendments were not material in relation to the original appropriations.

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

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

At the end of each fiscal year, if the General Fund has a net unassigned deficit balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which includes certain restrictions specified in Minnesota statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of Education.



INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

g. Cash and Investments-

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Earnings from the investments of the Private Purpose Trust Funds are allocated directly to those funds/accounts.

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools operated in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940 are valued at the pool's share price.

h. Accounts Receivable-

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

i. Inventories-

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

j. Prepaid Items-

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

k. Property Taxes-

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through the state credits which are included in revenue from state sources in the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

k. Property Taxes (continued)-

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of the District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift".

During the 2015 fiscal year the State of Minnesota enacted legislation reducing the tax shift to 31% of the Pay 2001 operating referendum (frozen at \$75,873) plus 100% of the levies for vocational programs and unemployment costs.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2016 are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

l. Capital Assets-

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

Capital assets are recorded in the Government-wide financial statements, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 20 years for equipment.

Capital assets not being depreciated include land and any construction in progress.

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

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

n. Vacation Pay-

Under the terms of contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation upon termination. Vacation pay is accrued when incurred in the district-wide and all fiduciary fund financial statements. Vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances.

o. Sick Pay-

Substantially all District employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of retirement incentive payments for some employees upon termination.

p. Other Postemployment Health Care Benefits-

In addition to retirement benefits, the District provides post-retirement medical insurance benefits to teachers, administrators, principals, food service workers, custodians and clerical employees, in accordance with their respective master employment agreements. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement.

q. Restricted Assets-

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

r. Fund Balance-

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have purpose constraints placed upon them by laws, regulations, creditors, grantors, or other external parties and are considered available only for the purpose for which they were received.

Committed – resources that are constrained for specific purposes that are internally imposed by the District at its highest level of decision making authority, the Board of Education. With an affirmative vote of its members, the Board of Education may create, modify, or rescind funds for which resources are committed to the established purpose of that fund.

Assigned – resources that are intended to be used for specific purposes as approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for the intended purpose.

Unassigned – residual fund balance within the general fund that is in spendable form and is not restricted, committed, or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

The school district will strive to maintain a minimum unassigned general fund balance of 10% percent of the annual budget at the end of the fiscal year.

s. Risk Management-

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which it carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2016.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

t. Net Position-

Net position represents the difference between assets and liabilities in the Government-wide and fiduciary fund financial statements. Net investment in capital assets, consists of capital assets, net of accumulation 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.

u. Comparative Financial Information-

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

v. 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 revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

w. Functional Allocation of Expenses-

The costs of various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

x. Pensions-

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

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

a. Excess of Expenditures Over Budget-

Expenditures exceeded the budget in the following funds at June 30, 2016:

	<u>Budget</u>	<u>Expenditures</u>	<u>Amount</u>
Community Service Fund	\$ 1,468,134	\$ 1,596,402	\$ 128,268

No remedial action is deemed necessary for the Community Service fund as the excess expenditures were in relation to revenues over budget as well.

	<u>Budget</u>	<u>Expenditures</u>	<u>Amount</u>
Capital Projects Fund	\$ 400,000	\$ 435,219	\$ 35,219

No remedial action is deemed necessary for the Capital Projects fund as sufficient fund balance was available to cover the excess expenditures before closing the fund to the Debt Service fund

	<u>Budget</u>	<u>Expenditures</u>	<u>Amount</u>
Debt Service Fund	\$ 2,073,925	\$ 2,149,358	\$ 75,433

No remedial action is deemed necessary for the Debt Service fund as sufficient fund balance was available to cover the shortfall that resulted from the issuance of refunding bonds

b. Revenues Under Budget-

No funds had revenues that were under budget.

3. DEPOSITS AND INVESTMENTS:

a. Deposits-

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board.

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.

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

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2016, none of the District's bank balance of \$16,199,253 was exposed to custodial credit risk. No amounts were uninsured or under collateralized.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments-

The District may also invest idle funds as authorized by Minnesota Statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States’ banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States’ corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The District’s investments are potentially subject to various risks including the following:

- **Custodial credit risk** – The risk that in the event of a failure of the counterparty to an investment transaction (typically a broker) the government would not be able to recover the value of the investment or collateral securities.
- **Credit risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- **Concentration risk** – Investing 5 percent or more of the District’s portfolio in the securities of a single issuer.
- **Interest rate risk** – The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

Cash and Investments held by trustee are held by an escrow agent in accordance with escrow agreements established with the sale of refunding bonds totaling \$5,708,495. The following shows the breakdown of investments held with the trustee and their maturities:

<u>Type</u>	<u>Total</u>	<u>Maturity Duration in Years</u>		
		<u>Less than 1</u>	<u>1 to 2</u>	<u>2 to 3</u>
Government Agencies	\$ 5,708,495	\$ 173,627	\$ 156,851	\$ 5,378,017

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

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments (continued)-

The following table presents the District's investment balances at June 30, 2016, and information relating to potential investment risks:

	<u>Credit Risk</u>		<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Carrying Value</u>
	<u>Credit Rating</u>	<u>Rating Agency</u>	<u>Over 5% of Portfolio</u>	<u>Maturity Date</u>	
Governmental Agencies	N/A	N/A	36.4%	02/01/2019	\$ 5,708,495
Investment pools/mutual funds					
Minnesota School District					
Liquid Asset Fund Plus	AAAm	S & P	0.3%	N/A	53,649
Minnesota School District					
Liquid Asset Fund Plus					
MAX Series	AAAm	S & P	63.3%	N/A	<u>9,923,229</u>
Total investments					\$ 15,685,373
Nonparticipating certificates of deposits					8,407,000
Deposits					<u>365,147</u>
Total cash and investments					<u>\$ 24,457,520</u>

N/A - Not applicable

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

Cash and temporary investments-statements of net position	\$ 16,877,937
Cash and investments for debt service-restricted-statements of net position	1,446,961
Cash and investments held by trustee-statements of net position	5,708,495
Cash and temporary investments-statement of fiduciary net position	<u>424,127</u>
	<u>\$ 24,457,520</u>

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



INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL ASSETS:

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

Governmental Activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 482,285	\$ 3,026,837	\$ -	\$ 3,509,122
Construction in progress	<u>822,747</u>	<u>-</u>	<u>(822,747)</u>	<u>-</u>
Total capital assets, not depreciated	<u>\$ 1,305,032</u>	<u>\$ 3,026,837</u>	<u>\$ (822,747)</u>	<u>\$ 3,509,122</u>
Capital Assets, depreciated:				
Land improvements	\$ 2,179,842	\$ 1,233,300	\$ -	\$ 3,413,142
Buildings	36,992,206	5,392,993	-	42,385,199
Equipment and vehicles	<u>10,366,500</u>	<u>955,381</u>	<u>(561,058)</u>	<u>10,760,823</u>
Total capital assets, depreciated	<u>\$ 49,538,548</u>	<u>\$ 7,581,674</u>	<u>\$ (561,058)</u>	<u>\$ 56,559,164</u>
Less accumulated depreciation for:				
Land improvements	\$ (766,117)	\$ (124,366)	\$ -	\$ (890,483)
Buildings	(13,921,209)	(972,070)	-	(14,893,279)
Equipment and vehicles	<u>(6,037,336)</u>	<u>(1,108,951)</u>	<u>545,514</u>	<u>(6,600,773)</u>
Total accumulated depreciation	<u>\$ (20,724,662)</u>	<u>\$ (2,205,387)</u>	<u>\$ 545,514</u>	<u>\$ (22,384,535)</u>
Net capital assets, depreciated	<u>\$ 28,813,886</u>	<u>\$ 5,376,287</u>	<u>\$ (15,544)</u>	<u>\$ 34,174,629</u>
Total capital assets, net	<u>\$ 30,118,918</u>	<u>\$ 8,403,124</u>	<u>\$ (838,291)</u>	<u>\$ 37,683,751</u>

Depreciation expense of \$2,205,387 for the year ended June 30, 2016, was charged to the following governmental functions:

Governmental Activities:

Administration	\$ 967
District support services	25,553
Regular instruction	815,972
Vocational instruction	8,066
Exceptional instruction	21,467
Community Service	21,505
Instructional support services	116,959
Pupil support services	23,268
Food service	22,581
Site, buildings and equipment	283,534
Unallocated	<u>865,515</u>
	<u>\$ 2,205,387</u>

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES:

a. General Obligation School Building Bonds and Certificates of Participation-

The District currently has the following general obligation school building bonds and Certificates of Participation outstanding:

<u>Issue</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General Obligation Alternative Facilities Building Bonds	1/7/2010	3.25%-3.50%	2/1/2019	\$ 6,315,000
General Obligation Capital Facilities Building Bonds	1/7/2010	2.75%-3.75%	2/1/2024	660,000
General Obligation Refunding School Building Bonds	11/14/2013	2.00%-3.00%	2/1/2024	9,730,000
General Obligation Refunding Alternative Facilities Bonds	6/2/2016	2.00%-2.25%	2/1/2030	4,805,000
Certificates of Participation	1/7/2010	3.25%-4.40%	4/1/2025	<u>2,835,000</u>
Total general obligation bonds				\$ <u>24,345,000</u>

Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105% of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Certificates of Participation are repaid through funds from the Leased Facility Levy and general operations energy savings.

The General Obligation School Building Bonds require semiannual payments of principal and/or interest from the date the bonds were issued.

The Certificates of Participation require semiannual payments of principal and or interest from the date the bonds were issued. The portion of these certificates related to the energy savings improvements require monthly transfers to a separate debt service account.

In November 2013, the District issued \$10,000,000 of General Obligation Refunding Bonds, Series 2013A. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, a portion of the 2016 and the full amount of the 2017 through 2024 maturities of the 2005A General Obligation Crossover Refunding Bonds totaling \$10,305,000. The proceeds of the 2103A issue were placed in an escrow account until the 2005A bonds call date of February 1, 2016. This refunding reduced the District's total future debt service payments by approximately \$1,312,538.

In June 2016, the District issued \$4,805,000 of General Obligation Refunding Bonds, Series 2016A. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, a portion of the interest for the 2017 through 2019 maturities and the full amount of the 2020 through 2030 maturities of the 2010B General Obligation Alternative facilities Building Bonds totaling \$5,220,000. The proceeds of the 2016A issue were placed in an escrow account until the 2010B bonds call date of February 1, 2019. This refunding reduces the District's total future debt service payments by approximately \$1,400,000.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES (Continued):

b. Bond Premiums-

Bond premiums are amortized using the straight line method over the life of the bonds.

<u>Issue</u>	<u>Issue Date</u>	<u>Bond Premium</u>	<u>Final Maturity</u>	<u>2016 Amortization</u>
General Obligation Refunding School Building Bonds	3/1/2005	\$ 477,837	2/1/2016	\$ 13,071
General Obligation Alternative Facilities Building Bonds	1/7/2010	147,343	2/1/2019	29,888
General Obligation Capital Facilities Building Bonds	1/7/2010	6,582	2/1/2024	469
General Obligation Refunding School Building Bonds	11/1/2013	424,863	2/1/2024	41,116
General Obligation Refunding Alternative Facilities Bonds	6/2/2016	133,309	2/1/2030	813
Total current year amortization				<u>\$ 85,357</u>

c. Minimum Debt Payments-

Minimum annual principal and interest payments to maturity for general obligation school building bonds, capital leases and special assessments payable are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation School Building Bonds, Including Refunding Bonds</u>		<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,690,000	\$ 589,012	\$ 270,000	\$ 111,885
2018	1,580,000	584,926	280,000	103,110
2019	1,620,000	549,113	290,000	93,310
2020	2,045,000	504,382	300,000	82,725
2021	2,100,000	450,803	315,000	71,325
2022-2026	8,500,000	1,314,062	1,380,000	151,735
2027-2030	<u>3,975,000</u>	<u>334,250</u>	<u>-</u>	<u>-</u>
	<u>\$ 21,510,000</u>	<u>\$ 4,326,548</u>	<u>\$ 2,835,000</u>	<u>\$ 614,090</u>

d. Capital Lease Agreement-

On June 23, 2013, the District entered a master lease purchase agreement with Apple, Inc. for ipads. The gross amount of equipment acquired was \$508,370 and delivery of the equipment was scheduled during the 2013-14 fiscal period. Upon payment in full the lessor's (Apple, Inc.) interest in the equipment is transferred to the district, free and clear of any right or interest of Apple, Inc.

During the 2015-16 Fiscal year the District made the final payment and has no outstanding lease agreements at June 30, 2016.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES (Continued):

e. Special Assessments Payable-

Special Assessments payable represents the outstanding liability relating to various improvements made to district property financed through municipalities. The annual assessment levies consisting of principal and interest at various rates will be paid for by the General Fund. As of June 30, 2016 there were no assessments payable.

f. Changes in Long-Term Liabilities-

	June 30, 2015	Additions	Retirements	June 30, 2016	Due Within One Year
General obligation school building bonds	\$ 18,205,000	\$ 4,805,000	\$ 1,500,000	\$ 21,510,000	\$ 1,690,000
Bond premium	480,568	133,309	85,357	528,520	81,144
Certificates of Participation	3,100,000	-	265,000	2,835,000	270,000
Compensated Absences	70,181	68,647	70,181	68,647	68,647
Other Post Employment Benefits	52,864	36,855	-	89,719	-
Pension Benefits	18,663,950	6,276,189	2,175,350	22,764,789	-
Property under Capital Lease	<u>169,637</u>	<u>-</u>	<u>169,637</u>	<u>-</u>	<u>-</u>
	<u>\$ 40,742,200</u>	<u>\$11,320,000</u>	<u>\$ 4,265,525</u>	<u>\$ 47,796,675</u>	<u>\$ 2,109,791</u>

6. OPERATING LEASES:

The District leases the facilities of the Armory Business Center, Worthington Hockey Arena, and Memorial Auditorium. The lease for the Armory Business Center was renewed through June 30, 2016, with additional one year renewal options. The renewal option allows the lessor to incorporate into the monthly rental cost increases related to utility rates, cost of snow removal, real estate taxes, or assessments for governmental projects. The lease for the Worthington Hockey Arena was renewed with a remaining term of two years through June 30, 2018. The lease for the Memorial Auditorium was renewed for a term of one year, expiring on June 30, 2017. Rental expense for the year ended June 30, 2016, was \$44,937.

Future minimum lease payments at June 30, 2016, are as follows:

2017	\$ 54,000
2018	24,500
Thereafter	<u>-</u>
	<u>\$ 78,500</u>

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. INTERFUND TRANSFERS:

Transfers are used to move unrestricted revenues to finance various programs in accordance with budgetary authorizations. A transfer of the remaining Capital Projects Fund Alternative Facilities restricted fund balance to the Debt Service restricted for bond refunding fund balance was made to close the Capital Projects Fund as allowable purpose projects were completed.

8. RESTRICTED FUND BALANCES:

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. A description of deficit balance restrictions is included herein since the District has specific statutory authority to levy taxes for such deficits.

Restricted, Committed, and Assigned fund balances at June 30, 2016 are as follows:

Restricted for Area Learning Center-

Represents available resources to be used for students attending the area learning center. The fund balance as of June 30, 2016 is \$361,297.

Restricted for Health and Safety-

Represents available resources from the levy to be used for health and safety. The fund balance as of June 30, 2016 is \$145,489.

Restricted for Operating Capital-

The district levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund. The fund balance as of June 30, 2016 is \$629,113.

Restricted for Disabled Accessibility-

Represents available resources from the levy to be used for disabled accessibility. The fund balance as of June 30, 2016 is \$64,511.

Restricted for Gifted and Talented-

Represents available resources from state aid to be used for gifted and talented programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2016 is \$560,788.

Restricted for Safe Schools-

Represents available resources from the levy to be used for safe school. The fund balance as of June 30, 2016 is \$35,452.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Deferred Maintenance-

Represents available resources from the levy or aid to be used for future deferred maintenance projects. The fund balance as of June 30, 2016 is \$418,399.

Restricted for Staff Development-

Represents available resources from the levy or aid to be used for future staff development activities. The fund balance as of June 30, 2016 is \$37,354.

Restricted for Food Service-

Represents available resources to be used in providing food services to students. The fund balance as of June 30, 2016 is \$702,361.

Restricted for Community Education-

Represents accumulated resources available to provide general community education programming. The fund balance as of June 30, 2016 is \$47,205.

Restricted for Adult Basic Education-

Represents accumulated resources available to provide adult basic education services. The fund balance as of June 30, 2016 is \$212,418.

Restricted for School Readiness-

Represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2016 is \$28,068.

Restricted for Early Childhood Family Education-

Represents accumulated resources available to provide early childhood family education programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2016 is \$46,454.

Restricted for Other Programs-

Represents that amount that can be spent only for specific purposes stipulated by constitutional, external resource providers, or through enabling legislation. The fund balance as of June 30, 2016 is \$1,039.

Restricted for Debt Service-

Represents available resources from the debt service levy available only for payment of outstanding debt and related expenses. The fund balance as of June 30, 2016 is \$507,591.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Bond Refunding-

Represents available resources to be used for bond refunding. The fund balance as of June 30, 2016 is \$5,710,494.

Restricted for Certificates of Participation-

Represents resources available from issuance of certificates of participation. The fund balance as of June 30, 2016 is \$49,098.

Committed for Separation-

Represents amounts committed for severance, but not restricted. The fund balance as of June 30, 2016 is \$193,789.

Assigned for Projects-

Represents amounts assigned for projects, but are not restricted or committed. The fund balance as of June 30, 2016, is \$2,500,000.

9. EARLY RETIREMENT INCENTIVE:

a. Teachers-

Full-time teachers who have not less than 30 years of full time teaching service or who are at least fifty-five years of age and have 15 total years of full time teaching service are eligible for severance pay pursuant to the provisions of the master contract upon submission of a written resignation accepted by the Board.

Each full-time teacher will be paid up to a maximum of 100 days of any unused and accrued sick leave earned by that teacher while an employee of the District. The daily rate of pay is the basic daily rate at the time of retirement, as provided in the basic salary schedule (including career increment) for the basic school year, and does not include any additional compensation for extracurricular activities, extended employment or other extra compensation.

Payment will be contributed to a post-retirement health care savings plan sponsored by the District with half of the amount paid prior to September 1 of the year of separation and the remaining half will be paid prior to September 1 of the year following separation.

As of June 30, 2016, six teachers met the requirements representing a potential commitment of approximately \$111,543 in severance pay if all would resign pursuant to the provisions of the master contract.

Severance pay is recorded as an expenditure when eligible employees retire. Severance pay expense for the year ended June 30, 2016, was \$69,139.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. EARLY RETIREMENT INCENTIVE Continued):

b. Superintendent-

The Superintendent is eligible for severance pay after the Board receives a resignation. The amount of severance will be equal to the dollar amount per day of the existing contract times the number of accumulated sick leave days. The severance pay will be paid to the Superintendent according to timelines set by the Board.

As of June 30, 2016, there is a potential commitment of \$82,245 in severance pay if the Superintendent would resign pursuant to the provisions in the contract.

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN:

At June 30, 2009, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of June 30, 2014.

a. Plan Description-

The District provides a single-employer defined benefit healthcare plan administered by the District which allows retirees to participate in that plan through contractual arrangement. There are 353 active participants, 18 retired participants, and 267 dependents. The plan does not issue a publicly available financial report.

Post-Employment Medical Plan – All eligible retirees of the District have the option to continue their medical coverage into retirement. Retirees pay the full district premium rate for the coverage and dependent coverage if elected. When the retiree is eligible for coverage under Medicare, the District plan allows continued participation as a healthcare plan secondary to that Medicare coverage.

b. Funding Policy-

As of June 30, 2016, none of the employee bargaining unit contracts and employment agreements include a provision for a District contribution for post-employment healthcare plan premiums.

c. Annual OPEB Cost and Net OPEB Obligation-

The District's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (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 the normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and the changes in the District's net OPEB obligation.



INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

c. Annual OPEB Cost and Net OPEB Obligation (continued)-

Annual Required Contribution	\$ 92,846
Adjustment to Annual Required Contribution	( 3,058)
Annual OPEB Cost (Expense)	\$ 89,788
Interest	2,115
Contributions made	<u>55,048</u>
Increase in Net OPEB Obligation	\$ 36,855
Net OPEB Obligation (Asset) – Beginning of Year	<u>52,864</u>
Net OPEB Obligation (Asset) – End of Year	<u>\$ 89,719</u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015, 2014, 2013, and 2012 were:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/2016	\$ 89,788	62.55%	\$ 89,719
6/30/2015	91,781	62.55%	52,864
6/30/2014	64,772	87.28%	18,422
6/30/2013	65,454	72.85%	10,085
6/30/2012	46,684	91.31%	( 7,608)

d. Funded Status and Funding Progress-

As of July 1, 2014, the actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$818,958. The annual payroll for active employees enrolled in the plan was \$16,875,140 for a ratio of UAAL to covered payroll of 4.9%.

Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined 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.

e. 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 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 effect of short-term volatility in the actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

e. Actuarial Methods and Assumptions (continued)-

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The Health Care Trend Rates have been revised to an initial rate of -5.0%, based on actual premium decrease from 2014/15 to 2015/16, then 7.5% decreasing by 0.5% annually to an ultimate rate of 4.5%. Previously, the initial health care trend rate was 8.0%, decreasing by 1.0% annually to an ultimate rate of 3.0%. The UAAL is being amortized as a level dollar on an open basis for the implicit liability. The remaining amortization period at July 1, 2014 was not to exceed 30 years.

11. DEFINED BENEFIT PENSION PLANS:

Substantially all employees of the District are required by state law to belong to cost sharing, multiple employer, defined benefit pension plans administered by Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA), all of which are established and administered on in accordance with Minnesota Statutes. TRA's and PERA's defined benefit pension plans are tax qualified plans under section 40(a) of the Internal Revenue Code.

a. Plan Descriptions-

1. Teachers Retirement Association (TRA)-

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

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, or 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 University (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

2. General Employees Retirement Fund (GERF)-

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

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS (Continued):

a. Plan Descriptions (continued)-

All full time and certain part-time employees of the District other than teachers are covered by the General Employees retirement Fund (GERF). GERF members belong to either the Coordinated Plan (with Social Security coverage) or the Basic Plan (without Social Security coverage). The Basic Plan was closed to new members December 30, 1988 with new members after that time required to participate in the Coordinated Plan.

b. Benefits Provided-

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

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 by 2.5%.

GERF: 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% funding or have fallen below 80%, are given 1% increases.

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

1. TRA benefits-

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 Statutes 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 n 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. 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.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS Continued):

b. Benefits Provided (continued)-

1. TRA benefits (continued)-

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

With these provisions-

- a. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b. 3.0 percent per year early retirement reduction factors for all years under normal retirement age.
- c. Unreduced benefits for early retirement under a Rule of 90 provision (age plus allowable service equals 90 or more).

or

<b>Tier II</b>	<b>Step Rate Formula</b>	<b>Percentage</b>
<b>Basic</b>	Service years prior to July 1, 2006	2.7 percent per year
	All years after July 1, 2006	2.7 percent per year
<b>Coordinated</b>	Service years prior to July 1, 2006	1.7 percent per year
	All years after July 1, 2006	1.9 percent per year

Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4.0 to 5.4 percent per year. 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 the individuals who reach age 62 and have 30 or more years of service credit.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS (Continued):

b. Benefits Provided (continued)-

1. TRA benefits (continued)-

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon the death of the retiree-no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

2. GERP benefits-

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

<b>Method 1</b>	<b>Step Rate Formula</b>	<b>Percentage</b>
<b>Basic</b>	First ten years of service	2.2 percent per year
	All service years over ten	2.7 percent per year
<b>Coordinated</b>	First ten years of service	1.2 percent per year
	All service years over ten	1.7 percent per year

or

<b>Method 2</b>	<b>Step Rate Formula</b>	<b>Percentage</b>
<b>Basic</b>	All years of service	2.7 percent per year
<b>Coordinated</b>	All years of service	1.7 percent per year

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.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

c. Contributions-

1. TRA contributions-

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. Rates for each fiscal year were:

	Ending June 30, 2015		Ending June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

The District contributions for the plan's year ended June 30, 2016 was \$1,162,530, equal to the required contributions as set by State Statute.

2. GERS contributions-

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2015 and 2016. In calendar year 2015 and 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERS for the plan's fiscal year ended June 30, 2016, were \$412,971. The District's contributions were equal to the required contributions for each year as set by state statute.

d. Pension Costs-

1. TRA pension costs-

At June 30, 2016 the District reported a liability of \$17,846,578 for its proportionate share of TRA'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 to TRA in relation to the total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.2885% at the end of the measurement period and 0.3033% for the beginning of the year.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

1. TRA pension costs (continued)-

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

District's proportionate share of the net pension liability	\$ 17,846,578
State's proportionate share of the net pension liability associated with the district	2,189,139

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. Postretirement benefit adjustments are now assumed to be 2.0 percent annually with no increase to 2.5 percent projected.

For the year ended June 30, 2016, the District recognized pension expense of \$1,959,282. It also recognized \$387,012 as pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 16,941	\$ -
Changes in actuarial assumptions	1,371,927	-
Difference between projected and actual investment earnings	1,769,650	-
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	-	148,880
Prior year Contributions	( 1,098,227)	
Current Year Amortization of prior year amount	( 324,259)	(1,098,466)
Contributions paid to TRA subsequent to the measurement date	<u>1,162,530</u>	<u>-</u>
Change in Deferred Outflows and Inflows for the year ended June 30, 2016	\$ 2,898,562	\$( 949,586)
Balance at June 30, 2015	<u>2,651,434</u>	<u>4,393,865</u>
Balance at June 30, 2016	<u>\$ 5,549,996</u>	<u>\$ 3,444,279</u>

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

1. TRA pension costs (continued)-

The \$1,162,530 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 GERS pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2017	(\$21,797)
2018	(\$21,797)
2019	(\$21,797)
2020	\$1,008,573

2. GERS pension costs-

At June 30, 2016, the District reported a liability of \$4,918,211 for its proportionate share of the GERS'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, 2013, 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 0.0949%

For the year ended June 30, 2016, the District recognized pension expense of \$655,585 for its proportionate share of GERS's pension expense.



INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

2. GERP pension costs (continued)-

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between projected and actual economic experience	\$ -	\$ 247,961
Difference between projected and actual investment earnings	465,584	-
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	-	172,633
Prior year Contributions	( 413,811)	
Current Year Amortization of prior year amount	( 185,035)	( 316,680)
Contributions paid to GERP subsequent to the measurement date	<u>444,049</u>	<u>-</u>
Change in Deferred Outflows and Inflows for the year ended June 30, 2016	\$ 310,787	\$ 103,914
Balance at June 30, 2015	<u>967,443</u>	<u>1,266,721</u>
Total	<u>\$ 1,278,230</u>	<u>\$ 1,370,635</u>

The \$444,049 reported as deferred outflows of resources related to pensions resulting from District contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2017	(\$131,645)
2018	(\$155,448)
2019	(\$340,482)
2020	\$116,396

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

e. Actuarial Assumptions-

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and using the following actuarial assumptions.

<u>Assumptions</u>	<u>GERF</u>	<u>TRA</u>
Inflation	2.75% per year	3.0%
Active Member Payroll Growth	3.5% per year	3.75% based on years of service
Investment Rate of Return	7.9%	8.0%

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

Actuarial assumptions used in the June 30, 2015, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2015 for inflation and long-term rate of return.

The following changes in actuarial assumptions for TRA that affects the measurement of total liability for TRA since the prior measurement date. Postretirement benefit increases are now assumed to be 2.0 percent with no increase to 2.5 percent as was previously projected.

The following changes in actuarial assumptions for GERF occurred in 2015: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2015, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2035.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

e. Actuarial Assumptions (continued)-

The long-term expected rate of return on pension plan investments is 7.9% for GERP 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:

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

f. Discount Rate-

The discount rate used to measure the total pension liability was 8.0% for TRA and 7.9% for GERP. 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>
TRA Discount Rate	7.0%	8.0%	9.0%
District's proportionate share of the TRA net pension liability	\$ 27,164,802	\$ 17,846,578	\$ 10,070,251
GERP Discount Rate	6.9%	7.9%	8.9%
District's proportionate share of the GERP net pension liability	\$ 7,733,175	\$ 4,918,211	\$ 2,593,482

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

h. Pension Plan Fiduciary Net Position-

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](http://www.MinnesotaTRA.org). Alternatively, a copy of the report may be obtained by writing or calling TRA:

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

Detailed information about GERF's defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org). Alternatively, a copy of the report may be obtained by writing or calling PERA:

Public Employees Retirement Association  
60 Empire Drive #200  
St. Paul, Minnesota, 55103-2088  
(651) 296-7460 or 1-800-652-9026

12. DEFINED CONTRIBUTION PENSION PLAN STATEWIDE:

School board members of the District are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2016 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$1,061	\$1,061	5.0%	5.0%	5.0%

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. JOINT VENTURES:

a. Cable Channel 3 Television-

The District and the City of Worthington, Minnesota, entered into a joint powers agreement for the purposes of operating Worthington Cable 3 Television Public Access Channel on January 1, 1998. The agreement was amended as of March 1, 2002. The amended agreement includes Minnesota West Community and Technical College. The agreement provides that the District shall provide the Board with studio space for the operation of Cable Channel 3, shall contribute equipment that was located in the studio at the time of the agreement and an annual sum of no less than \$8,800. The City of Worthington, Minnesota, shall remit to the Board all franchise fees and subscriber payments which are collected by two local cable companies pursuant to the Franchise Agreement between the City, and the respective cable companies, except that the City will retain an amount equal to the amount expended by the City during the prior calendar year for cable franchise expenses, including attorney fees. In addition, the City will contribute to the Board all of the equipment owned by the City and currently located at the Senior High School television studio. The Minnesota West Community and Technical College will provide the Board with use of all broadcast time on the cable public access channel which had been previously reserved as the College's television time per month, with certain exceptions detailed in the agreement. In addition, the College shall make an annual payment of at least \$3,000 to the Board. The amounts remitted by the three participants approximates the amount budgeted by the Board, and no material surplus or deficit exists or is anticipated. The fiscal year of Cable Channel 3 is January 1<sup>st</sup> to December 31<sup>st</sup>. Audited financial statements were not available for the year ended December 31, 2015. However, internal statements were issued and reflected a positive financial position at year end. There were no related party transactions during the year.

b. Nobles County Integration Collaborative (NCIC)-

Independent School District No. 518-Worthington, Independent School District No. 511-Adrian, Independent School District No. 513-Brewster, Independent School District No. 516- Round Lake, Independent School District No. 514-Ellsworth, and Independent School District No. 505-Fulda entered into a joint powers agreement for the purpose of implementing the Nobles County Multi-District Integration Plan which was drafted by the Nobles County Multi-District Integration Council and submitted to the State of Minnesota in January, 2001. In 2012 Independent School District No. 330 Heron Lake-Okabena joined the Collaborative and in 2013 a consolidation of the Brewster and Round Lake districts occurred. The member Districts' shall transfer to the Board the initial and subsequent integration and achievement funds as established at the conception of the agreement. Grants received from private foundations, corporate donations, regional, state and federal grants relating to the implementation of the plan will be used in addition to the member districts' transfers to finance the program. Any surplus is returned to member districts' at the end of the fiscal year; therefore, no material surplus or deficit exists or is anticipated. Independent School District No. 518-Worthington was named the fiscal agent for the Collaborative and the audited financial information appears as an agency fund in these financial statements.

The Collaborative is required to issue a separate audited financial statement detailing their revenues, expenditures and financial position.

INDEPENDENT SCHOOL DISTRICT NO. 518  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

14. RELATED PARTY TRANSACTIONS:

During the normal course of business, the District purchases goods and services from employees of the District and sells goods and services to employees of the District. The amounts of such transactions are not material to the financial statements.

15. COMMITMENTS AND CONTINGENCIES:

a. Grants and Aids-

The District receives significant financial assistance from numerous federal, state and local government agencies in the form of grants and aid. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

b. Legal Claims-

The District has the usual and customary types of miscellaneous legal claims pending at year end, mostly of a minor nature and usually covered by insurance carried for that purpose.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016		2015	
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 2,225,915	\$ 2,367,735	\$ 141,820	\$ 2,448,543
Total local property tax levies	\$ 2,225,915	\$ 2,367,735	\$ 141,820	\$ 2,448,543
Other local and county revenues-				
County apportionment	\$ 25,690	\$ 34,907	\$ 9,217	\$ 20,792
Tuition and fees from patrons	200,500	191,185	(9,315)	199,795
Interest income	48,000	77,601	29,601	44,620
Petrofund tank removal assistance	-	56	56	6,520
Other local revenue	302,115	460,718	158,603	299,352
Total other local and county revenues	\$ 576,305	\$ 764,467	\$ 188,162	\$ 571,079
Revenues from state sources-				
Endowment fund apportionment	\$ 91,500	\$ 96,653	\$ 5,153	\$ 86,056
Department of Education aids-				
General education aid	28,764,472	29,800,938	1,036,466	28,021,249
Special education	2,925,000	3,630,532	705,532	3,399,205
Vocational and other education	614,500	575,010	(39,490)	685,009
Other appropriations by the state for replacement of local taxes-				
Market value aid	15,099	15,099	-	8,050
Disparity reduction aid and other	21,152	21,173	21	20,667
Total revenues from state sources	\$ 32,431,723	\$ 34,139,405	\$ 1,707,682	\$ 32,220,236
Revenues from federal sources-				
Federal aids through Minnesota				
Department of Education	\$ 836,464	\$ 785,246	\$ (51,218)	\$ 661,199
Federal aids through SWWC cooperative	401,277	464,228	62,951	344,261
Total revenues from federal sources	\$ 1,237,741	\$ 1,249,474	\$ 11,733	\$ 1,005,460
Sales and other conversion of assets-				
Sales of materials and supplies	\$ 25,150	\$ 92,349	\$ 67,199	\$ 16,840
Tuition revenue from other school districts	\$ 259,000	\$ 255,883	\$ (3,117)	\$ 283,122
Total revenues	\$ 36,755,834	\$ 38,869,313	\$ 2,113,479	\$ 36,545,280

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
District and school administration-				
School board expenses-				
Per diem	\$ 31,050	\$ 29,875	\$ 1,175	\$ 28,953
Employee benefits	6,985	5,369	1,616	4,341
Travel	7,500	4,317	3,183	5,364
Other	56,000	45,140	10,860	36,902
General administration-				
Superintendent salary	158,000	154,923	3,077	157,596
Administrative support salaries	38,500	39,999	(1,499)	38,513
Employee benefits	52,958	53,099	(141)	48,865
Travel and other	7,600	5,241	2,359	6,246
Building administration-				
Salaries	428,455	430,767	(2,312)	429,237
Employee benefits	157,081	139,143	17,938	139,212
Travel	660	315	345	140
Purchased services	101,600	62,253	39,347	70,981
Supplies and materials	30,900	14,600	16,300	17,201
Other	7,650	6,552	1,098	8,589
Capital outlay	9,086	6,723	2,363	-
Total district and school administration	\$ 1,094,025	\$ 998,316	\$ 95,709	\$ 992,140
District support services-				
District business services-				
Director of finance and personnel salary	\$ 81,500	\$ 81,498	\$ 2	\$ 79,671
Administrative support salaries	192,200	187,953	4,247	186,799
Employee benefits	155,510	111,877	43,633	88,180
Travel	8,900	3,955	4,945	5,538
Purchased services	75,000	62,702	12,298	47,971
Supplies and materials	7,500	3,251	4,249	6,017
Other	35,500	5,905	29,595	1,275
Capital outlay	2,800	3,760	(960)	-



INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
District support services (continued)-				
Other support services-				
Salaries	\$ 151,100	\$ 151,853	\$ (753)	\$ 145,775
Employee benefits	48,481	48,694	(213)	48,598
Travel	1,800	-	1,800	1,420
Contracted services-				
Printing and publishing	20,650	620	20,030	13,236
Legal	30,000	20,113	9,887	15,883
Data processing	124,500	78,027	46,473	54,227
Other	4,500	1,528	2,972	2,461
Supplies and materials	4,000	-	4,000	3,887
Capital outlay	12,604	18,565	(5,961)	4,675
Total district support services	<u>\$ 956,545</u>	<u>\$ 780,301</u>	<u>\$ 176,244</u>	<u>\$ 705,613</u>
Regular instruction-				
Salaries-				
Secondary teachers	\$ 4,817,418	\$ 4,820,094	\$ (2,676)	\$ 4,372,945
Elementary teachers	4,535,446	4,482,216	53,230	4,299,821
Kindergarten teachers	652,038	680,925	(28,887)	613,079
Education aides	1,007,245	936,080	71,165	904,834
Other	234,015	239,972	(5,957)	223,591
Employee benefits	3,294,374	3,174,141	120,233	2,982,298
Travel	44,836	25,797	19,039	25,082
Purchased services	150,775	155,347	(4,572)	148,593
Tuition to other schools	126,150	33,899	92,251	41,680
Pupil transportation	52,800	52,407	393	92,213
General supplies and materials	311,914	267,499	44,415	215,742
Instructional supplies and materials	505,342	550,345	(45,003)	321,174
Textbooks	24,686	9,537	15,149	177,711
Other	241,710	228,639	13,071	452,707
Capital outlay	267,882	306,238	(38,356)	182,726
Student activities-				
Salaries	427,048	440,713	(13,665)	417,711
Employee benefits	72,298	69,555	2,743	69,648
Travel	9,370	7,218	2,152	7,776
Utilities	9,500	4,834	4,666	8,266

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Regular instruction (continued)-				
Student activities (continued)-				
Purchased services	\$ 123,740	\$ 113,166	\$ 10,574	\$ 100,230
Pupil transportation	116,025	117,469	(1,444)	174,367
General supplies and materials	48,450	51,870	(3,420)	49,072
Equipment purchased	15,480	12,987	2,493	-
Other	4,965	1,785	3,180	4,149
Capital outlay	23,370	67,846	(44,476)	69,390
Total regular instruction	\$ 17,116,877	\$ 16,850,579	\$ 266,298	\$ 15,954,805
Vocational instruction-				
Salaries	\$ 373,680	\$ 366,296	\$ 7,384	\$ 350,814
Employee benefits	104,695	108,995	(4,300)	105,538
Travel	4,200	4,570	(370)	2,902
Purchased services	250	250	-	496
Pupil transportation	7,300	21,132	(13,832)	16,001
Tuition to other schools	17,200	7,482	9,718	6,887
General supplies and materials	1,825	1,975	(150)	2,778
Instructional supplies and materials	12,250	14,285	(2,035)	11,065
Other	1,000	749	251	13
Capital outlay	3,737	7,561	(3,824)	62,315
Total vocational instruction	\$ 526,137	\$ 533,295	\$ (7,158)	\$ 558,809
Exceptional instruction-				
Salaries-				
Teachers	\$ 2,504,627	\$ 2,470,382	\$ 34,245	\$ 2,371,569
Psychologists	180,153	180,153	-	131,680
Aides	1,455,764	1,419,666	36,098	1,367,867
Office	135,325	134,505	820	97,617
Employee benefits	1,275,355	1,219,911	55,444	1,209,483
Travel	16,300	20,226	(3,926)	19,637
Professional services	34,951	48,582	(13,631)	25,104

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Exceptional instruction (continued)-				
Tuition to other schools	\$ 158,700	\$ 86,947	\$ 71,753	\$ 143,621
Other purchased services	9,745	15,142	(5,397)	10,245
General supplies and materials	25,060	22,735	2,325	19,347
Instructional supplies and materials	39,670	110,138	(70,468)	37,206
Other	1,200	197	1,003	3,869
Capital outlay	12,550	13,620	(1,070)	1,175
Total exceptional instruction	<u>\$ 5,849,400</u>	<u>\$ 5,742,204</u>	<u>\$ 107,196</u>	<u>\$ 5,438,420</u>
Community education and services-				
Capital outlay	<u>\$ 9,700</u>	<u>\$ 7,747</u>	<u>\$ 1,953</u>	<u>\$ 14,506</u>
Instructional support services-				
Salaries-				
Assistant principal	\$ 299,883	\$ 301,016	\$ (1,133)	\$ 301,935
Media	224,839	224,927	(88)	215,778
Technology	209,700	207,701	1,999	207,171
Curriculum development	203,528	184,667	18,861	179,496
Staff development	156,742	153,203	3,539	188,157
Secretarial and other	432,127	448,593	(16,466)	414,095
Employee benefits	453,019	452,055	964	439,745
Travel	35,127	34,408	719	34,120
Professional services	76,380	85,106	(8,726)	66,902
Other purchased services	58,540	75,339	(16,799)	56,128
General supplies and materials	42,340	29,510	12,830	29,169
Instructional supplies and materials	91,700	31,255	60,445	78,023
Other	52,353	58,311	(5,958)	40,212
Capital outlay	49,451	48,131	1,320	44,748
Total instructional support services	<u>\$ 2,385,729</u>	<u>\$ 2,334,222</u>	<u>\$ 51,507</u>	<u>\$ 2,295,679</u>
Pupil support services-				
Guidance and counseling-				
Salaries	\$ 281,013	\$ 277,589	\$ 3,424	\$ 260,413
Employee benefits	77,908	78,642	(734)	70,265
Supplies and materials	3,554	2,949	605	3,557

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Pupil support services (continued)-				
Health services-				
Salaries	\$ 34,500	\$ 31,895	\$ 2,605	\$ 33,699
Employee benefits	12,325	11,205	1,120	11,606
Travel	400	194	206	164
Purchased services	130,000	127,242	2,758	65,890
General supplies and materials	2,900	3,617	(717)	2,142
Violence prevention-				
Salaries	38,500	37,000	1,500	35,800
Employee benefits	5,880	5,872	8	5,710
Purchased services	48,420	41,845	6,575	43,353
Supplies and materials	50	-	50	7
Transportation-				
Salaries	173,800	153,980	19,820	160,020
Employee benefits	48,020	45,573	2,447	43,385
Supplies and materials	1,000	2,325	(1,325)	124
Contracted services and public carriers	1,589,640	1,259,393	330,247	1,486,750
Other	92,850	26,201	66,649	26,278
Nobles County integration collaborative	769,433	769,433	-	714,080
Other support services-				
Supplies and materials	4,300	3,688	612	4,667
Total pupil support services	\$ 3,314,493	\$ 2,878,643	\$ 435,850	\$ 2,967,910

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Site, buildings and equipment-				
Plant operations and maintenance-				
Salaries	\$ 812,925	\$ 850,167	\$ (37,242)	\$ 795,640
Employee benefits	207,825	221,619	(13,794)	205,048
Travel	750	74	676	263
Repairs and maintenance service	335,400	194,272	141,128	247,737
Fuel for buildings	232,000	153,714	78,286	183,771
Utilities, except for fuel for buildings	637,400	596,748	40,652	551,555
Custodial supplies and materials	152,800	124,000	28,800	169,218
Other	125,300	20,702	104,598	71,085
Capital outlay-				
Operating capital	96,649	89,691	6,958	124,777
Deferred maintenance	82,910	78,380	4,530	67,936
Projects using committed or unrestricted funds	8,605,610	8,654,116	(48,506)	1,536,456
Health and safety	227,638	54,923	172,715	37,273
Disabled accessibility	-	1,382	(1,382)	-
Total site, buildings and equipment	\$ 11,517,207	\$ 11,039,788	\$ 477,419	\$ 3,990,759
Fiscal and other fixed cost programs-				
Fixed charges-				
Insurance and judgments	\$ 90,000	\$ 90,504	\$ (504)	\$ 80,733
Debt redemption-				
Certificate of participation principal	265,000	265,000	-	255,000
Certificate of participation interest	119,835	119,835	-	126,848
Certificate of participation other expense	2,400	2,200	200	2,297
Total fiscal and other fixed cost programs	\$ 477,235	\$ 477,539	\$ (304)	\$ 464,878
Total expenditures	\$ 43,247,348	\$ 41,642,634	\$ 1,604,714	\$ 33,383,519
Excess (deficit) of revenues over expenditures	\$ (6,491,514)	\$ (2,773,321)	\$ 3,718,193	\$ 3,161,761

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>			<u>2015</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
OTHER FINANCING SOURCES:				
Sale of capital assets	\$ <u>2,585</u>	\$ <u>2,143</u>	\$ <u>(442)</u>	\$ <u>10,969</u>
Total other financing sources	\$ <u>2,585</u>	\$ <u>2,143</u>	\$ <u>(442)</u>	\$ <u>10,969</u>
Net change in fund balances	\$ <u>(6,488,929)</u>	\$ <u>(2,771,178)</u>	\$ <u>3,717,751</u>	\$ <u>3,172,730</u>
FUND BALANCE, Beginning of year		<u>18,055,119</u>		<u>14,882,389</u>
FUND BALANCE, End of year		\$ <u>15,283,941</u>		\$ <u>18,055,119</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOOD SERVICE SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
<b>REVENUES:</b>				
Local sales and other revenues-				
Meals sold	\$ 372,300	\$ 392,189	\$ 19,889	\$ 369,822
Other local revenues	1,450	3,220	1,770	8,434
Total local sales and other revenues	\$ 373,750	\$ 395,409	\$ 21,659	\$ 378,256
State sources-				
State lunch and breakfast program aid	\$ 115,200	\$ 134,314	\$ 19,114	\$ 110,931
Total state sources	\$ 115,200	\$ 134,314	\$ 19,114	\$ 110,931
Federal sources-				
Regular lunch and breakfast	\$ 578,500	\$ 611,867	\$ 33,367	\$ 570,386
Free and reduced	870,000	916,158	46,158	841,481
Summer food program	90,000	84,640	(5,360)	95,350
Commodity rebates	2,000	117	(1,883)	354
Commodities used	165,000	174,971	9,971	165,373
Total federal sources	\$ 1,705,500	\$ 1,787,753	\$ 82,253	\$ 1,672,944
Total revenues	\$ 2,194,450	\$ 2,317,476	\$ 123,026	\$ 2,162,131
<b>EXPENDITURES:</b>				
Pupil support services-				
Salaries	\$ 664,695	\$ 682,376	\$ (17,681)	\$ 600,700
Employee benefits	205,376	201,122	4,254	188,794
Repairs and maintenance	10,500	7,290	3,210	7,120
Utilities	10,800	10,250	550	10,250
Other purchased services	50,525	46,894	3,631	48,194
General supplies and materials	84,200	76,533	7,667	68,087
Food	1,118,523	1,081,067	37,456	1,060,591
Equipment purchased	27,626	12,277	15,349	41,102
Other	1,130	812	318	943
Total pupil support services	\$ 2,173,375	\$ 2,118,621	\$ 54,754	\$ 2,025,781
Total expenditures	\$ 2,173,375	\$ 2,118,621	\$ 54,754	\$ 2,025,781
Net change in fund balances	\$ 21,075	\$ 198,855	\$ 177,780	\$ 136,350
FUND BALANCE, Beginning of year		591,662		455,312
FUND BALANCE, End of year		\$ 790,517		\$ 591,662

INDEPENDENT SCHOOL DISTRICT NO. 518  
SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
COMMUNITY SERVICES SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2016  
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 195,106	\$ 197,169	\$ 2,063	\$ 190,121
Total local property tax levies	\$ 195,106	\$ 197,169	\$ 2,063	\$ 190,121
Other local and county revenues-				
Tuition and fees from patrons	\$ 194,000	\$ 220,747	\$ 26,747	\$ 170,548
Other local revenues	66,425	120,452	54,027	108,067
Total other local and county revenues	\$ 260,425	\$ 341,199	\$ 80,774	\$ 278,615
Revenues from state sources-				
State aids from Department of Education-				
Vocational and other education	\$ 891,012	\$ 1,025,336	\$ 134,324	\$ 865,292
Other appropriations by the state for				
replacement of local taxes-				
Disparity and other	8,623	8,666	43	6,767
Total revenues from state sources	\$ 899,635	\$ 1,034,002	\$ 134,367	\$ 872,059
Revenues from federal sources-				
Federal aids through Minnesota				
Department of Education	\$ 140,326	\$ 134,889	\$ (5,437)	\$ 131,834
Total revenues from federal sources	\$ 140,326	\$ 134,889	\$ (5,437)	\$ 131,834
Sales and other conversion of assets-				
Sales of materials and supplies	\$ -	\$ 215	\$ 215	\$ 85
Total revenues	\$ 1,495,492	\$ 1,707,474	\$ 211,982	\$ 1,472,714



INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
Community education and services-				
Civic activities and general	\$ 165,926	\$ 196,966	\$ (31,040)	\$ 200,958
Early Childhood Family Education	187,674	204,017	(16,343)	176,026
21st Century Learning Center	-	-	-	6,638
Pathways Early Learning	139,000	139,315	(315)	98,145
School readiness	121,569	120,395	1,174	41,278
Preschool screening	15,555	16,291	(736)	17,436
Parent involvement	34,565	37,563	(2,998)	33,930
Youth programs	61,644	57,377	4,267	47,637
Adult education programs	718,825	804,368	(85,543)	783,020
Non-public school assistance-				
Textbooks and standardized tests	13,990	10,686	3,304	13,180
Total community education and services	\$ 1,458,748	\$ 1,586,978	\$ (128,230)	\$ 1,418,248
Pupil support services-				
Non-public school health services-				
Salaries	\$ 8,030	\$ 8,112	\$ (82)	\$ 6,769
Employee benefits	1,261	1,266	(5)	1,092
Other	95	46	49	39
Total pupil support services	\$ 9,386	\$ 9,424	\$ (38)	\$ 7,900
Total expenditures	\$ 1,468,134	\$ 1,596,402	\$ (128,268)	\$ 1,426,148
Net change in fund balances	\$ 27,358	\$ 111,072	\$ 83,714	\$ 46,566
FUND BALANCE, Beginning of year		236,779		190,213
FUND BALANCE, End of year		\$ 347,851		\$ 236,779

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

CAPITAL PROJECTS FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Other local and county revenues-				
Interest income	\$ 750	\$ 2,528	\$ 1,778	\$ 571
Total revenues	\$ 750	\$ 2,528	\$ 1,778	\$ 571
EXPENDITURES:				
Site, buildings and equipment-				
Buildings	\$ 400,000	\$ 435,219	\$ (35,219)	\$ -
Total site, buildings and equipment	\$ 400,000	\$ 435,219	\$ (35,219)	\$ -
Total expenditures	\$ 400,000	\$ 435,219	\$ (35,219)	\$ -
Excess (deficit) of revenues over expenditures	\$ (399,250)	\$ (432,691)	\$ (33,441)	\$ 571
OTHER FINANCING SOURCES (USES):				
Transfer (to) Debt Service fund	\$ -	\$ (849,124)	\$ (849,124)	\$ -
Net change in fund balances	\$ (399,250)	\$ (1,281,815)	\$ (882,565)	\$ 571
FUND BALANCE, Beginning of year		1,281,815		1,281,244
FUND BALANCE, End of year		\$ -		\$ 1,281,815

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	2016			2015
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies	\$ 1,975,200	\$ 2,003,551	\$ 28,351	\$ 2,002,667
Other local and county revenues-				
Interest income	\$ 3,500	\$ 5,777	\$ 2,277	\$ 3,510
Revenues from state sources-				
Appropriations by the state for				
replacement of local taxes-				
Homestead and agricultural credit aid	\$ 37,817	\$ 37,817	\$ -	\$ 20,467
Disparity and other	48,845	48,845	-	49,162
Total revenues from state sources	\$ 86,662	\$ 86,662	\$ -	\$ 69,629
Total revenues	\$ 2,065,362	\$ 2,095,990	\$ 30,628	\$ 2,075,806
EXPENDITURES:				
Debt redemption-				
Principal payment on bonds	\$ 1,500,000	\$ 1,500,000	\$ -	\$ 1,415,000
Interest expense	571,925	571,925	-	687,806
Other expense	2,000	77,433	(75,433)	495
Total debt redemption	\$ 2,073,925	\$ 2,149,358	\$ (75,433)	\$ 2,103,301
Total expenditures	\$ 2,073,925	\$ 2,149,358	\$ (75,433)	\$ 2,103,301
Excess (deficit) of revenues				
over expenditures	\$ (8,563)	\$ (53,368)	\$ (44,805)	\$ (27,495)
OTHER FINANCING SOURCES (USES):				
Debt issuance	\$ -	\$ 4,938,309	\$ 4,938,309	\$ -
Transfer from Capital Projects fund	-	849,124	849,124	-
Total other financing sources (uses)	\$ -	\$ 5,787,433	\$ 5,787,433	\$ -
Net change in fund balances	\$ (8,563)	\$ 5,734,065	\$ 5,742,628	\$ (27,495)
FUND BALANCE, Beginning of year		484,020		511,515
FUND BALANCE, End of year		\$ 6,218,085		\$ 484,020

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF FIDUCIARY NET POSITION

TRUST AND AGENCY FUNDS

JUNE 30, 2016

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2015)

	Trust Fund	Agency Funds	Totals	
	Private Purpose	Interdistrict		
	Trust Fund	Integration	2016	2015
ASSETS:				
Cash and investments	\$ 357,288	\$ 66,839	\$ 424,127	\$ 444,079
Prepaid items	-	10,000	10,000	10,390
Total assets	<u>\$ 357,288</u>	<u>\$ 76,839</u>	<u>\$ 434,127</u>	<u>\$ 454,469</u>
LIABILITIES:				
Salaries payable	\$ -	\$ 39,421	\$ 39,421	\$ 33,966
Accounts payable	1,190	37,418	38,608	18,661
Due to other school districts and governmental units	-	-	-	1,051
Total liabilities	<u>\$ 1,190</u>	<u>\$ 76,839</u>	<u>\$ 78,029</u>	<u>\$ 53,678</u>
NET POSITION:				
Held in trust	<u>356,098</u>	<u>-</u>	<u>356,098</u>	<u>400,791</u>
Total liabilities and net position	<u>\$ 357,288</u>	<u>\$ 76,839</u>	<u>\$ 434,127</u>	<u>\$ 454,469</u>

INDEPENDENT SCHOOL DISTRICT NO. 518  
SCHEDULES OF CHANGES IN FIDUCIARY NET POSITION

BUDGET AND ACTUAL

TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2016

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2015)

	<u>2016</u>			<u>2015</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
ADDITIONS:				
Other local and county revenues-				
Interest income	\$ 150	\$ 344	\$ 194	\$ 81
Other local revenues	<u>71,700</u>	<u>14,266</u>	<u>(57,434)</u>	<u>44,132</u>
Total other local and county revenues	<u>\$ 71,850</u>	<u>\$ 14,610</u>	<u>\$ (57,240)</u>	<u>\$ 44,213</u>
Total revenues	<u>\$ 71,850</u>	<u>\$ 14,610</u>	<u>\$ (57,240)</u>	<u>\$ 44,213</u>
DEDUCTIONS:				
Other pupil support	<u>\$ 50,000</u>	<u>\$ 59,303</u>	<u>\$ (9,303)</u>	<u>\$ 51,441</u>
Total expenditures	<u>\$ 50,000</u>	<u>\$ 59,303</u>	<u>\$ (9,303)</u>	<u>\$ 51,441</u>
Change in net position	<u><u>\$ 21,850</u></u>	<u><u>\$ (44,693)</u></u>	<u><u>\$ (66,543)</u></u>	<u><u>\$ (7,228)</u></u>
NET POSITION, Beginning of year		<u>400,791</u>		<u>408,019</u>
NET POSITION, End of year		<u><u>\$ 356,098</u></u>		<u><u>\$ 400,791</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2016</u>
INTERDISTRICT INTEGRATION:				
Assets-				
Cash	\$ 39,856	\$ 983,537	\$ 956,554	\$ 66,839
Prepaid items	<u>9,190</u>	<u>10,000</u>	<u>9,190</u>	<u>10,000</u>
Total assets	<u>\$ 49,046</u>	<u>\$ 993,537</u>	<u>\$ 965,744</u>	<u>\$ 76,839</u>
Liabilities-				
Salaries and employee benefits payable	\$ 33,966	\$ 39,421	\$ 33,966	\$ 39,421
Accounts payable	14,029	37,418	14,029	37,418
Due to other school districts and governmental units	<u>1,051</u>	<u>-</u>	<u>1,051</u>	<u>-</u>
Total liabilities	<u>\$ 49,046</u>	<u>\$ 76,839</u>	<u>\$ 49,046</u>	<u>\$ 76,839</u>

INDEPENDENT SCHOOL DISTRICT NO. 518  
SCHEDULES OF CHANGES IN CAPITAL ASSETS  
FOR THE YEAR ENDED JUNE 30, 2016

	Balance June 30, 2015	Additions	Transfers	Retirements	Balance June 30, 2016
<b>CAPITAL ASSETS:</b>					
Land	\$ 482,285	\$ 3,026,837	\$ -	\$ -	\$ 3,509,122
Land improvements	2,179,842	1,233,300	-	-	3,413,142
Buildings	36,992,206	4,570,246	822,747	-	42,385,199
Equipment	10,090,385	955,381	-	(561,058)	10,484,708
Vehicles	276,115	-	-	-	276,115
Construction in progress	822,747	-	(822,747)	-	-
Total capital assets	<u>\$ 50,843,580</u>	<u>\$ 9,785,764</u>	<u>\$ -</u>	<u>\$ (561,058)</u>	<u>\$ 60,068,286</u>
<b>CAPITAL ASSETS BY SOURCE:</b>					
General and special revenue funds	\$ 13,292,788	\$ 9,785,764	\$ -	\$ (561,058)	\$ 22,517,494
General obligation bonds	36,330,306	-	-	-	36,330,306
Capital leases	508,370	-	-	-	508,370
Federal grants	712,116	-	-	-	712,116
Total capital assets by source	<u>\$ 50,843,580</u>	<u>\$ 9,785,764</u>	<u>\$ -</u>	<u>\$ (561,058)</u>	<u>\$ 60,068,286</u>
<b>CAPITAL ASSETS BY FUNCTION AND ACTIVITY:</b>					
Administration	\$ 250,864	\$ 8,911	\$ (2,553)	\$ (4,417)	\$ 252,805
Instruction	7,463,138	433,756	(90,235)	(445,529)	7,361,130
Instructional support services	1,050,005	90,017	65,525	(59,852)	1,145,695
Pupil support services	324,616	29,728	231	(11,920)	342,655
Food service	566,020	3,197	-	(9,480)	559,737
Community education and services	162,401	17,127	21,949	(11,662)	189,815
Site, buildings and equipment	41,026,536	9,203,028	5,083	(18,198)	50,216,449
Total capital assets by function and activity	<u>\$ 50,843,580</u>	<u>\$ 9,785,764</u>	<u>\$ -</u>	<u>\$ (561,058)</u>	<u>\$ 60,068,286</u>

INDEPENDENT SCHOOL DISTRICT NO. 518  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS FOR  
OTHER POSTEMPLOYMENT BENEFITS PLAN

JUNE 30, 2016, 2015, 2014, 2013, 2012, 2011, 2010 AND 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/2009	\$ -	\$ 644,836	\$( 644,836)	0.0%	\$ 11,124,473	5.8%
06/30/2010	\$ -	\$ 644,836	\$( 644,836)	0.0%	\$ 12,074,815	5.3%
06/30/2011	\$ -	\$ 529,053	\$( 529,053)	0.0%	\$ 12,955,001	4.1%
06/30/2012	\$ -	\$ 529,053	\$( 529,053)	0.0%	\$ 13,762,583	3.8%
06/30/2013	\$ -	\$ 750,522	\$(750,522)	0.0%	\$ 14,144,577	5.3%
06/30/2014	\$ -	\$ 750,522	\$(750,522)	0.0%	\$ 14,882,409	5.0%
06/30/2015	\$ -	\$ 818,958	\$(818,958)	0.0%	\$ 16,785,140	4.9%
06/30/2016	\$ -	\$ 818,958	\$(818,958)	0.0%	\$ 17,815,124	4.6%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ -	0.00%
2010	-	0.00%
2011	-	0.00%
2012	-	0.00%
2013	-	0.00%
2014	-	0.00%
2015	-	0.00%
2016	-	0.00%



INDEPENDENT SCHOOL DISTRICT NO. 518

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY

AND EMPLOYER CONTRIBUTIONS

Schedule of Proportionate Share of Net Pension Liability

Actuarial Valuation Date		Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered- Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30,	Plan					
2014	TRA	0.3033%	\$ 13,975,846	\$ 14,002,116	99.81%	81.50%
	PERA	0.0998%	4,688,104	5,266,617	89.02%	78.70%
2015	TRA	0.2885%	\$ 17,846,578	\$ 15,031,466	118.73%	76.80%
	PERA	0.0949%	4,918,211	5,716,654	86.03%	78.20%

Schedule of Employer Contributions

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)
June 30,	Plan					
2015	TRA	\$ 1,112,088	\$ 1,112,088	\$ -	\$ 15,031,466	7.40%
	PERA	415,104	415,104	-	5,716,654	7.26%
2016	TRA	\$ 1,176,217	\$ 1,176,217	\$ -	\$ 15,874,765	7.41%
	PERA	447,914	447,914	-	6,082,483	7.36%

# DREALAN KVILHAUG HOEFKER & Co., P.A.



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

To the Members of the School Board  
Independent School District No. 518  
Worthington, Minnesota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 518 (the 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 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies. The finding is indicated as item 2016-1.

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

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2016-001.

## **District's Response to Findings**

Independent School District No. 518's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **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.

This report is intended solely for the information and use of the School Board, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dreelan Kvithaug Hoefler & Co., P.A.*

Worthington, Minnesota  
October 10, 2016



# DREALAN KVILHAUG HOEFKER & Co., P.A.



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### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Members of the School Board  
Independent School District No. 518  
Worthington, Minnesota

#### **Report on Compliance for Each Major Federal Program**

We have audited Independent School District No. 518's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

#### ***Opinion on Each Major Federal Program***

In our opinion, The District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item, 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

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

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

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

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

*Drealar Krilhaus Hofko & Co., P.A.*

Worthington, Minnesota  
October 10, 2016



INDEPENDENT SCHOOL DISTRICT NO. 518  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:		
Pass-through program from Minnesota Department of Education-		
Nutrition Cluster:		
School Breakfast	10.553*	\$ 357,204
School Lunch	10.555*	1,082,291
After School Snack	10.555*	21,491
Commodities Distribution (Note B)	10.555*	174,971
Summer Food Service program	10.559*	<u>84,640</u>
Total Nutrition Cluster		\$ <u>1,720,597</u>
Fresh Fruits and Vegetables	10.582	\$ 67,040
Commodity Cash Rebate Program	10.S6209	<u>117</u>
Total U.S. Department of Agriculture		\$ <u>1,787,754</u>
U.S. Department of Education:		
Pass-through programs from Minnesota Department of Education-		
Adult Basic Education	84.002	\$ <u>35,851</u>
English Language/Civics Appropriations	84.002A	\$ <u>47,676</u>
Title VI, Part B Rural and Low Income Schools	84.358	\$ <u>13,174</u>
English Language Acquisition	84.365	\$ <u>97,528</u>
Teacher and Principal Training and Recruiting	84.367	\$ <u>111,045</u>
Special Education Cluster:		
Special Education	84.027	\$ 376,639
Special Education Coordinated Early Intervening Services	84.027	75,324
Special Education Preschool Grants	84.173	<u>12,264</u>
Total Special Education Cluster		\$ <u>464,227</u>
Title I:		
Title I Grants to LEA's	84.010	\$ <u>563,499</u>
Total Title I		\$ <u>563,499</u>
Total U.S. Department of Education		\$ <u>1,333,000</u>
U.S. Department of Health & Human Services:		
Pass-through programs from Minnesota Department of Health & Human Services-		
Refugee Social Services ABE	93.566	\$ 16,569
Refugee Social Services Youth Development	93.566	<u>22,819</u>
Total U.S. Department of Health & Human Services		\$ <u>39,388</u>
Total expenditures of Federal Awards		\$ <u>3,160,142</u>

\*Denotes major program

The notes to the schedule of expenditures of federal awards are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 518  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A-BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Independent School District No. 518 under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Independent School District No. 518, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Independent School District No. 518.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Independent School District No. 518 has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C-OTHER UNIFORM GUIDANCE INFORMATION:

For the year ended June 30, 2016, Independent School District No. 518 had no expenditures in the form of no sub-recipients, no federally provided insurance in effect, and no loans or loan guarantees outstanding.

NOTE D-COMMODITY DISTRIBUTION:

Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE E-PROGRAM NUMBERS

The individual grant identification numbers assigned by the pass-through agencies are unknown.

INDEPENDENT SCHOOL DISTRICT NO. 518  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

A. SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of Independent School District No. 518.
2. Significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. There were no instances of noncompliance material to the financial statements of Independent School District No. 518, which would be required to be reported in accordance with *Government Auditing Standards*, that were disclosed during the audit.
4. Significant deficiencies relating to the audit of the major federal awards programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report on compliance for the major federal award programs for Independent School District No. 518 expresses an unmodified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for Independent School District No. 518 are reported in Part C of this Schedule.
7. The programs tested as major programs include:

Child Nutrition Cluster-

School Breakfast	CFDA No. 10.553
National School Lunch	CFDA No. 10.555
Commodity Distribution Program	CFDA No. 10.555
Summer Food Service Program for Children	CFDA No. 10.559

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Independent School District No. 518 was determined to be a low-risk auditee.



INDEPENDENT SCHOOL DISTRICT NO. 518  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

B. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2016-1.	Condition:	The District has a lack of segregation of duties in the financial department.
	Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
	Effect:	As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
	Cause:	The District has limited personnel available to perform accounting duties.
	Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2017
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT:

SIGNIFICANT DEFICIENCIES

2016-001. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559

Condition:	The District has limited personnel available to perform accounting duties.
Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

INDEPENDENT SCHOOL DISTRICT NO. 518  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2016

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT (Continued):

SIGNIFICANT DEFICIENCIES (continued)

2016-001. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559 (continued)

Effect:	As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
Cause:	The District has limited personnel available to perform accounting duties.
Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2017
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

INDEPENDENT SCHOOL DISTRICT NO. 518  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015

A. FINDINGS – FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2015-1.	Condition:	The District has a lack of segregation of duties in the financial department.
	Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
	Effect:	As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
	Cause:	The District has limited personnel available to perform accounting duties.
	Recommendation:	This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2015
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT:

2015-001.	Title I, CFDA No. 84.010, 84.398 Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559 Special Education Cluster, CFDA No.'s 84.027 and 84.173	
	Condition:	The District has limited personnel available to perform accounting duties.
	Criteria:	Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

INDEPENDENT SCHOOL DISTRICT NO. 518  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS  
AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCIES (Continued)

2015-001. Title I, CFDA No. 84.010, 84.398  
Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559  
Special Education Cluster, CFDA No.'s 84.027 and 84.173 (continued)

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.

Cause: The District has limited personnel available to perform accounting duties.

Recommendation: This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent
4. *Planned Completion Date for the Corrective Action:* June 30, 2016
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

2015-002. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559

Condition: The payroll was tested in the nutrition program. There were four instances in which the overtime rate was applied incorrectly to the submitted hours worked.

Criteria: Internal controls provide for review of payroll reports which provides reasonable assurance that payroll is processed accurately.

Effect: As a result of the incorrect pay rate application the affected employees were under paid for the overtime hours submitted.

INDEPENDENT SCHOOL DISTRICT NO. 518  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2015

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT (Continued):

SIGNIFICANT DEFICIENCIES (continued)

2015-002. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559 (continued)

Cause: The District has computerized the payroll and time keeping systems and the over-time rates for the affected employee's had not been updated when their regular salaries were adjusted.

Recommendation: It is recommended that the accounting department supervisor review the pay rate reports when salary adjustments are processed to ensure that salaries are processing as intended.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding:* The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement:* There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action:* John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action:* June 30, 2016
5. *Plan to Monitor Completion of Corrective Action:* John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

# DREALAN KVILHAUG HOEFKER & Co., P.A.



Member  
Division for CPA Firms AICPA

## CERTIFIED PUBLIC ACCOUNTANTS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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MARILYN B. McDOWELL, CPA  
CINDY M. PENNING, CPA

### INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE 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. 518  
Worthington, 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 Independent School District No. 518, 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 Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for miscellaneous provisions because the district did not have any miscellaneous provisions activity during the current reporting period.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 518 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 Independent School District No. 518'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.

*Drealan Kvilhaug Hoefker & Co., P.A.*

Worthington, Minnesota  
October 10, 2016

INDEPENDENT SCHOOL DISTRICT NO. 518

LEGAL COMPLIANCE

SCHEDULE OF FINDINGS AND RESPONSES ON COMPLIANCE WITH MINNESOTA

STATUTES

FOR THE YEAR ENDED JUNE 30, 2016

CURRENT AUDIT

FINDINGS:

No findings

INDEPENDENT SCHOOL DISTRICT NO. 518

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2016



## INDEPENDENT SCHOOL DISTRICT NO. 518

## UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

June 30, 2016							
	AUDIT	UFARS	Difference		AUDIT	UFARS	Difference
<b><u>01 GENERAL FUND</u></b>				<b><u>06 BUILDING</u></b>			
Total Revenue	\$ 38,869,313	\$ 38,869,313	\$ -	Total Revenue	\$ 2,528	\$ 2,528	\$ -
Total Expenditures	41,642,634	41,642,633	1	Total Expenditures	435,219	435,219	-
Nonspendable:				Nonspendable:			
460 Nonspendable Fund Balance	394,970	394,970	-	460 Nonspendable Fund	-	-	-
Restricted/Reserve:				Restricted/Reserve:			
403 Staff Development	37,354	37,354	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	418,399	418,399	-	409 Alternative Facility	-	-	-
406 Health & Safety	145,489	145,489	-	413 Projects Funded by Cop	-	-	-
407 Capital Projects Levy	-	-	-	Restricted:			
408 Cooperative Revenue	-	-	-	464 Restricted Fund Balance	-	-	-
411 Severance Pay	-	-	-	Unassigned:			
413 Project Funded by Cop	-	-	-	463 Unassigned Fund Balance	-	-	-
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-	<b><u>07 DEBT SERVICE</u></b>			
417 Taconite Building Maint	-	-	-	Total Revenue	2,095,990	2,095,991	(1)
423 Certain Teacher Programs	-	-	-	Total Expenditures	2,149,358	2,149,358	-
424 Operating Capital	629,113	629,113	-	Nonspendable:			
426 \$25 Taconite	-	-	-	460 Nonspendable Fund	-	-	-
427 Disabled Accessibility	64,511	64,511	-	Restricted/Reserve:			
428 Learning & Development	-	-	-	425 Bond Refundings	5,710,494	5,710,494	-
434 Area Learning Center	361,297	361,297	-	451 QZAB Payments	-	-	-
435 Contracted Alt. Programs	-	-	-	Restricted:			
436 State Approved Alt. Program	-	-	-	464 Restricted Fund Balance	507,591	507,591	-
438 Gifted & Talented	50,788	50,788	-	Unassigned:			
441 Basic Skills Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
445 Career and Tech Programs	-	-	-				
446 First Grade Preparedness	-	-	-	<b><u>08 TRUST</u></b>			
449 Safe Schools Levy	35,452	35,452	-	Total Revenue	14,610	14,610	-
450 Prekindergarten	-	-	-	Total Expenditures	59,303	59,303	-
451 QZAB Payments	-	-	-	422 Net Assets	356,098	356,098	-
452 OPEB Liab not in Trust	-	-	-				
453 Unfnded Sev & Retiremt	-	-	-	<b><u>20 INTERNAL SERVICE</u></b>			
Restricted:				Total Revenue	-	-	-
464 Restricted Fund Balance	49,098	49,098	-	Total Expenditures	-	-	-
Committed:				422 Net Assets	-	-	-
418 Committed For Separation	193,789	193,789	-				
461 Committed Fund Balance	-	-	-	<b><u>25 OPEB Revocable Turst Fund</u></b>			
Assigned:				Total Revenue	-	-	-
462 Assigned Fund Balance	2,500,000	2,500,000	-	Total Expenditures	-	-	-
Unassigned:				422 Net Assets	-	-	-
422 Unassigned Fund Balance	10,403,681	10,403,681	-				
<b><u>02 FOOD SERVICE</u></b>				<b><u>45 OPEB Irrevocable Turst Fund</u></b>			
Total Revenue	2,317,476	2,317,476	-	Total Revenue	-	-	-
Total Expenditures	2,118,621	2,118,621	-	Total Expenditures	-	-	-
Nonspendable:				422 Net Assets	-	-	-
460 Nonspendable Fund Balance	88,156	88,156	-				
Restricted:				<b><u>47 OPEB Debt Service Fund</u></b>			
452 OPEB Liab not in Trust	-	-	-	Total Revenue	-	-	-
464 Restricted Fund Balance	702,361	702,361	-	Total Expenditures	-	-	-
Unassigned:	-	-	-	Nonspendable:			
Unreserved:				460 Nonspendable Fund	-	-	-
463 Unassigned Fund Balance	-	-	-	Restricted:			
<b><u>04 COMMUNITY SERVICE</u></b>				464 Restricted Fund Balance	-	-	-
Total Revenue	1,707,474	1,707,474	-	Unassigned:			
Total Expenditures	1,596,402	1,596,402	-	463 Unassigned Fund Balance	-	-	-
Nonspendable:							
460 Nonspendable Fund Balance	12,667	12,667	-				
Restricted/Reserve:							
426 \$25 Taconite	-	-	-				
431 Community Education	47,205	47,205	-				
432 E.C.F.E.	46,454	46,454	-				
444 School Readiness	28,068	28,068	-				
447 Adult Basic Education	212,418	212,418	-				
452 OPEB Liab not in Trust	-	-	-				
Restricted:							
464 Restricted Fund Balance	1,039	1,040	(1)				
Unassigned:							
463 Unassigned Fund Balance	-	-	-				