

**Independent School District No. 47  
Sauk Rapids, Minnesota**

**Financial Statements**

**June 30, 2016**



**Independent School District No. 47**  
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**Independent School District No. 47  
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**Independent School District No. 47  
Board of Education and Administration  
June 30, 2016**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Mark Hauck	Chairperson	December 31, 2016
Tracey Fioreck	Vice Chairperson	December 31, 2016
Phillip Rogholt	Clerk	December 31, 2018
Robyn Holthaus	Treasurer	December 31, 2018
Lisa Braun	Director	December 31, 2018
Tracy Morse	Director	December 31, 2016
Jan Solarz	Director	December 31, 2016
<u>Administration</u>		
Daniel Bittman	Superintendent	
Kim Eisenschenk	Business Manager	
JoAnn Landwehr	Business Office Coordinator	



## Independent Auditor's Report

BergankDV, Ltd.

To the School Board  
Independent School District No. 47  
Sauk Rapids, 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. 47, Sauk Rapids, Minnesota, as of and for the year ended June 30, 2016, and the related notes to 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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## **Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 47, Sauk Rapids, Minnesota, as of June 30, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), 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 accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 O.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 financial statements.



## **Other Matters**

### *Other Information*

The accompanying supplementary information identified in the Table of Contents 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 accompanying supplementary information 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of the District's internal control over financial reporting and 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.

A handwritten signature in black ink that reads "BergankDV, Ltd." in a cursive, slightly stylized font.

St. Cloud, Minnesota  
October 31, 2016

**Independent School District No. 47**  
**Management's Discussion and Analysis**  
**June 30, 2016**

As management of Independent School District No. 47 Sauk Rapids-Rice Schools (the "District"), we offer readers of our financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2016. All amounts, unless otherwise indicated, are expressed in thousands of dollars. Certain comparative information between the current year (2015-2016) and the prior year (2014-2015) is required to be presented in the Management's Discussion and Analysis (MD&A).

**Financial Summary**

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$16,824 (net position).
- The District's total net position increased by \$6,526. The increase was the result of several different factors. The District refunded our only outstanding General Obligation bond during the year which improved our net position as well as reduced our restriction for Debt Service. Also due to a change in accounting principle last fiscal year, by implementing GASB 68 and 71, Pension Liabilities for School District employees, each individual District reported its share of pension obligation. This fiscal year this deferred inflow related to pension liability decreased dramatically from the previous year and it did not have as significant of an effect on the Statement of Net Position.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$29,679 an overall increase of \$4,368. This increase was made up several different components. The unassigned fund balance in the General Fund increased by \$3,886. Increases were also noted in the General Fund, committed and assigned fund balance categories. These improvements were mainly due to increases in state funding and student enrollment; additional dollars committed to fund severance payments in future years, as well as increases in a fund balance that provides for department carryover funds and third party special education revenue that will be used for future special education related personnel additions. The District again experienced an increase in student growth, which provided additional revenue in the form of General Education Aid. This additional revenue, combined with an increase in special education revenue, allowed the General Fund, fund balance to increase by \$4,117. The combined other nonmajor funds and the debt service fund also experienced increases over the balances from a year ago.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund was \$16,037, which equates to 38.03% of total General Fund expenditures and is equivalent to more than four months of operating expenditures. Although the unassigned fund balance increased by \$3,886, the projected increase is earmarked to; continue to meet referendum promises made to the community, fund several new staffing positions and continue to support our Districtwide technology initiative designed to provide equal access and opportunity to all Sauk Rapids-Rice students.



# **Independent School District No. 47 Management's Discussion and Analysis**

## **Financial Summary**

- The General Fund includes a committed fund balance for severance payments in the amount of \$2,304, which increased by \$173 this fiscal year. The District plans to fully fund its severance liability by building up this committed fund balance account with the intent to fund future severance payments from this commitment (see Note 6).

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The MD&A is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the differences between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related net cash flows. Thus, revenues and expenses are reported in the Statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the District that are principally supported by state aid-formula, grants, and local property taxes. The governmental activities include general school operations, food service operations, community service operations, and capital projects. The government-wide financial statements can be found on pages 20 and 21 of this report.

### **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated from specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

### **Governmental Funds**

Governmental funds are used to account for basic services and serve essentially the same function as those reported in governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

## **Independent School District No. 47 Management's Discussion and Analysis**

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds can be found on page 25 of this report. In addition, the Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds can be found on page 23 of this report.

### **Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds and is handled on the accrual-basis accounting method as well.

The basic fiduciary fund financial statements can be found on page 27 of this report.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found on pages 29 to 62 of this report.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a district's financial position. In the case of the District, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$16,824 at the close of the most recent fiscal year (see Table A-1); this was an increase of \$6,526 over the previous year due to a bond refunding and a smoothing out of the additional liability reported in the previous year as the result of the implementation of GASB 68 and 71 which had a dramatic effect on the District's Net Position last fiscal year.

The largest portion of the District's net position is reflected in its investment in capital assets (e.g., land, buildings, and equipment). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the District's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The current fiscal year marked an increase in the state funded per pupil unit general education formula allowance. The District did take advantage of Local Optional Revenue provided by the legislature. This funding source, made up of both a levy and an aid component, provided additional funds for district use. This revenue source along with an ongoing operating referendum has provided the District financial stability so that it will be able to focus on aligning class sizes and restoring other areas previously reduced during significant budget cuts. In the last nine years, General Fund revenues exceeded expenditures, fund balance has improved, and enrollment continues to increase.

## **Independent School District No. 47 Management's Discussion and Analysis**

Although the General Fund, fund balance increased at the end of each of the last nine fiscal years, the District still finds itself particularly dependent on the State of Minnesota and its economic condition. Changes made during a legislative session can have a significant impact on the District's cash flow situation. As the State Legislature has attempted in the past to balance the state budget, they have chosen to borrow from school districts to meet their cash flow obligations. This action, taken by the State of Minnesota, has in turn forced school districts to either borrow to fulfill local cash flow needs, or maintain higher fund balances to meet cash flow obligations, in case the State of Minnesota chooses to borrow from districts. Fortunately in recent years, the District has maintained sufficient cash flow reserves so that it has not had to borrow funds to meet its financial obligations. Currently the aid shift is at a ratio of 90.0/10.0%, the minimum statutory shift set forth in law. During the peak of the State's economic downturn, the aid shift was being funded at a 64.3%/35.7% level. As a result, the District has worked diligently to keep fund balance at an adequate level to ensure it would not have to borrow in tough economic times.

In previous years, the District found itself having difficulty providing similar programming compared to other neighboring Districts and as a result sought voter approved operating referendum authority, which was approved in November 2012. This referendum funding was used to add back programs and services that were lost in previous budget reductions and provide stability to the budget as promised to resident tax-payers. The referendum promises made were to; protect District programs from further reductions, preserve student course offerings, restore bus transportation for all district resident students, and improve class-size ratios where and when possible. The District also remains committed to improving and maintaining technology District wide. At the end of the 2013-2014 school year, the District embarked on a three-phased 1:1 technology initiative. This initiative was designed to provide equal access and opportunity for all students by providing technology devices from Early Childhood through Graduation for Sauk Rapids-Rice students. The first phase of this plan was completed during the 2014-2015 school year. Phase II of the plan was completed during the 2015-2016 school year and the final Phase III has been approved and funded through a capital lease purchase in June 2016 and will be implemented in the 2016-2017 school year. On-going lease costs will now be budgeted for, and funded, from the Districts fund balance reserves on an annual basis.

These significant events have resulted in the following:

- The District has ensured it financial stability by planning to increase fund balance in the current year to adequate levels allowing it to be able to withstand the volatility of the District's major funding source, the State of Minnesota. This fund balance will allow the District to focus on achieving and maintaining referendum promises made to tax-payers upon the successful operating referendum vote in November 2012.
- The District is in the midst of fulfilling referendum promises made to taxpayers by continuing to provide the following; bus transportation to all resident students, adding back programs when possible and adding additional staff in a measured way to maintain and lower class sizes when able. The District has also made a commitment to preserving and enhancing current programming with referendum and Local Optional Revenue funds.
- Technology infrastructure improvements have been completed and implementation of a 1:1 technology initiative is in its final phase District-wide.

**Independent School District No. 47  
Management's Discussion and Analysis**

**Statement of Net Position  
As of June 30, 2016  
Table A-1**

	Governmental Activities		Total Percentage Change 2016-2015
	2016	2015	
<b>Assets</b>			
Total current assets	\$ 44,154	\$ 39,643	11.38%
Total capital assets	60,614	62,134	-2.45%
Total assets	<u>104,768</u>	<u>101,777</u>	<u>2.94%</u>
<b>Deferred Outflows of Resources</b>			
	<u>5,211</u>	<u>3,992</u>	<u>0.00%</u>
Total assets and deferred outflows of resources	<u>\$ 109,979</u>	<u>\$ 105,769</u>	<u>3.98%</u>
<b>Liabilities</b>			
Current liabilities	\$ 11,421	\$ 11,069	3.18%
Long-term liabilities	69,681	69,500	0.26%
Total liabilities	<u>81,102</u>	<u>80,569</u>	<u>0.66%</u>
<b>Deferred Inflows of Resources</b>			
	<u>12,053</u>	<u>14,901</u>	<u>-19.11%</u>
<b>Net Position</b>			
Net investment in capital assets	13,544	11,170	21.25%
Restricted amounts	5,842	6,174	-5.38%
Unrestricted amounts	(2,562)	(7,046)	-63.64%
Total net position	<u>16,824</u>	<u>10,298</u>	<u>63.37%</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 109,979</u>	<u>\$ 105,768</u>	<u>3.98%</u>

The District's combined total position was \$109,979 on June 30, 2016. This was an increase of 3.98% over the prior year (see table A-1). This increase in total assets was mainly due to increased enrollment and an increase in the formula allowance for General Education, and increases in Special Education funding.

**Governmental Activities**

Governmental activities increased the District's net position by \$6,526. With an increase in both enrollment and the per pupil formula allowance, revenues have surpassed expenditures again in the current year, improving the District's net position exclusive of an accounting change for pension liabilities reporting that began last fiscal year.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures and Change in Fund Balances for the General Fund and the Debt Service Fund, of which both are considered to be major funds. Data from the other two funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the supplementary information section of this report beginning on page 70.

**Independent School District No. 47  
Management's Discussion and Analysis  
June 30, 2016**

The following Table A-2 presents the change in net position of the District:

**Change in Net Position  
Table A-2**

	Governmental Activities for the Fiscal Year Ended June 30,		Total Percentage Change
	2016	2015	2016-2015
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 3,753	\$ 3,848	-2.47%
Operating grants and contributions	12,340	11,251	9.68%
Capital grants and contributions	776	754	2.92%
General revenues			
Property taxes	8,773	7,853	11.72%
State aid-formula grants	28,759	26,569	8.24%
Other	368	473	-22.20%
Investment income	103	14	635.71%
Gain on sale of assets	-	-	0.00%
Total revenues	<u>54,872</u>	<u>50,762</u>	<u>8.10%</u>
<b>Expenditures</b>			
Administration	1,573	1,485	5.93%
District support services	1,392	1,260	10.48%
Elementary and secondary regular education	16,787	14,933	12.42%
Vocational education instruction	570	533	6.94%
Special education instruction	8,636	7,472	15.58%
Instructional support services	3,043	3,266	-6.83%
Pupil support services	4,249	3,860	10.08%
Sites and buildings	4,608	4,611	-0.07%
Fiscal and other fixed cost programs	126	152	-17.11%
Food service	2,212	2,161	2.36%
Community service	1,155	1,104	4.62%
Unallocated depreciation	1,841	1,937	-4.96%
Interest and fiscal charges on long-term debt	2,154	2,339	-7.91%
Total expenditures	<u>48,346</u>	<u>45,113</u>	<u>7.17%</u>
Increase in net position	6,526	5,649	15.52%
Beginning of year net position	<u>10,298</u>	<u>28,950</u>	<u>-64.43%</u>
Change in accounting principle (Note 10)	<u>-</u>	<u>(24,301)</u>	<u>0.00%</u>
Ending of year net position	<u>\$ 16,824</u>	<u>\$ 10,298</u>	<u>63.37%</u>

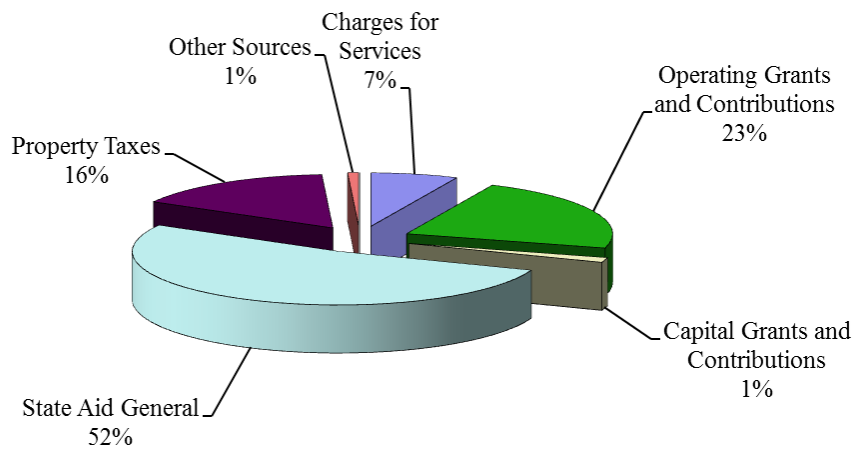
**Independent School District No. 47  
Management's Discussion And  
30, 2016**

The increase in net position is a result of the District's revenues exceeding its overall expenses for the fiscal year ended June 30, 2016.

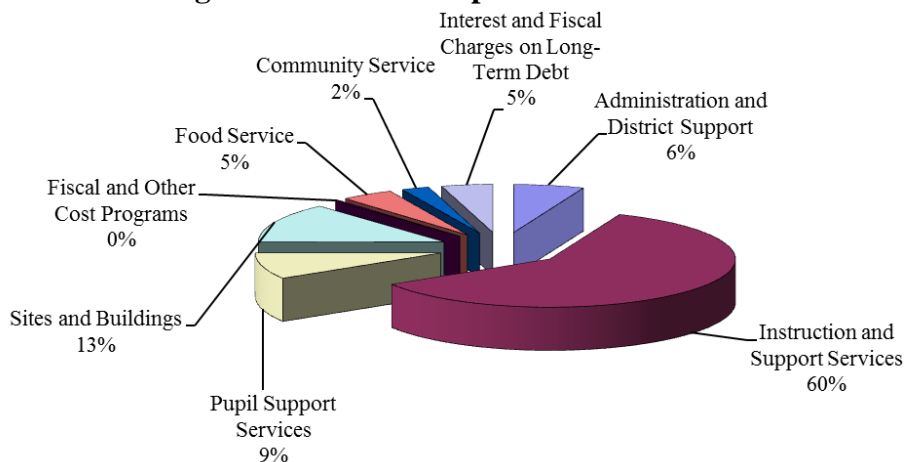
The District's total revenues were \$54,872 for the year ended June 30, 2016. Property taxes and state aids accounted for 16% and 52%, respectively, of total revenues. For the fiscal year ended June 30, 2016 the overall percentage of revenue funds received from state aid has remained similar to the previous year. Low interest rates continue to erode the District's investment income for the sixth year in a row as interest rates remain at all-time lows. (see Figure A-1).

The total costs of all programs and services were \$48,346. Most of these costs are instruction and pupil support services, 60% and 9%, respectively (see Figure A-2).

**Figure A-1 Sources of District's Revenues for Fiscal 2016**



**Figure A-2 District Expenses for Fiscal 2016**



**Independent School District No. 47  
Management's Discussion and Analysis**

The significant changes in the Statement of Activities are as follows:

- State aid-formula grant revenue increased from the prior year by \$2,190, property tax revenue increased by \$920 while other general revenues decreased by \$16. These changes are partially the result of increased enrollment, an increase in the per-pupil formula allowance and changes in special education funding.
- In 2015-2016, the District added additional positions in Elementary and Secondary Regular Instruction, Special Education Instruction and the Pupil Support Services areas and the overall cost for services also rose during the year. Additional programming continues to provide resources for students in many educational areas.
- The Food Service cost of services also noted a major change again in 2015-2016. The District implemented a free breakfast program, district wide one year ago. As a result, the total cost for services increased by 17.11% over the prior year. Although the cost for services increased, many of these costs were offset by additional revenue. The programs net cost for services showed some decline over the previous year but the District still believes that the free breakfast program provides for student equity and is another way that the district is providing equal access and opportunity for all students, a main goal of the District.

Table A-3 presents the total cost of governmental activities as well as the net cost of those activities. The net cost represents total cost less program revenues applicable in each category.

**Net Cost of Governmental Activities  
Table A-3**

	Total Cost of Services		Total Percentage Change	Net Cost of Services		Total Percentage Change
	2016	2015	2016-2015	2016	2015	2016-2015
Administration	\$ 1,573	\$ 1,485	5.93%	\$ 1,573	\$ 1,485	5.93%
District support services	1,392	1,260	10.48%	1,392	1,260	10.48%
Elementary and secondary regular education	16,787	14,933	12.42%	13,152	11,464	14.72%
Vocational education instruction	570	533	6.94%	570	533	6.94%
Special education instruction	8,636	7,472	15.58%	3,177	2,429	30.79%
Instructional support services	3,043	3,266	-6.83%	1,472	1,890	-22.12%
Pupil support services	4,249	3,860	10.08%	2,096	1,794	16.83%
Sites and buildings	4,608	4,611	-0.07%	3,832	3,856	-0.62%
Fiscal and other fixed cost programs	126	152	-17.11%	126	152	-17.11%
Food service	2,212	2,161	2.36%	(180)	(110)	63.64%
Community service	1,155	1,104	4.62%	272	231	17.75%
Depreciation - unallocated	1,841	1,937	-4.96%	1,841	1,937	-4.96%
Interest and fiscal charges on long-term debt	2,154	2,339	-7.91%	2,154	2,339	-7.91%
<b>Total</b>	<b>\$ 48,346</b>	<b>\$ 45,113</b>	<b>7.17%</b>	<b>\$ 31,477</b>	<b>\$ 29,260</b>	<b>7.58%</b>

In addition, GASB Statement No. 34 requires certain revenues and expenses to be recognized in order to show a full accrual statement. The Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds is shown on page 25 and shows a net change in net position of \$6,526.

**Independent School District No. 47  
Management's Discussion and Analysis**

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

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a district's net resources available for spending at the end of the fiscal year.

As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$29,679, an increase of \$4,368 in comparison with the prior year. Of the total remaining fund balance, \$16,037 constitutes unassigned fund balance, which is available for spending at the District's discretion. The remaining fund balance has been designated as committed for severance \$2,304 assigned; \$306 for student activities, \$1,569 for third party medical assistance, and \$2,290 for budget carryovers. The remainder of fund balance is either nonspendable, \$288 which included inventory and prepaid items already committed to for use in the next fiscal year or restricted which indicates that it is not available for new spending because it has already been restricted to 1) pay debt service \$1,321, 2) complete health and safety projects, operating capital projects as well as all other restrictions required by the State of Minnesota \$4,663 and 3) pay for community education, food service and early childhood and family education programs \$901.

**General Fund**

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

General Fund revenues are outlined in Table A-4 below:

**Summary of General Fund Revenues  
Table A-4**

	June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2016	2015		
Local sources				
Property taxes	\$ 3,656	\$ 2,857	\$ 799	27.97%
Other	2,653	2,715	(62)	-2.28%
State sources	38,351	35,236	3,115	8.84%
Federal sources	946	751	195	25.97%
Sales and other conversion of assets	54	41	13	31.71%
<b>Total general fund revenue</b>	<b>\$ 45,660</b>	<b>\$ 41,600</b>	<b>\$ 4,060</b>	<b>9.76%</b>

Total General Fund revenue increased by \$4,060, or 9.76%, from the previous year. The main reason for the increase was due to additional enrollment, the per-pupil formula increase over the previous year, and changes in special education funding.



**Independent School District No. 47  
Management's Discussion and Analysis**

General Fund Expenditures are itemized in Table A-5:

**Summary of General Fund Expenditures  
Table A-5**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2016	June 30, 2015		
Salaries	\$ 24,254	\$ 22,556	\$ 1,698	7.53%
Employee benefits	6,904	6,098	806	13.22%
Purchased services	5,577	4,531	1,046	23.09%
Supplies, material, and equipment	5,055	4,900	155	3.16%
Other expenditures	382	181	201	111.05%
 Total expenditures	 \$ 42,172	 \$ 38,266	 \$ 3,906	 10.21%

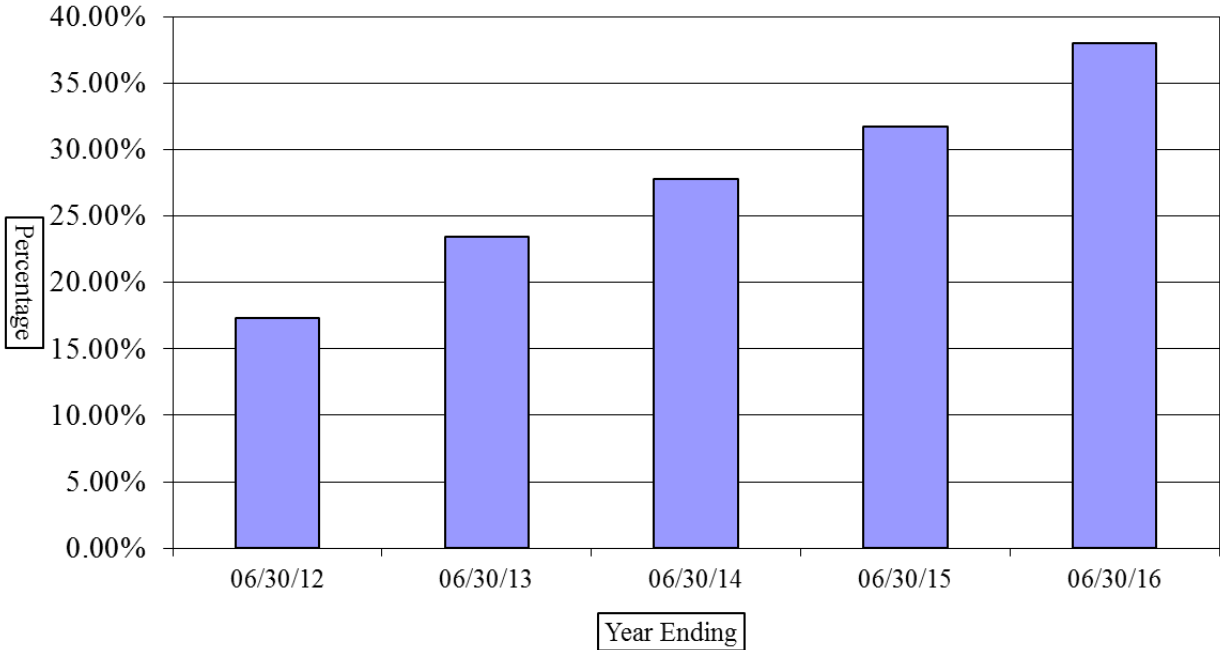
Total General Fund expenditures increased by \$3,906, or 10.21% over the prior year.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the unassigned fund balance of the General Fund increased to \$16,037, while the total General Fund, fund balance moved to \$27,429. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total General Fund, fund balance to total General Fund expenditures. Unassigned fund balance represents 38.03% of total General Fund expenditures, while total fund balance represents 65.04% of that same amount.

The fund balance of the District's General Fund increased by \$4,117 during the current fiscal year. The key factors resulting in the increase are listed previously in this narrative in the governmental activities section and can be summarized by the following 1) additional operating referendum revenue, 2) additional students being served by the District combined with an increase in the per-pupil formula allowance from the State, and 3) funding of the committed fund balance for future severance payments.

**Independent School District No. 47  
Management's Discussion and Analysis**

**General Fund  
Unassigned – Fund Balance As  
A Percentage of Expenditures  
Figure A-3**



See Figure A-3 for the recent history of unassigned fund balance as a percentage of expenditures. Over the last five years, the unassigned fund balance has continued to increase to adequate levels which will allow the district to withstand volatility in difficult economic times. Fund Balance had been at an all-time low in 2006-2007, however, due to large budget cuts in 2007-2008 and 2008-2009, increases in student enrollment, additional State funding and a successful operating referendum vote in November 2012, the unassigned fund balance has rebounded to a level where the district can maintain programs, restore programs previously cut and begin new initiatives that will be sustainable in the future.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District investment in capital assets for its governmental activities equates to \$60,615 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery, and equipment (see Table A-6). Additional information on capital assets can be found in Note 3 of this report.

**Independent School District No. 47  
Management's Discussion and Analysis**

**Capital Assets - Governmental Activities  
Table A-6**

	2016	2015	Total Percent Change 2016-2015
Land and land improvements	\$ 6,640	\$ 6,630	0.15%
Construction in progress	152	206	-26.21%
Buildings	81,625	81,171	0.56%
Equipment	6,864	6,625	3.61%
Less accumulated depreciation	(34,666)	(32,498)	6.67%
<b>Total</b>	<b>\$ 60,615</b>	<b>\$ 62,134</b>	<b>-2.44%</b>

A major capital asset event during the current fiscal year included the following:

- The continuation of a District technology initiative in which the District has embarked on the final phase of a three phase implementation. The district wide 1:1 technology initiative is intended to provide equal access and opportunity for all students. Phase III of the initiative has been funded by a third lease-purchase arrangement at the end of the 2015-2016 school year. The District has also begun to replace roofing and investing in other building system improvements.

**Long-Term Debt**

At the end of the current fiscal year, the District had total long-term debt outstanding of \$46,703. The District only has one debt obligation remaining which it refinanced during the 2015-2016 fiscal year. This will result in considerable taxpayer savings over the life of the General Obligation Building bond (see Table A-7). Additional information on long-term debt can be found in Note 5 of this report.

**Outstanding Long-term Liabilities  
Table A-7**

	Total School District		Total Percent Change 2016-2015
	2016	2015	
G. O. Bonds payable	\$ 38,960	\$ 48,570	-19.79%
Capital lease obligations	1,653	1,698	-2.65%
Premium/issuance costs	5,709	1,501	280.35%
Compensated absences and severance payable	345	350	-1.43%
Special assessments	36	80	-55.00%
<b>Total</b>	<b>\$ 46,703</b>	<b>\$ 52,199</b>	<b>-10.53%</b>

## **Independent School District No. 47 Management's Discussion and Analysis**

The District implemented GASB Statement No. 45 in the fiscal year ended June 30, 2009. The District's net other post employment benefits (OPEB) obligation at the end of the year was \$412. Details of the District's OPEB obligation can be found in Note 8 on page 59 of this report.

### **State Economic Factors and Next Year's Budget**

- The budget for the 2016-2017 fiscal year was completed using the latest funding information available from the State Legislature at the time of the adoption of the budget, which occurred prior to June 30, 2016.
- Estimates of changes in contract settlements were taken into consideration in the budget development process. The majority of employee contracts are currently settled for the upcoming years.
- Anticipated increases in the cost of operation of all facilities were taken into consideration in the budget development process.
- A budget revision will be done mid-year to reflect all known and anticipated changes to the budget as of that date.

### **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Independent School District No. 47 Sauk Rapids-Rice Schools, Attention: Business Manager, 1833 Osauka Road, Sauk Rapids, Minnesota, 56379.

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## **BASIC FINANCIAL STATEMENTS**

**Independent School District No. 47**  
**Statement of Net Position**  
**June 30, 2016**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 34,010,266
Current property taxes receivable	3,968,684
Delinquent property taxes receivable	278,301
Accounts receivable	70,439
Interest receivable	108
Due from Department of Education	4,276,384
Due from Federal Government through Department of Education	460,560
Due from other Minnesota school districts	760,960
Due from other governmental units	40,054
Inventory	26,692
Prepaid items	261,252
Capital assets not being depreciated	
Land	853,206
Construction in progress	152,040
Capital assets less: accumulated depreciation	
Buildings	81,624,880
Land improvements	5,786,491
Equipment	6,863,637
Less accumulated depreciation	<u>(34,665,743)</u>
Total assets	<u>104,768,211</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	<u>5,211,011</u>
Total assets and deferred outflows of resources	<u>\$ 109,979,222</u>
<b>Liabilities</b>	
Accounts payable	\$ 252,271
Contracts payable	155,960
Salaries and benefits payable	5,136,538
Interest payable	1,236,741
Due to other Minnesota school districts	661,877
Due to other governmental units	1,036
Unearned revenue	53,899
Bond principal payable, net of premium/issuance costs	
Payable within one year	2,890,000
Payable after one year	41,779,159
Capital lease payable	
Payable within one year	738,798
Payable after one year	914,032
Special assessment payable	
Payable within one year	19,266
Payable after one year	16,308
Compensated absences payable	
Payable within one year	274,084
Payable after one year	71,424
Other post employment benefits (OPEB) payable	412,161
Net pension liability	<u>26,488,044</u>
Total liabilities	<u>81,101,598</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	8,010,287
Deferred inflows of resources related to gain on refunding	1,390,325
Deferred inflows of resources related to pensions	<u>2,652,778</u>
Total deferred inflows of resources	<u>12,053,390</u>
<b>Net Position</b>	
Net investment in capital assets	13,544,771
Restricted for:	
Debt service	241,095
Other purposes	5,600,687
Unrestricted	<u>(2,562,319)</u>
Total net position	<u>16,824,234</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 109,979,222</u>

See notes to financial statements.

**Independent School District No. 47**  
**Statement of Activities**  
**Year Ended June 30, 2016**

Functions/programs	Expenses	Program Revenues			Net (expense)
		Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions	Revenues And Changes In Net Position
					Governmental Activities
Governmental activities					
Administration	\$ 1,573,524	\$ -	\$ -	\$ -	\$ (1,573,524)
District support services	1,391,928	-	-	-	(1,391,928)
Elementary and secondary regular instruction	16,786,895	1,766,331	1,868,418	-	(13,152,146)
Vocational education instruction	570,362	-	-	-	(570,362)
Special education instruction	8,635,777	369,477	5,089,669	-	(3,176,631)
Instructional support services	3,043,035	42,391	1,528,153	-	(1,472,491)
Pupil support services	4,248,612	86,500	2,066,324	-	(2,095,788)
Sites and buildings	4,608,252	-	-	776,441	(3,831,811)
Fiscal and other fixed cost programs	125,795	-	-	-	(125,795)
Food service	2,212,286	1,033,634	1,358,469	-	179,817
Community education and services	1,155,313	455,041	428,418	-	(271,854)
Unallocated depreciation	1,840,691	-	-	-	(1,840,691)
Interest and fiscal charges on long-term debt	2,153,906	-	-	-	(2,153,906)
<b>Total governmental activities</b>	<b><u>\$ 48,346,376</u></b>	<b><u>\$ 3,753,374</u></b>	<b><u>\$ 12,339,451</u></b>	<b><u>\$ 776,441</u></b>	<b>(31,477,110)</b>
General revenues					
Taxes					
					3,659,703
					242,395
					4,870,868
					28,759,089
					367,607
					103,169
					50
					<u>38,002,881</u>
					6,525,771
					<u>10,298,463</u>
					<u>\$ 16,824,234</u>



**Independent School District No. 47**  
**Balance Sheet - Governmental Funds**  
**June 30, 2016**

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 29,514,345	\$ 3,450,888	\$ 1,045,033	\$ 34,010,266
Current property taxes receivable	1,747,178	2,102,168	119,338	3,968,684
Delinquent property taxes receivable	85,194	183,477	9,630	278,301
Accounts receivable	49,284	-	21,155	70,439
Interest receivable	108	-	-	108
Due from Department of Education	4,150,580	78,616	47,188	4,276,384
Due from Federal Government through Department of Education	460,560	-	-	460,560
Due from other Minnesota school districts	621,960	-	139,000	760,960
Due from other governmental units	40,054	-	-	40,054
Inventory	-	-	26,692	26,692
Prepaid items	259,052	-	2,200	261,252
	<u>\$ 36,928,315</u>	<u>\$ 5,815,149</u>	<u>\$ 1,410,236</u>	<u>\$ 44,153,700</u>
<b>Liabilities</b>				
Accounts payable	\$ 224,701	\$ -	\$ 27,570	\$ 252,271
Contracts payable	155,960	-	-	155,960
Salaries and benefits payable	4,977,244	-	159,294	5,136,538
Due to other Minnesota school districts	661,877	-	-	661,877
Due to other governmental units	1,036	-	-	1,036
Unearned revenue	14,888	-	39,011	53,899
Total liabilities	<u>6,035,706</u>	<u>-</u>	<u>225,875</u>	<u>6,261,581</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue - delinquent property taxes	57,199	138,238	7,424	202,861
Property taxes levied for subsequent year's expenditures	3,406,648	4,356,349	247,290	8,010,287
Total deferred inflows of resources	<u>3,463,847</u>	<u>4,494,587</u>	<u>254,714</u>	<u>8,213,148</u>
<b>Fund Balances</b>				
Nonspendable	259,052	-	28,892	287,944
Restricted	4,663,616	1,320,562	900,755	6,884,933
Committed	2,303,546	-	-	2,303,546
Assigned	4,165,842	-	-	4,165,842
Unassigned	16,036,706	-	-	16,036,706
Total fund balances	<u>27,428,762</u>	<u>1,320,562</u>	<u>929,647</u>	<u>29,678,971</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 36,928,315</u>	<u>\$ 5,815,149</u>	<u>\$ 1,410,236</u>	<u>\$ 44,153,700</u>

**Independent School District No. 47  
Reconciliation of the Balance Sheet to  
the Statement of Net Position - Governmental Funds  
June 30, 2016**

Total fund balances - governmental funds	\$ 29,678,971
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>	
Cost of capital assets	95,280,254
Less accumulated depreciation	(34,665,743)
<p>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. long-term liabilities at year-end consist of:</p>	
Bond principal payable	(38,960,000)
Capital lease payable	(1,652,830)
Special assessment payable	(35,574)
Premium/issuance costs	(5,709,159)
Compensated absences payable	(345,508)
OPEB payable	(412,161)
Net pension liability	(26,488,044)
<p>Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.</p>	
Deferred outflows of resources related to pensions	5,211,011
Deferred inflows of resources related to pensions	(2,652,778)
<p>Refunding gains are recognized when received in the governmental funds but amortized over the life of the debt in the Statement of Activities.</p>	
	(1,390,325)
<p>Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.</p>	
	202,861
<p>Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.</p>	
	<u>(1,236,741)</u>
Total net position - governmental activities	<u>\$ 16,824,234</u>

**Independent School District No. 47**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2016**

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>				
Local property taxes	\$ 3,655,896	\$ 4,892,075	\$ 242,960	\$ 8,790,931
Other local and county revenues	2,653,061	29,079	489,945	3,172,085
Revenue from state sources	38,351,324	786,156	607,671	39,745,151
Revenue from federal sources	945,576	-	1,148,814	2,094,390
Sales and other conversion of assets	53,871	-	1,033,634	1,087,505
Total revenues	<u>45,659,728</u>	<u>5,707,310</u>	<u>3,523,024</u>	<u>54,890,062</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	1,575,947	-	-	1,575,947
District support services	1,523,301	-	-	1,523,301
Elementary and secondary regular instruction	16,363,063	-	-	16,363,063
Vocational education instruction	565,536	-	-	565,536
Special education instruction	8,580,694	-	-	8,580,694
Instructional support services	2,376,819	-	-	2,376,819
Pupil support services	4,031,370	-	30	4,031,400
Sites and buildings	4,131,368	-	-	4,131,368
Fiscal and other fixed cost programs	125,795	-	-	125,795
Food service	-	-	2,155,015	2,155,015
Community education and services	-	-	1,128,860	1,128,860
<b>Capital outlay</b>				
District support services	46,501	-	-	46,501
Elementary and secondary regular instruction	110,902	-	-	110,902
Special education instruction	19,044	-	-	19,044
Instructional support services	675,876	-	-	675,876
Pupil support services	157,772	-	-	157,772
Sites and buildings	1,172,917	-	-	1,172,917
Food service	-	-	795	795
Community education and services	-	-	13,483	13,483
<b>Debt service</b>				
Principal	687,927	47,765,000	-	48,452,927
Interest and fiscal charges	27,241	2,524,685	-	2,551,926
Total expenditures	<u>42,172,073</u>	<u>50,289,685</u>	<u>3,298,183</u>	<u>95,759,941</u>
Excess of revenues (under) expenditures	3,487,655	(44,582,375)	224,841	(40,869,879)
<b>Other Financing Sources (uses)</b>				
Proceeds from sale of assets	50	-	-	50
Bond issuance	-	38,340,000	-	38,340,000
Bond premium	-	6,255,243	-	6,255,243
Capital lease issuance	642,821	-	-	642,821
Transfers in	5,123	-	19,000	24,123
Transfers out	(19,000)	-	(5,123)	(24,123)
Total other financing sources (uses)	<u>628,994</u>	<u>44,595,243</u>	<u>13,877</u>	<u>45,238,114</u>
Net change in fund balances	4,116,649	12,868	238,718	4,368,235
<b>Fund Balances</b>				
Beginning of year	<u>23,312,113</u>	<u>1,307,694</u>	<u>690,929</u>	<u>25,310,736</u>
End of year	<u>\$ 27,428,762</u>	<u>\$ 1,320,562</u>	<u>\$ 929,647</u>	<u>\$ 29,678,971</u>

See notes to financial statements.

**Independent School District No. 47  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the  
Statement of Activities - Governmental Funds  
Year Ended June 30, 2016**

Net change in fund balances - total governmental funds	\$ 4,368,235
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	678,590
Depreciation expense	(2,198,271)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	5,033
OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	
	(74,102)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	
	48,682,088
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 in the funds when it is due and thus requires 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.	
	(242,481)
Bond premiums and deferred charges on refunding's are amortized on the Statement of Activities, whereas governmental fund record the entire amount at the time of issuance.	
	(5,598,624)
Proceeds from the issuance of bonds and capital leases are recognized as an other financing source in the governmental funds but as a liability on the Statement of Net Position.	
Bond issuance	(38,340,000)
Capital lease issuance	(642,821)
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
Pension expense	(93,911)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures, and, therefore, are deferred in the funds.	
	<u>(17,965)</u>
Change in net position - governmental activities	<u>\$ 6,525,771</u>

**Independent School District No. 47**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2016**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 3,644,217	\$ 3,652,281	\$ 3,655,896	\$ 3,615
Other local and county revenues	2,402,081	2,543,045	2,653,061	110,016
Revenue from state sources	35,730,130	36,418,445	38,351,324	1,932,879
Revenue from federal sources	625,574	711,866	945,576	233,710
Sales and other conversion of assets	-	12,114	53,871	41,757
Total revenues	<u>42,402,002</u>	<u>43,337,751</u>	<u>45,659,728</u>	<u>2,321,977</u>
<b>Expenditures</b>				
Current				
Administration	1,562,771	1,755,727	1,575,947	(179,780)
District support services	2,520,284	2,232,246	1,523,301	(708,945)
Elementary and secondary regular instruction	15,747,177	16,961,716	16,363,063	(598,653)
Vocational education instruction	427,267	439,879	565,536	125,657
Special education instruction	8,149,386	9,633,205	8,580,694	(1,052,511)
Instructional support services	2,411,384	3,213,998	2,376,819	(837,179)
Pupil support services	3,953,482	4,057,212	4,031,370	(25,842)
Sites and buildings	3,675,360	4,000,282	4,131,368	131,086
Fiscal and other fixed cost programs	409,000	495,000	125,795	(369,205)
Capital outlay				
District support services	-	-	46,501	46,501
Elementary and secondary regular instruction	10,290	35,104	110,902	75,798
Special education instruction	93,055	93,055	19,044	(74,011)
Instructional support services	-	-	675,876	675,876
Pupil support services	152,753	350,070	157,772	(192,298)
Sites and buildings	820,777	1,207,253	1,172,917	(34,336)
Debt service				
Principal	700,136	700,136	687,927	(12,209)
Interest and fiscal charges	62,896	62,896	27,241	(35,655)
Total expenditures	<u>40,696,018</u>	<u>45,237,779</u>	<u>42,172,073</u>	<u>(3,065,706)</u>
Excess of revenues over (under) expenditures	1,705,984	(1,900,028)	3,487,655	5,387,683
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	-	-	50	50
Capital lease issuance	-	-	642,821	642,821
Transfers in	-	5,123	5,123	-
Transfers out	(19,000)	(19,000)	(19,000)	-
Total other financing sources (uses)	<u>(19,000)</u>	<u>(13,877)</u>	<u>628,994</u>	<u>642,871</u>
Net change in fund balances	<u>\$ 1,686,984</u>	<u>\$ (1,913,905)</u>	4,116,649	<u>\$ 6,030,554</u>
<b>Fund Balances</b>				
Beginning of year			<u>23,312,113</u>	
End of year			<u>\$ 27,428,762</u>	

**Independent School District No. 47  
Statement of Fiduciary Net Position  
June 30, 2016**

	Agency Fund	Private Purpose Trust Fund
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 165,542	\$ 45,640
<b>Liabilities</b>		
Accounts payable	\$ 165,542	\$ -
<b>Net position</b>		
Held in trust for scholarships		\$ 45,640

**Statement of Changes in Fiduciary Net Position  
Year Ended June 30, 2016**

		Private purpose trust fund
<b>Additions</b>		
Contributions		\$ 5,451
Investment income		145
Total additions		5,596
<b>Deductions</b>		
Scholarships		18,707
Change in net position		(13,111)
<b>Net Position</b>		
Beginning of year		58,751
End of year		\$ 45,640

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**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**A. Reporting Entity**

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are not under the School Board's control for certain activities; for these activities, separate audited financial statements have been issued. Other activity accounts are under the School Board's control and are included with the General Fund activity.

**1. Joint Powers Agreement**

The District has entered into a joint powers agreement to form the Central Minnesota Area Learning Center (ALC). Other member school districts include Independent School District No. 51, Foley; Independent School District No. 738, Holdingford; Independent School District No. 739, Kimball; Independent School District No. 742, St. Cloud and Independent School District No. 748, and Sartell. The agreement establishes an area learning center to provide, by cooperative effort, increased educational opportunities for member students.

The agreement establishes a Joint Powers ALC Board, which consists of one representative appointed by each member district school board. Each district is entitled to one vote. Independent School District No. 742, St. Cloud, has been identified as the fiscal host district which, on behalf of the member districts, applies, receives, and administers educational funding that is appropriate to an area learning center. The care, management, and control of the Central Minnesota ALC are vested in the Joint Powers ALC Board. Any funding received by the Central Minnesota ALC is passed through to the member districts except for a 4% administrative fee and an additional joint powers fee allocation.



**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Reporting Entity (Continued)**

**1. Joint Powers Agreement (Continued)**

A copy of the financial statements of the Central Minnesota ALC may be obtained by writing in care of Independent School District No. 47, 1833 NE Osauka Road, Sauk Rapids, Minnesota 56379.

**B. Basic Financial Statement Information**

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 Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments 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 a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

The Private Purpose Trust and Agency Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District; these Funds are not incorporated into the government-wide statements.

**C. 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 are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. 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 60 days.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

**Description of Funds:**

Major Funds:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond and state loan principal, interest and related costs.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**Description of Funds: (Continued)**

Fiduciary Funds:

Agency Fund – This Fund is used to account for resources received and held by the District as the agent for others to be used in making scholarships and for the Recreation Program.

Trust Fund – This Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

**D. Deposits and Investments**

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment held by a 2.a.7 and/or a 2.a.7 like investment pool are measured at amortized cost.

Cash and investments at June 30, 2016 were comprised of deposits, money market funds, and shares in the Minnesota School District Liquid Asset Fund (MSDLAF). The MSDLAF is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

*Minnesota Statutes* require all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

*Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Property Tax Receivable**

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2015, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in the fiscal year 2016. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventories**

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

**H. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

**I. Property Taxes**

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Benton County is the collecting agency for the levy and remit(s) the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

**J. Capital Assets**

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**J. Capital Assets (Continued)**

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such 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 costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment.

Capital assets not being depreciated include land and 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.

**K. Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. A deferred outflow relating to pension activity is reported in the government-wide Statement of Net Position. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Net Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items, which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item, a deferred inflows of resources related to pensions is recorded on the government-wide Statement of Net Position for various estimate differences that will be amortized and recognized over future years.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**L. 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 Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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 while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**M. Compensated Absences**

The District compensates various full-time classified employees upon termination of employment for unused vacation time. The accumulated liability for unpaid vacation benefits was \$270,084 as of June 30, 2016. Vacation benefits expected to be paid within one year are recorded as a current obligation.

District classified employees are entitled to sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.N.

Certain classified employees who have 15 years of continuous service of at least 1,000 work hours a year with the District and have attained the age of 55 years receive severance pay based on 50% of unused sick leave of the maximum of 120 days.

Certain clerical employees who have at least 15 years of continuous service of at least 1,000 work hours a year with the District receive severance pay equal to 50% of the maximum of 120 days of an employee's unused accumulated sick leave days.

Certain custodians who have at least 20 years of continuous service of at least 1,000 work hours a year with the District receive severance pay equal to 50% of the maximum of 120 days of an employee's unused accumulated sick leave days.

The accumulated liability for compensated absences based on sick leave was \$75,424 as of June 30, 2016.

**N. Severance Benefits**

Certain certified and classified employees, including school administration, are eligible for severance pay upon retirement.

Certain administrators who have five years of continuous service in the District are entitled to severance pay equal to a percentage of one half of one year's pay.

During the year ended June 30, 2016, the District paid out a total of \$85,155 in severance benefits to the eight participants eligible to receive benefits.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. Pensions**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in TRA Note 7.

**P. 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 injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2016.

**Q. Fund Equity**

In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include but are not limited to, prepaids and inventory.
- Restricted Fund Balances – These amounts are subject to externally enforceable legal restrictions.
- Committed Fund Balances – The government's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment must be made by the School Board.
- Assigned Fund Balances – These are amounts that are constrained by the District's intent to be used for specific purposes that are neither restricted nor committed. Assignments are made by the Business Manager.
- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of 7% of the annual budget.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Fund Equity (Continued)**

- Stabilization Arrangement – Fiscal stabilization funds in the amount of at least 3% of the prior year total General Fund expenditures shall be established by the Business Manager to protect the system from sudden shortfalls in revenue and to cover unanticipated expenditures. These stabilization funds may also be used to cover adverse financial or economic circumstances as they occur. These funds are reported as unassigned.

**R. Net Position**

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

**S. 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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

**T. Budgetary Information**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Debt Service Funds.
4. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.



**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

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

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy in place to address custodial credit risk for deposits, stating deposit type securities shall be collateralized as required by *Minnesota Statutes* 118A. As of June 30, 2016, the District's bank balance was not exposed to custodial credit risk. It was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name. The District's deposits had a book balance as listed below.

As of June 30, 2016, the District had the following deposits:

Certificates of deposit	<u><u>\$ 280,000</u></u>
-------------------------	--------------------------

**B. Investments**

As of June 30, 2016, the District had the following investments:

Investment Type	Fair Value	S&P Ratings
MSDLAF	33,940,032	AAA
Money market funds	<u>761</u>	N/A
Total investments	<u><u>\$ 33,940,793</u></u>	

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District may invest in those instruments specified in those Statutes. As of June 30, 2016, the District's investments were rated as noted in the table above. The money market funds and brokered certificates of deposit were unrated.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. Investments should be diversified to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District has an investment policy in place that addresses concentration of credit risk, stating the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, and maturities. However, it places no specific limit on the amount the District may invest in any one issuer.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy addresses interest rate risk, stating investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles. Furthermore, investment maturities shall be scheduled to coincide with projected District cash flow needs and shall provide for stability of income and reasonable liquidity.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy addresses custodial credit risk for investments, stating all investment securities shall be held in third party safekeeping by an institution designated as custodial agent.

**C. Deposits and Investments**

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 280,000
Investments (Note 3.B.)	33,940,032
Petty cash	655
	\$ 34,220,687
Total deposits and investments	\$ 34,220,687

Deposits and investments are presented in the June 30, 2016 basic financial statements as follows:

Statement of Net Position	
Cash and investments	\$ 34,010,266
Statement of Fiduciary Net Position	
Cash and cash equivalents	
Agency fund	165,542
Private purpose trust fund	45,640
	\$ 211,188
Total deposits and investments	\$ 34,221,448

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 853,206	\$ -	\$ -	\$ 853,206
Construction in progress	205,860	152,175	205,995	152,040
Total capital assets not being depreciated	<u>1,059,066</u>	<u>152,175</u>	<u>205,995</u>	<u>1,005,246</u>
Capital assets being depreciated				
Buildings	81,171,640	453,240	-	81,624,880
Land improvements	5,776,701	9,790	-	5,786,491
Equipment	6,624,699	269,380	30,442	6,863,637
Total capital assets being depreciated	<u>93,573,040</u>	<u>732,410</u>	<u>30,442</u>	<u>94,275,008</u>
Less accumulated depreciation for				
Buildings	24,285,463	1,584,991	-	25,870,454
Land improvements	3,487,500	255,700	-	3,743,200
Equipment	4,724,951	357,580	30,442	5,052,089
Total accumulated Depreciation	<u>32,497,914</u>	<u>2,198,271</u>	<u>30,442</u>	<u>34,665,743</u>
Total capital assets being depreciated, net	<u>61,075,126</u>	<u>(1,465,861)</u>	<u>-</u>	<u>59,609,265</u>
Governmental activities capital assets, net	<u>\$ 62,134,192</u>	<u>\$ (1,313,686)</u>	<u>\$ 205,995</u>	<u>\$ 60,614,511</u>

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense of \$2,198,271 for the year ended June 30, 2016 was charged to the following governmental functions:

Administration	\$ 6,000
Elementary and secondary regular instruction	177,971
Special Education	63,609
Pupil support	50,000
Food service	50,000
Community service	10,000
Unallocated	<u>1,840,691</u>
 Total depreciation expense	 <u><u>\$ 2,198,271</u></u>

**NOTE 4 – INTERFUND ACTIVITY**

**A. Transfers**

The composition of interfund transfers as of June 30, 2016, was as follows:

	<u>General Fund</u>	<u>Transfer In Other Nonmajor Funds</u>	<u>Total</u>
Transfer out			
General Fund	\$ -	\$ 19,000	\$ 19,000
Other Nonmajor Funds	<u>5,123</u>	<u>-</u>	<u>5,123</u>
Total transfer out	<u><u>\$ 5,123</u></u>	<u><u>\$ 19,000</u></u>	<u><u>\$ 24,123</u></u>

The purpose of the above transfers were to provide a revenue source for certain programs.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 5 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-term liabilities						
G.O. bonds, including						
Refunding bonds						
2015A School Building						
Refunding Bonds	11/03/15	4.00%-5.00%	\$ 38,340,000	02/01/26	\$ 38,340,000	\$ 2,690,000
2014A Tax Abatement						
Bonds	08/07/14	3.00%	850,000	02/01/19	620,000	200,000
					<u>38,960,000</u>	<u>2,890,000</u>
Capital leases					1,652,830	738,798
Special assessments					35,574	19,266
Premium/issuance costs					5,709,159	-
Compensated absences						
Payable					<u>345,508</u>	<u>274,084</u>
Total all long-term liabilities					<u>\$ 46,703,071</u>	<u>\$ 3,922,148</u>

On November 3, 2015, the District issued \$38,340,000 G.O. School Building Refunding Bonds, Series 2015A, with an interest rate of 4% to 5%. The District issued the Bonds to refund the G.O. School Building Refunding Bonds, Series 2006A, totaling \$44,380,000. The District completed the refunding to reduce its debt service payment over the next 10 years by \$7,063,327. This resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$6,372,905.

The long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. Capital Leases, Special Assessments, Tax Abatement Bonds, and Compensated Absences are normally liquidated through the General Fund.

**B. Minimum Debt Payments for Bonds and Loans**

Minimum annual principal and interest payments required to retire bond and loan liabilities:

<u>Year Ending June 30,</u>	<u>G.O. Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 2,890,000	\$ 2,311,053	\$ 5,201,053
2018	3,460,000	1,747,150	5,207,150
2019	3,600,000	1,578,250	5,178,250
2020	3,555,000	1,402,550	4,957,550
2021	3,735,000	1,224,800	4,959,800
2022-2026	<u>21,720,000</u>	<u>3,127,750</u>	<u>24,847,750</u>
Total	<u>\$ 38,960,000</u>	<u>\$ 11,391,553</u>	<u>\$ 50,351,553</u>

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**C. Capital Lease Obligations**

The District is obligated under certain leases accounted for as capital leases. The assets and liabilities under the capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset.

On April 1, 2013, the District entered into a lease purchase agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$689,585. The capital lease agreement includes annual principal and interest payments of \$137,917.

On June 15, 2014, the District entered into a lease purchase agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$1,257,445. Because the individual equipment items were under the District's capitalization threshold none of the item were capitalized. The capital lease agreement includes annual principal and interest payments of \$324,049.

On June 15, 2015, the District entered into a lease purchase agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$549,320. Because the individual equipment items were under the District's capitalization threshold none of the items were capitalized. The capital lease agreement includes annual principal and interest payments of \$140,412.

On May 18, 2016, the District entered into a lease purchase agreement for the acquisition of technology equipment. The capital lease obligation and corresponding equipment totaled \$642,821. Because the individual equipment items were under the District's capitalization threshold none of the items were capitalized. The capital lease agreement includes annual principal and interest payments of \$163,088.

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,		
2017	\$	765,466
2018		627,548
2019		303,500
Total minimum lease payments		1,696,514
Less amount representing interest		(43,684)
Present value of minimum lease payments		\$ 1,652,830

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**D. Special Assessments**

The District is obligated to pay special assessment and abatement fees for various City of Sauk Rapids' and county projects. The minimum annual principal and interest payments required to retire long-term liabilities are as follows:

<u>Year Ending June 30,</u>	<u>Special Assessments</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 19,266	\$ 1,824	\$ 21,090
2018	11,451	812	12,263
2019	3,237	219	3,456
2020	1,620	73	1,693
Total	<u>\$ 35,574</u>	<u>\$ 2,928</u>	<u>\$ 38,502</u>

**E. Changes in Long-Term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Long-term liabilities				
G.O. Bonds	\$ 48,570,000	\$ 38,340,000	\$ 47,950,000	\$ 38,960,000
Capital lease obligations	1,697,937	642,821	687,928	1,652,830
Special assessments and abatements	79,734	-	44,160	35,574
Premium	1,500,860	6,255,244	2,046,945	5,709,159
Compensated absences Payable	350,541	320,053	325,086	345,508
Total long-term liabilities	<u>\$ 52,199,072</u>	<u>\$ 45,558,118</u>	<u>\$ 51,054,119</u>	<u>\$ 46,703,071</u>

**NOTE 6 – FUND BALANCES/NET POSITION**

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. Fund Balance**

Fund equity balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance (Continued)**

	General Fund	Debt Service	Other Nonmajor Funds	Total
Nonspendable for				
Inventory	\$ -	\$ -	\$ 26,692	\$ 26,692
Prepaid Items	259,052	-	2,200	261,252
Total nonspendable	<u>259,052</u>	<u>-</u>	<u>28,892</u>	<u>287,944</u>
Restricted/reserved for				
Safe Schools - Crime Levy	254,773	-	-	254,773
Teacher Development And Evaluation	75,407	-	-	75,407
Health And Safety	40,191	-	-	40,191
Operating Capital	4,038,642	-	-	4,038,642
Gifted And Talented	254,603	-	-	254,603
Community Education	-	-	60,811	60,811
Early Childhood And Family Education	-	-	35,519	35,519
School Readiness	-	-	136,515	136,515
Adult Basic Education	-	-	24,464	24,464
Restricted for				
Food Service	-	-	638,740	638,740
Community Service	-	-	4,706	4,706
Debt Service	-	1,320,562	-	1,320,562
Total restricted/reserved	<u>4,663,616</u>	<u>1,320,562</u>	<u>900,755</u>	<u>6,884,933</u>
Committed for				
Separation Benefits	2,303,546	-	-	2,303,546
Assigned for				
Budget Carryover	2,290,060	-	-	2,290,060
Third Party Billing	1,569,224	-	-	1,569,224
Student Activities	306,558	-	-	306,558
Total assigned	<u>4,165,842</u>	<u>-</u>	<u>-</u>	<u>4,165,842</u>
Unassigned	<u>16,036,706</u>	<u>-</u>	<u>-</u>	<u>16,036,706</u>
Total fund balance	<u>\$ 27,428,762</u>	<u>\$ 1,320,562</u>	<u>\$ 929,647</u>	<u>\$ 29,678,971</u>



**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance (Continued)**

Nonspendable for Inventory – A portion of the fund balance has been spent on inventory and is not available for other uses.

Nonspendable for Prepaid Items – A portion of the fund balance has been spent on prepaid items and is not available for other uses.

Restricted/Reserved for Safe Schools – Crime Levy – The unspent resources available from the levy must be reserved in this account for future use.

Restricted/Reserved for Teacher Development and Evaluation – This balance represents resources available for teacher development and evaluation uses listed in *Minnesota Statutes* 122A.40, subd. 8 or 122A.41, subd. 5.

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Gifted and Talented – The part of general education aid revenue for the gifted and talented program that is unspent at years end must be reserved in this Balance Sheet account.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted for Community Service – This balance represents the remaining aggregate resources for community service programs after other restrictions are removed.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance (Continued)**

Restricted for Debt Service – This balance represents the resources available for the payment of bond principal, interest, and related costs.

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, pensions, OPEB and termination benefits (as defined in GASB Statement Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

Assigned for Budget Carryover – This balance represents amounts segregated from unrestricted funds for unspent budget amounts.

Assigned for Third Party Billing – This balance represents amounts segregated from unrestricted funds to be spent on costs related to third party billings.

Assigned for Student Activities – This balance represents the aggregate activity for student accounts under School Board control.

**B. Net Position**

Net position restricted for other purposes is comprised of the total General Fund and Special Revenue Funds positive restricted balances adjusted to net position.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Teachers' Retirement Association**

**A. Plan Description**

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

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

**Independent School District No. 47  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided**

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

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

*Tier I Benefits*

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

With these provisions:

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

*Tier II Benefits*

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

**Independent School District No. 47  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

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

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

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

**C. Contribution Rate**

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

	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

**Independent School District No. 47  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

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

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

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

**D. Merger of DTRFA**

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

	<u>6/30/14 CAFR</u>	<u>Restated</u>
Total pension liability	\$ 24,901,612,000	\$ 25,299,564,000
Plan fiduciary net position	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net pension liability	<u><u>\$ 4,607,928,000</u></u>	<u><u>\$ 4,779,808,000</u></u>

**Independent School District No. 47  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**E. Actuarial Assumptions**

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	8.00%
Wage inflation	3.00%
Projected salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.00%

**Mortality Assumption**

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

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

**Independent School District No. 47  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

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

Asset Class	Target	Long-Term
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
Total	<u>100 %</u>	

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

**F. Discount Rate**

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

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**G. Net Pension Liability**

On June 30, 2016, the District reported a liability of \$20,927,201 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.3383% at the end of the measurement period and 0.3506% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 20,927,201
State's proportionate share of the net pension liability associated with the District	2,566,950

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

For the year ended June 30, 2016, the District recognized pension expense of \$1,875,805. It also recognized \$453,804 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,110,572	\$ -
Net difference between projected and actual earnings on plan investment	-	1,734,197
Changes in assumptions	1,608,745	-
Changes in proportion	199,509	-
District's contributions to TRA subsequent to the measurement date	1,377,121	-
Total	\$ 4,295,947	\$ 1,734,197

\$1,377,121 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.



**Independent School District No. 47  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**G. Net Pension Liability (Continued)**

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2017		\$ (66,869)
2018		(66,867)
2019		(66,867)
2020		1,132,066
2021		253,166

**H. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% as well as the liability measured using 1% lower and 1% higher.

District proportionate share of NPL		
1% decrease (7.0%)	Current (8.0%)	1% increase (9.0%)
\$ 31,853,909	\$ 20,927,201	\$ 11,808,548

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

**I. Pension Plan Fiduciary Net Position**

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

**Public Employees' Retirement Association**

**A. Plan Description**

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

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**A. Plan Description (Continued)**

General Employees Retirement Fund (GERF)

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

**B. Benefits Provided**

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. PERA benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

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

GERF Benefits

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

**C. Contributions**

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

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Contributions (Continued)**

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were \$505,318. The District's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

GERF Pension Costs

At June 30, 2016, the District reported a liability of \$5,560,843 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.1073%, which was a decrease of 0.0032% from its proportion measured as of June 30, 2014.

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

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

For the year ended June 30, 2016, the District recognized pension expense of \$554,349 for its proportionate share of GERF's pension expense.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

At June 30, 2016, the District reported its proportionate share of GERS's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 53,108	\$ 280,361
Changes in actuarial assumptions	356,638	-
Difference between projected and actual investments earnings	-	525,480
Changes in proportion and differences between contributions made and District's proportionate share of contributions	-	112,740
District's contributions to GERS subsequent to the measurement date	505,318	-
Total	\$ 915,064	\$ 918,581

\$505,318 reported as deferred outflows of resources related to pensions resulting from District contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

June 30,	Amount
2017	\$ (145,189)
2018	(145,189)
2019	(350,061)
2020	131,604

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (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 the following actuarial assumptions:

GERF

Assumptions	GERF
Inflation	2.75 % Per year
Active member payroll growth	3.50 Per year
Investment rate of return	7.90

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

Actuarial assumptions used in the June 30, 2015 valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004 through June 30, 2008, with an update of economic assumptions in 2014.

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

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

Asset Class	Target Allocation	Long-Term
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	100%	

**Independent School District No. 47  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

**Public Employees' Retirement Association (Continued)**

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.9% for GERF. 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 table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proportionate share of the GERF net pension liability	\$ 8,743,622	\$ 5,560,843	\$ 2,932,357

**H. Pension Plan Fiduciary Net Position**

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

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Description**

The District provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**B. Funding Policy**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For 2016, the District contributed \$165,766 to the plan. As of 2015, there were approximately 26 retirees receiving health benefits from the District's health plan.

**C. Annual OPEB Cost and Net OPEB Obligation**

The District's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost of the year, the amount contributed to the plan and changes in the District's net OPEB obligation to the plan.

ARC	\$ 246,519
Interest on net OPEB obligation	13,522
Adjustment to ARC	<u>(20,173)</u>
Annual OPEB cost (expense)	239,868
Contributions made	<u>(165,766)</u>
Increase in net OPEB obligation	74,102
Net OPEB obligation - beginning of year	<u>338,059</u>
 Net OPEB obligation - end of year	 <u><u>\$ 412,161</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/14	\$ 212,722	\$ 172,628	81%	\$ 260,715
06/30/15	241,465	164,121	68%	338,059
06/30/16	239,868	165,766	69%	412,161

**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN**

**D. Funded Status and Funding Progress**

As of July 1, 2014, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$2,072,192 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,072,192. The covered payroll (annual payroll of active employees covered by the plan) was \$19,303,444 and the ratio of the UAAL to the covered payroll was 10.7%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

At the July 1, 2014 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.0% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5.0% after ten years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2014 was 30 years.

**NOTE 9 – COMMITMENTS**

As of June 30, 2016, the District had the following commitments:

Project	Contractor	Original Contract Amount	Remaining Commitments
SRRMS Roofing	Tremco and McDowall Company	\$ 375,070	\$ 258,350



**Independent School District No. 47**  
**Notes to Financial Statements**

**NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 47**  
**Schedule of Funding Progress - other Post Employment Benefits**  
**June 30, 2016**

Actuarial Valuation Date*	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/10	\$ -	\$ 1,774,461	\$ 1,774,461	0.0%	\$ 17,259,839	10.3%
07/01/12	-	1,858,384	1,858,384	0.0%	17,007,383	10.9%
07/01/14	-	2,072,192	2,072,192	0.0%	19,303,444	10.7%

\* See Note 8 in the notes to financial statements for more details on this Schedule.

**Independent School District No. 47  
Schedule of District's and Non-Employer  
Proportionate Share of Net Pension Liability  
Last Ten Years GERS Retirement Funds**

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1105%	\$ 5,190,736	\$ 5,802,469	89.5%	78.8%
2015	0.1073%	5,560,843	6,200,133	89.7%	78.2%

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

**Schedule of District's and Non-Employer  
Proportionate Share of Net Pension Liability  
Last Ten Years TRA Retirement Funds**

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3506%	\$ 16,155,396	\$ 1,136,619	\$ 17,292,015	\$ 16,002,213	101.0%	81.5%
2015	0.3383%	20,927,201	2,566,950	23,494,151	17,170,227	121.9%	76.8%

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

**Independent School District No. 47  
Schedule of District Contributions  
GERF Retirement Funds  
Last Ten Years**

<u>Fiscal Year Ending June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 420,679	\$ 420,679	\$ -	\$ 5,802,469	7.25%
2015	465,010	465,010	-	6,200,133	7.50%
2016	505,318	505,318	-	6,737,573	7.50%

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

**Schedule of District Contributions  
TRA Retirement Funds  
Last Ten Years**

<u>Fiscal Year Ending June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 1,120,155	\$ 1,120,155	\$ -	\$ 16,002,213	7.0%
2015	1,287,767	1,287,767	-	17,170,227	7.5%
2016	1,377,121	1,377,121	-	18,361,613	7.5%

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

**Independent School District No. 47**  
**Notes to the Required Supplementary Information**

**TRA Retirement Funds**

**Changes of benefit terms**

The DTRFA was merged into TRA on June 30, 2015

**Changes of assumptions**

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

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**SUPPLEMENTARY INFORMATION**



**Independent School District No. 47**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
**June 30, 2016**

	Special Revenue Funds		Total Nonmajor Funds
	Food Service	Community Service	
<b>Assets</b>			
Cash and investments	\$ 772,983	\$ 272,050	\$ 1,045,033
Current property taxes receivable	-	119,338	119,338
Delinquent property taxes receivable	-	9,630	9,630
Accounts receivable	-	21,155	21,155
Due from Department of Education	-	47,188	47,188
Due from other Minnesota school districts	-	139,000	139,000
Inventory	26,692	-	26,692
Prepaid items	-	2,200	2,200
	<u>-</u>	<u>2,200</u>	<u>2,200</u>
Total assets	<u>\$ 799,675</u>	<u>\$ 610,561</u>	<u>\$ 1,410,236</u>
<b>Liabilities</b>			
Accounts payable	\$ 4,322	\$ 23,248	\$ 27,570
Salaries and benefits payable	90,910	68,384	159,294
Unearned revenue	39,011	-	39,011
Total liabilities	<u>134,243</u>	<u>91,632</u>	<u>225,875</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - delinquent property taxes	-	7,424	7,424
Property taxes levied for subsequent year's expenditures	-	247,290	247,290
Total deferred inflows of resources	<u>-</u>	<u>254,714</u>	<u>254,714</u>
<b>Fund Balances</b>			
Nonspendable	26,692	2,200	28,892
Restricted	638,740	262,015	900,755
Total fund balances	<u>665,432</u>	<u>264,215</u>	<u>929,647</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 799,675</u>	<u>\$ 610,561</u>	<u>\$ 1,410,236</u>

**Independent School District No. 47**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2016**

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
<b>Revenues</b>			
Local property taxes	\$ -	\$ 242,960	\$ 242,960
Other local and county revenues	2,070	487,875	489,945
Revenue from state sources	209,359	398,312	607,671
Revenue from federal sources	1,148,814	-	1,148,814
Sales and other conversion of assets	1,033,634	-	1,033,634
Total revenues	2,393,877	1,129,147	3,523,024
<b>Expenditures</b>			
Current			
Pupil support services	-	30	30
Food service	2,155,015	-	2,155,015
Community education and services	-	1,128,860	1,128,860
Capital outlay			
Food service	795	-	795
Community education and services	-	13,483	13,483
Total expenditures	2,155,810	1,142,373	3,298,183
Excess of revenues (under) expenditures	238,067	(13,226)	224,841
<b>Other Financing Sources (Uses)</b>			
Transfers in	-	19,000	19,000
Transfers out	-	(5,123)	(5,123)
Total other financing sources (uses)	-	13,877	13,877
Net change in fund balances	238,067	651	238,718
<b>Fund Balances</b>			
Beginning of year	427,365	263,564	690,929
End of year	\$ 665,432	\$ 264,215	\$ 929,647

**Independent School District No. 47**  
**Statement of Changes in Agency Funds**  
**Assets and Liabilities**  
**Year Ended June 30, 2016**

	<u>Balance</u> <u>06/30/15</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/16</u>
<b>Assets</b>				
Cash	\$ 139,028	\$ 316,370	\$ (289,856)	\$ 165,542
Other receivables	664	-	(664)	-
	<u>\$ 139,692</u>	<u>\$ 316,370</u>	<u>\$ (290,520)</u>	<u>\$ 165,542</u>
Total assets				
	<u>\$ 139,692</u>	<u>\$ 316,370</u>	<u>\$ (290,520)</u>	<u>\$ 165,542</u>
<b>Liabilities</b>				
Accounts payable	<u>\$ 139,692</u>	<u>\$ 316,370</u>	<u>\$ (290,520)</u>	<u>\$ 165,542</u>

**Independent School District No. 47**  
**Uniform Financial Accounting And Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2016**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 General Fund</b>				<b>06 Building Construction Fund</b>			
Total revenue	\$ 45,659,778	\$ 45,659,780	\$ (2)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	42,172,073	42,172,073	-	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	259,052	259,052	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Facility Program	-	-	-
406 Health and Safety	40,191	40,189	2	413 Building Projects Funded by COP/LP	-	-	-
407 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted fund balance	-	-	-
409 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
413 Project Funded by COP	-	-	-	463 Unassigned fund balance	-	-	-
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-	<b>07 Debt Service Fund</b>			
424 Operating Capital	4,038,642	4,038,642	-	Total revenue	\$ 5,707,310	\$ 5,707,310	\$ -
426 \$25 Taconite	-	-	-	Total expenditures	50,289,685	50,289,687	(2)
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable fund balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB payments	-	-	-
438 Gifted and Talented	254,603	254,603	-	<i>Restricted:</i>			
440 Teacher Development and Evaluation	75,407	75,406	1	464 Restricted fund balance	1,320,562	1,320,560	2
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned fund balance	-	-	-
448 Achievement and Integration Revenue	-	-	-				
449 Safe School Crime	254,773	254,773	-	<b>08 Trust Fund</b>			
450 Transition to Pre-Kindergarten	-	-	-	Total revenue	\$ 5,596	\$ 5,597	\$ (1)
451 QZAB and QSCB payments	-	-	-	Total expenditures	18,707	18,709	(2)
452 OPEB liabilities not held in trust	-	-	-	<i>Restricted/reserved:</i>			
453 Unfunded Severance and Retirement Levy	-	-	-	419 Encumbrances	-	-	-
<i>Restricted:</i>				<i>Unrestricted/reserved:</i>			
464 Restricted fund balance	-	-	-	422 Unassigned fund balance (net position)	45,640	45,639	1
<i>Committed:</i>							
418 Separation benefits	2,303,546	2,303,546	-	<b>20 Internal Service Fund</b>			
461 Committed	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Assigned:</i>				Total expenditures	-	-	-
462 Assigned fund balance	4,165,842	4,165,841	1	<i>Unassigned:</i>			
<i>Unassigned</i>				422 Unassigned fund balance (net position)	-	-	-
422 Unassigned fund balance (net position)	16,036,706	16,036,709	(3)				
<b>02 Food Services Fund</b>				<b>25 OPEB Revocable Trust</b>			
Total revenue	\$ 2,393,877	\$ 2,393,877	\$ -	Total revenue	\$ -	\$ -	\$ -
Total expenditures	2,155,810	2,155,812	(2)	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable fund balance	26,692	26,691	1	422 Unassigned fund balance (net position)	-	-	-
<i>Restricted/reserved:</i>							
452 OPEB liabilities not held in trust	-	-	-	<b>45 OPEB Irrevocable Trust</b>			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	\$ -
464 Restricted fund balance	638,740	638,740	-	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-	422 Unassigned fund balance (net position)	-	-	-
<b>04 Community Service Fund</b>							
Total revenue	\$ 1,129,147	\$ 1,129,146	\$ 1	<b>47 OPEB Debt Service</b>			
Total expenditures	1,142,373	1,142,375	(2)	Total revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total expenditures	-	-	-
460 Nonspendable fund balance	2,200	2,200	-	<i>Nonspendable:</i>			
<i>Restricted/reserved:</i>				460 Nonspendable fund balance	-	-	-
426 \$25 Taconite	-	-	-	<i>Restricted:</i>			
431 Community Education	60,811	60,811	-	425 Bond refundings	-	-	-
432 ECFE	35,519	35,519	-	464 Restricted fund balance	-	-	-
440 Teacher Development and Evaluation	-	-	-	<i>Unassigned:</i>			
444 School Readiness	136,515	136,515	-	463 Unassigned fund balance	-	-	-
447 Adult Basic Education	24,464	24,464	-				
452 OPEB liabilities not held in trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	4,706	4,706	-				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

**Independent School District No. 47**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2016**

Grant Name	Federal CFDA Number	Expenditures
<b>U.S. Department of Agriculture</b>		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	\$ 152,923
School Breakfast	10.553	246,837
National School Lunch	10.555	<u>749,054</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		1,148,814
<b>U.S. Department of Education</b>		
Through Minnesota Department of Education		
Title I, Part A	84.010	371,921
Title II, Part A - Improving Teacher Quality	84.367	96,794
Through Benton-Stearns Education District		
Special Education Cluster		
Special Education	84.027	434,780
Special Education - Discretionary Continuous Improvement	84.027	96
Early Childhood Special Education	84.173	<u>8,413</u>
Total Special Education Cluster		443,289
Carl Perkins	84.048a	<u>31,666</u>
Total U.S. Department of Education		<u>943,670</u>
Total Federal Expenditures		<u><u>\$ 2,092,484</u></u>

**Independent School District No. 47**  
**Notes to the Schedule of Expenditures of Federal Awards**

**NOTE 1 – BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**NOTE 2 – PASS-THROUGH GRANT NUMBERS**

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

**NOTE 3 – INVENTORY**

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

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**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***

**Independent Auditor's Report**

To the School Board  
Independent School District No. 47  
Sauk Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 47, Sauk Rapids, Minnesota, as of and for the year ending June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 31, 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 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.

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### **Internal Control over Financial Reporting**

Our consideration of internal control was for the limited purpose described in the first 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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Finding and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency, Audit Finding 2001-001.

### **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*.

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

The District's response to the finding identified in our audit is described in the accompanying Schedule of Finding and Questioned Costs in Accordance with the Uniform Guidance. 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 result of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads 'BergankDV, Ltd.'.

St. Cloud, Minnesota  
October 31, 2016



## Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

### Independent Auditor's Report

To the School Board  
Independent School District No. 47  
Sauk Rapids, Minnesota

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

We have audited Independent School District No. 47's, Sauk Rapids, Minnesota, 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, in Accordance with the Uniform Guidance.

#### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards.

#### 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 of 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 compliance of Independent School District No. 47.

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

In our opinion, Independent School District No. 47 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.

### **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.

*BerganKDV, Ltd.*

St. Cloud, Minnesota  
October 31, 2016

**Independent School District No. 47  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, Audit Finding 2001-001
Noncompliance material to financial statements noted?	No

**Federal Awards**

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

**Identification of Major Programs**

CFDA No.:	10.553 and 10.555
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	No

**Independent School District No.47  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

**SECTION II – FINANCIAL STATEMENT FINDING:**

**Audit Finding 2001-001**

*Criteria or Specific Requirement:*

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

*Condition:*

The District does not have adequate segregation of accounting duties.

*Context:*

This finding impacts the internal control for all significant accounting functions.

*Effect:*

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

*Cause:*

There are a limited number of office employees.

*Recommendation:*

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

*Management's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Administration will examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.

**Independent School District No.47  
Schedule of Findings and Questioned Costs  
in Accordance with the Uniform Guidance**

**SECTION II – FINANCIAL STATEMENT FINDING:**

**Audit Finding 2001-001 (Continued)**

*Management's Response:* (Continued)

**CORRECTIVE ACTION PLAN (CAP): (Continued)**

3. Official Responsible for Ensuring CAP  
Daniel Bittman, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP  
The School Board will be responsible to monitor the ongoing progress towards the completion of the CAP by approving the policies brought forth by Administration and review of the annual audit.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS:**

There were no findings or questioned costs.

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## Report on Legal Compliance

### Independent Auditor's Report

To the School Board  
Independent School District No. 47  
Sauk Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 47, Sauk Rapids, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, and have issued our report thereon dated October 31, 2016.

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

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

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

St. Cloud, Minnesota  
October 31, 2016

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**Independent School District No. 47**  
**Schedule of Findings and on Legal Compliance**

**CURRENT YEAR INTERNAL CONTROL FINDING:**

**Responsible Contractor Requirement**

*Minnesota Statutes 16C.285* states that the District is to obtain verification of compliance signed by the contractor for each construction contract in excess of \$50,000, awarded to a lowest responsible bidder or best value process. This verification states that the contractor is in compliance with the minimum criteria set forth under *Minnesota Statutes 16C.285*, subdivision 3.

During our audit, we noted that the District did not obtain this verification after awarding the contract.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
Administration will ensure that the District will obtain a signed verification of compliance from the contractor for any contracts in excess of \$50,000.
3. Official Responsible for Ensuring CAP  
Daniel Bittman, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP June 30, 2017.
5. Plan to Monitor Completion of CAP  
The School Board will be responsible to monitor the ongoing progress towards the completion of the CAP.