

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2016

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
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INTRODUCTORY SECTION

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2016**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Ted Botten	December 31, 2018	Chair
Chuck Tryon	December 31, 2018	Vice Chair
Kris Abrahamson	December 31, 2016	Treasurer
Lisa Hall	December 31, 2018	Clerk
Todd Anderson	December 31, 2016	Director
Kathy Smith	December 31, 2016	Director

ADMINISTRATION

Paul Durand	Superintendent
Sandy Strozyk	Business Manager
Paula Wanous	Payroll Clerk
Sara Pepin	Account Clerk

District Offices:

Independent School District No. 883
Rockford Public Schools
6051 Ash Street
Rockford, MN 55373
(763) 477-9165

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FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

School Board
Independent School District No. 883
Rockford Area Schools
Rockford, 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. 883 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position and budgetary comparison for the General Fund, Food Service Fund, and Community Service Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the District's 2015 financial statements of the governmental activities, each major fund and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 7, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for postemployment benefit plan, the schedule of employer contributions, the schedule of the District's proportionate share of the net pension liability, and the schedule of Districts contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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.

Supplementary 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 individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.


Other Matters (Continued)

Supplementary Information (Continued)

The individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table 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 information is 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 September 6, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 6, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

This section of Rockford Area Schools – Independent School District No. 883's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

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

- Net position increased by approximately \$965,000 on revenues of \$24,524,000 compared to expenses of \$23,559,000.
- Total General Fund revenues were approximately \$17,930,000 as compared to about \$17,432,000 of expenditures.
- The fund balance of the General Fund increased by a net of approximately \$499,000 from the prior year due to the District receiving more revenues than budgeted and keeping expenditures within the budgeted amount.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – independent auditors' report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *District-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

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

District-Wide Statements

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

The two District-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's *combined* net position was a negative \$5,511,872 on June 30, 2016. This was an increase from the prior year net position of \$6,477,114 (see Table A-1).

**Table A-1
The District's Net Position**

	Governmental Activities as of June 30,		Percentage Change
	2016	2015	
Current and Other Assets	\$ 11,465,585	\$ 12,264,142	(6.5)%
Capital and Noncurrent Assets	50,741,418	52,169,612	(2.7)
Total Assets	<u>62,207,003</u>	<u>64,433,754</u>	(3.5)
Deferred Outflows of Resources	2,414,070	1,920,059	25.7
Current Liabilities	4,769,348	5,755,565	(17.1)
Long-Term Liabilities	58,318,829	58,506,085	(0.3)
Total Liabilities	<u>63,088,177</u>	<u>64,261,650</u>	(1.8)
Deferred Inflows of Resources	<u>7,044,768</u>	<u>8,569,277</u>	(17.8)
Net Position:			
Net Investment in Capital Assets	1,616,337	1,223,001	(32.2)
Restricted	732,364	788,552	7.1
Unrestricted	<u>(7,860,573)</u>	<u>(8,488,667)</u>	7.4
Total Net Position	<u>\$ (5,511,872)</u>	<u>\$ (6,477,114)</u>	14.9

The change in the District's financial position is the product of many factors. There was an increase in taxes and state aid, offset with an increase in expenditures.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's revenues for all governmental activities were approximately \$24,524,000 for the year ended June 30, 2016.

The total cost for all governmental activities of all programs and services including interest and fiscal charges was approximately \$23,559,000. Total revenues exceeded expenses, increasing net position by about \$965,000 from the prior year.

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

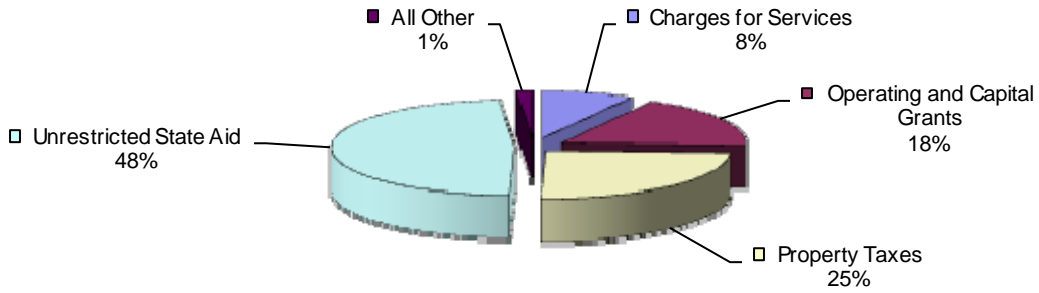
	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2016	2015	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 1,987,769	\$ 1,755,590	13.2 %
Operating Grants and Contributions	3,912,726	3,673,693	6.5
Capital Grants and Contributions	393,468	253,669	55.1
<u>General Revenues</u>			
Property Taxes	6,074,983	5,671,382	7.1
Unrestricted State Aid	11,828,969	11,543,591	2.5
Investment Earnings	9,641	9,896	(2.6)
Other	316,852	244,319	29.7
Total Revenues	<u>24,524,408</u>	<u>23,152,140</u>	5.9
Expenses			
Administration	981,991	903,023	8.7
District Support Services	425,904	415,587	2.5
Regular Instruction	9,793,758	9,217,953	6.2
Vocational Education Instruction	217,751	211,728	2.8
Special Education Instruction	2,499,986	2,362,136	5.8
Instructional Support Services	1,307,932	1,228,305	6.5
Pupil Support Services	2,227,248	2,141,487	4.0
Sites and Buildings	2,093,824	2,018,873	3.7
Fiscal and Other Fixed Cost Programs	118,308	114,132	3.7
Food Service	785,654	709,101	10.8
Community Service	1,200,109	1,171,156	2.5
Interest and Fiscal Charges on Long-Term Liabilities	1,906,701	1,664,626	14.5
Total Expenses	<u>23,559,166</u>	<u>22,158,107</u>	6.3
Change in Net Position	965,242	994,033	
Beginning Net Position	<u>(6,477,114)</u>	<u>(7,471,147)</u>	
Ending Net Position	<u>\$ (5,511,872)</u>	<u>\$ (6,477,114)</u>	

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

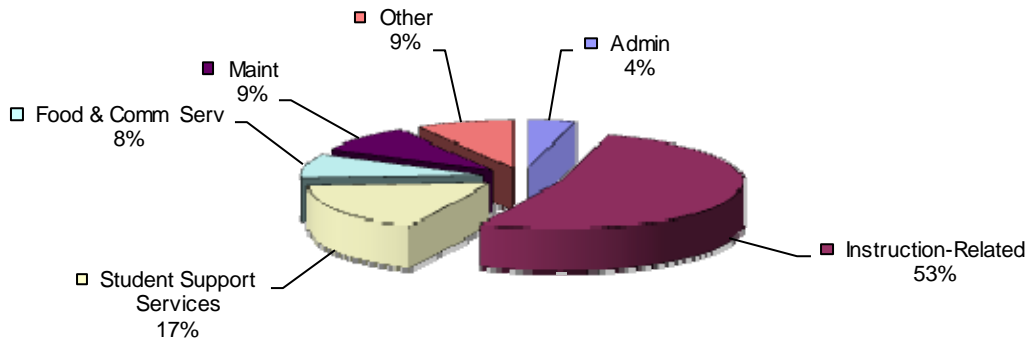
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this year was approximately \$23,559,000.

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



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



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**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

All governmental activities includes not only funds received for the general operation of the District, which are used for classroom instruction, but also includes resources from the other operating funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2016	2015		2016	2015	
Administration	\$ 981,991	\$ 903,023	8.7 %	\$ 789,487	\$ 893,209	(11.6)%
District Support Services	425,904	415,587	2.5	425,904	415,587	2.5
Regular Instruction	9,793,758	9,217,953	6.2	8,027,029	7,527,566	6.6
Vocational Education Instruction	217,751	211,728	2.8	217,751	211,728	2.8
Special Education Instruction	2,499,986	2,362,136	5.8	1,042,503	723,017	44.2
Instructional Support Services	1,307,932	1,228,305	6.5	1,173,569	1,122,459	4.6
Pupil Support Services	2,227,248	2,141,487	4.0	1,617,161	1,676,450	(3.5)
Sites and Buildings	2,093,824	2,018,873	3.7	1,835,791	1,866,164	(1.6)
Fiscal and Other Fixed Cost Programs	118,308	114,132	3.7	118,308	114,132	3.7
Food Service	785,654	709,101	10.8	(95)	15,940	(100.6)
Community Service	1,200,109	1,171,156	2.5	111,094	244,277	(54.5)
Interest and Fiscal Charges on Long-Term Liabilities	1,906,701	1,664,626	14.5	1,906,701	1,664,626	14.5
Total	\$ 23,559,166	\$ 22,158,107	6.3	\$ 17,265,203	\$ 16,475,155	4.8

The increase in instruction expenditures is due to the District preparing for an increase in student enrollment and therefore hiring additional staff. All other areas remained fairly consistent from the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of approximately \$2,736,000 which is about \$14,000 more than last year's ending fund balance of \$2,722,000. This is due primarily to the District continuing to monitor expenditures and continuing to make cut backs.

GENERAL FUND

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

General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

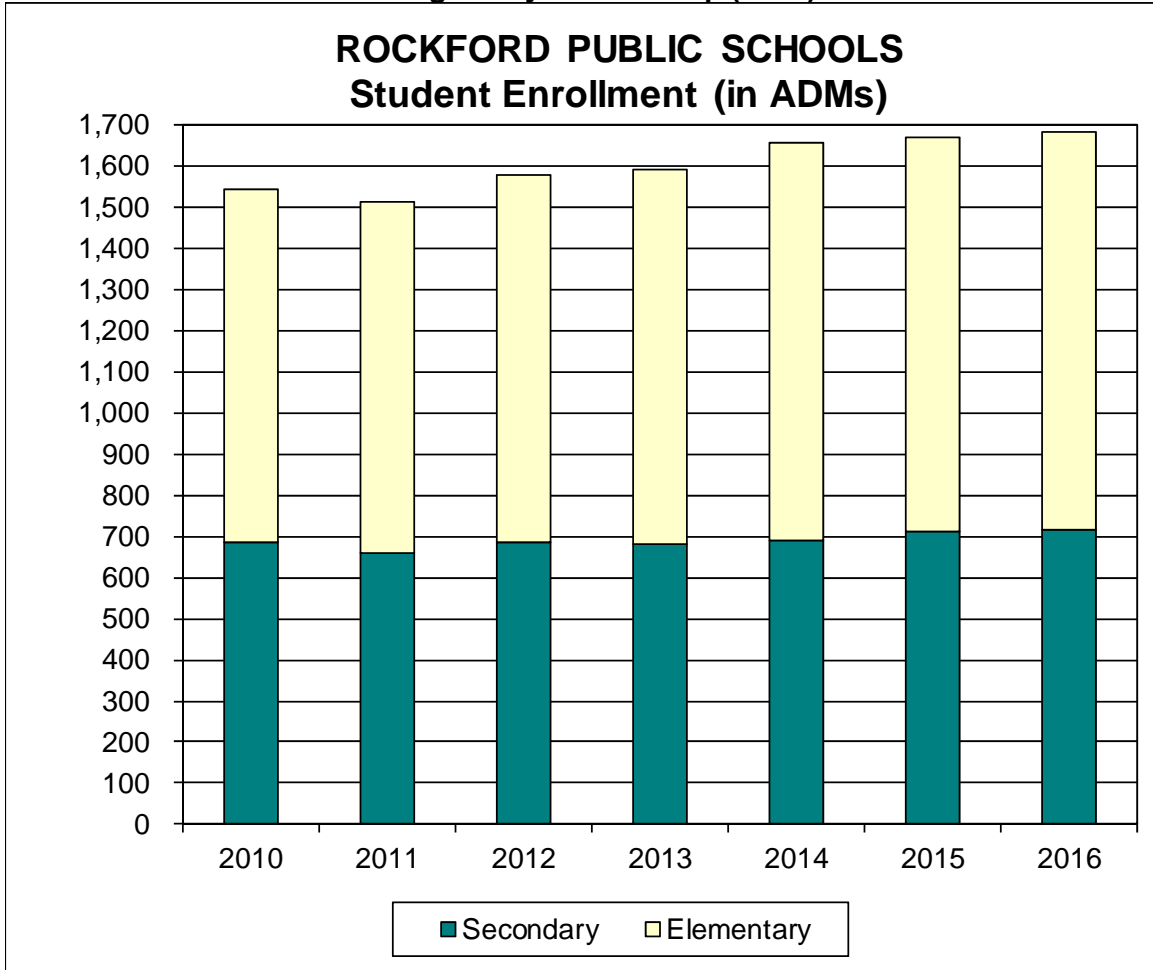
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**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

ENROLLMENT

Enrollment is a critical factor in determining revenue. The following chart shows that the number of students increased over the prior year.

**Table A-4
Seven-Year Enrollment Trend
Average Daily Membership (ADM)**



Over the last four years, the District has experienced an increase in average daily membership by 141 students. The enrollment is expected to continue to grow as the District has added new programs and is promoting many new initiatives. The District continues to encourage and welcome enrollment of students and hopes increased enrollment continues as new families move to the area and as students from neighboring areas choose to open enroll to Rockford.

	2010	2011	2012	2013	2014	2015	2016
Reg K, Pre-K & KH	132	117	146	155	160	151	143
Elementary	726	736	745	755	805	809	825
Secondary	685	660	686	682	690	710	716
Total Students for Aid	1,543	1,513	1,577	1,592	1,655	1,670	1,684
Percent Change	0.85%	-1.94%	4.23%	0.95%	3.96%	0.91%	0.83%

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**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND

The following schedule presents a summary of General Fund revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent
Local Sources:				
Property Taxes	\$ 1,968,697	\$ 1,580,493	\$ 388,204	24.6 %
Earnings on Investments	3,841	636	3,205	503.9
Other	758,210	792,546	(34,336)	(4.3)
State Sources	14,893,617	14,264,120	629,497	4.4
Federal Sources	305,446	294,007	11,439	3.9
Total General Fund Revenue	<u>\$ 17,929,811</u>	<u>\$ 16,931,802</u>	<u>\$ 998,009</u>	5.9

Total General Fund revenue increased by approximately \$998,000 or 5.9% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of mostly state aid revenue. Other state-authorized revenue including operating levy referendum, operating capital revenue and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

State revenue increased overall by \$629,497 due mostly to the increase in general education aid in the current year and the TRA direct aid of approximately \$188,000.

Property taxes increased by \$388,204 due to an increase in the levy and additional collection of delinquent taxes.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2016	June 30, 2015		
Salaries	\$ 9,421,089	\$ 9,230,694	\$ 190,395	2.1 %
Employee Benefits	2,959,489	2,682,397	277,092	10.3
Purchased Services	3,726,291	4,084,048	(357,757)	(8.8)
Supplies and Materials	907,086	949,560	(42,474)	(4.5)
Capital Expenditures	258,474	276,259	(17,785)	(6.4)
Other Expenditures	160,016	146,373	13,643	9.3
Total Expenditures	\$ 17,432,445	\$ 17,369,331	\$ 63,114	0.4

Total General Fund expenditures increased approximately \$63,000 or 0.4% to provide additional services and add more staff for growing enrollment. This increase was due to receiving TRA direct aid and reporting it as additional revenue and expenditures in the current year of approximately \$188,000.

Revenues exceeded expenditures which resulted in an increase in fund balance at the end of 2015-16.

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the District revises the annual operating budget in mid-year. However, the school district monitored the budget closely and proposed two budget revisions in addition to the original adopted budget. These budget amendments typically fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over.
- Increases in appropriations for significant unbudgeted costs.

Actual revenues were approximately \$368,000 more than expected from the budget, primarily due to TRA direct aid which is not budgeted for and an increase in taxes.

The actual expenditures were approximately \$4,000 more than budgeted. Restricted health and safety fund balance ended with a negative balance of \$113,590. Restricted safe schools fund balance ended with a positive balance of \$26,861.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

DEBT SERVICE FUNDS

The Debt Service Fund expenditures exceeded revenues by approximately \$171,000 for fiscal 2016. There was a refunding bond issued during the current year.

OTHER MAJOR FUNDS

Revenue exceeded expenditures in the Food Service Fund by about \$2,300. Revenues exceeded expenditures in the Community Service Fund by approximately \$62,000 due to an increase in revenues and expenditures remaining consistent. Expenditures exceeded revenues in the Building Construction Fund by approximately \$489,000 due to payments for capital outlay for the current building project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2016, the District had invested approximately \$78.8 million in a broad range of capital assets; including construction in progress for the building construction projects (see Table A-7). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$2,111,838.

**Table A-7
The District's Capital Assets**

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Land	\$ 1,735,919	\$ 1,735,919	-
Construction-in-Progress	-	2,067,026	(100.0)
Land Improvements	9,142,386	9,142,386	-
Buildings and Improvements	62,339,274	59,634,747	4.5
Equipment	5,594,770	5,548,627	0.8
Less: Accumulated Depreciation	<u>(28,070,931)</u>	<u>(25,959,093)</u>	8.1
Total	<u>\$ 50,741,418</u>	<u>\$ 52,169,612</u>	(2.7)

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

LONG-TERM LIABILITIES

At year-end, the District had \$49,567,217 in general obligation bonds and net bond premium (discount) – a decrease of 5.2% from last year – as shown in Note 5 to the financial statements. The decrease is due to regular payments made on outstanding debt. The District also had an estimated \$100,258 in vacation and severance payable at June 30, 2016, a decrease of \$5,718 from June 30, 2015.

**Table A-8
The District's Long-Term Liabilities**

	2016	2015	Percentage Change
General Obligation Bonds	\$ 46,220,000	\$ 51,660,000	(10.5)%
Net Bond Premium (Discount)	3,347,217	655,600	410.6
Severance Benefits Payable	72,244	72,244	-
Compensated Absences Payable	28,014	33,732	(17.0)
Total	<u>\$ 49,667,475</u>	<u>\$ 52,421,576</u>	(5.3)
Long-Term Liabilities:			
Due within One Year	\$ 2,397,004	\$ 2,798,786	
Due in More than One Year	47,270,471	49,622,790	
Total	<u>\$ 49,667,475</u>	<u>\$ 52,421,576</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has made significant infrastructure and program enhancements to increase enrollment.

The District will need to monitor enrollment growth and continue to monitor the expenses associated with the new programs, to ensure they can be sustained.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 883, 6051 Ash St., Rockford, Minnesota 55373.

Bond Ratings

The District's bonds presently carry a Standard & Poor's "AA-" rating.

Limitations on Debt

The state limits the amount of general obligation debt the District can issue to 15% of the assessed value of all taxable property within the District's corporate limits. Our outstanding debt is significantly below this limit – which is currently \$140 million.

BASIC FINANCIAL STATEMENTS

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF NET POSITION
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Governmental Activities	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Investments	\$ 4,832,995	\$ 5,566,582
Receivables:		
Property Taxes	3,115,048	3,084,461
Other Governments	2,122,251	2,066,708
Other	137,814	213,634
Due from Fiduciary Funds	45,393	41,551
Prepaid Items	-	837
Net Prepaid OPEB Obligation	1,212,084	1,290,369
Capital Assets:		
Land	1,735,919	1,735,919
Construction-in-Progress	-	2,067,026
Other Capital Assets, Net of Depreciation	49,005,499	48,366,667
Total Assets	<u>62,207,003</u>	<u>64,433,754</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	2,414,070	1,920,059
LIABILITIES		
Salaries and Compensated Absences Payable	1,259,263	1,254,536
Accounts and Contracts Payable	149,005	901,371
Accrued Interest	887,253	732,797
Due to Other Governmental Units	2,683	2,015
Due to Other Minnesota School Districts	41,103	32,387
Unearned Revenue:		
Local Sources	33,037	33,673
Net Pension Liability	11,048,358	8,883,295
Long-Term Liabilities:		
Portion Due Within One Year	2,397,004	2,798,786
Portion Due in More Than One Year	47,270,471	49,622,790
Total Liabilities	<u>63,088,177</u>	<u>64,261,650</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related	1,176,771	2,703,049
Property Taxes	5,867,997	5,866,228
Total Deferred Inflows of Resources	<u>7,044,768</u>	<u>8,569,277</u>
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	1,616,337	1,223,001
Restricted for:		
General Fund Operating Capital Purposes	155,342	297,910
General Fund State-Mandated Restricted	26,861	-
Food Service	20,630	18,363
Community Service	210,630	148,076
Restricted for Greenhouse	30,000	-
Debt Service	111,455	324,203
Capital Projects - Building Construction	177,446	-
Unrestricted	<u>(7,860,573)</u>	<u>(8,488,667)</u>
Total Net Position (Deficit)	<u>\$ (5,511,872)</u>	<u>\$ (6,477,114)</u>

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

2016

Functions	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities				
Administration	\$ 981,991	\$ -	\$ 192,504	\$ -
District Support Services	425,904	-	-	-
Regular Instruction	9,793,758	492,058	1,080,600	194,071
Vocational Education Instruction	217,751	-	-	-
Special Education Instruction	2,499,986	-	1,457,483	-
Instructional Support Services	1,307,932	12,163	122,200	-
Pupil Support Services	2,227,248	-	610,087	-
Sites and Buildings	2,093,824	52,158	6,478	199,397
Fiscal and Other Fixed Cost Programs	118,308	-	-	-
Food Service	785,654	422,056	363,693	-
Community Service	1,200,109	1,009,334	79,681	-
Interest and Fiscal Charges on Long-Term Liabilities	1,906,701	-	-	-
Total School District	<u>\$ 23,559,166</u>	<u>\$ 1,987,769</u>	<u>\$ 3,912,726</u>	<u>\$ 393,468</u>

General Revenues

Property Taxes Levied for:
 General Purposes
 Community Service
 Debt Service
State Aid Not Restricted to Specific Purposes
Earnings on Investments
Miscellaneous
 Total General Revenues
Change in Net Position
Net Position - Beginning of Year
Net Position - End of Year

See accompanying Notes to Basic Financial Statements.

<u>2016</u>	<u>2015</u>
Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
<u>Total</u>	<u>Total</u>
Governmental Activities	Governmental Activities
\$ (789,487)	\$ (893,209)
(425,904)	(415,587)
(8,027,029)	(7,527,566)
(217,751)	(211,728)
(1,042,503)	(723,017)
(1,173,569)	(1,122,459)
(1,617,161)	(1,676,450)
(1,835,791)	(1,866,164)
(118,308)	(114,132)
95	(15,940)
(111,094)	(244,277)
<u>(1,906,701)</u>	<u>(1,664,626)</u>
(17,265,203)	(16,475,155)
1,969,859	1,578,521
124,043	117,765
3,981,081	3,975,096
11,828,969	11,543,591
9,641	9,896
316,852	244,319
<u>18,230,445</u>	<u>17,469,188</u>
965,242	994,033
(6,477,114)	(7,471,147)
<u>\$ (5,511,872)</u>	<u>\$ (6,477,114)</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Major Funds		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 1,333,475	\$ 31,311	\$ 281,350
Receivables:			
Current Property Taxes	957,666	-	62,569
Delinquent Property Taxes	48,794	-	4,137
Accounts and Interest Receivable	133,128	4,686	-
Due from Other Minnesota School Districts	53,769	-	10,559
Due from Minnesota Department of Education	1,878,208	-	11,232
Due from Federal Government through Minnesota Department of Education	122,857	-	-
Due from Other Funds	45,393	-	-
Prepaid Items	-	-	-
Total Assets	<u>\$ 4,573,290</u>	<u>\$ 35,997</u>	<u>\$ 369,847</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Salaries and Compensated Absences Payable	\$ 614,427	\$ -	\$ 9,411
Payroll Deductions and Employer Contributions Payable	635,425	-	-
Accounts and Contracts Payable	144,945	-	4,060
Due to Other Governmental Units	2,683	-	-
Due to Other Minnesota School Districts	41,103	-	-
Unearned Revenue	-	15,367	17,670
Total Liabilities	<u>1,438,583</u>	<u>15,367</u>	<u>31,141</u>
Deferred Inflows of Resources:			
Property Taxes Levied for Subsequent Year	1,813,844	-	128,076
Unavailable Revenue - Delinquent Taxes	45,402	-	3,875
Total Deferred Inflows of Resources	<u>1,859,246</u>	<u>-</u>	<u>131,951</u>
Fund Balance:			
Prepaid Items	-	-	-
Restricted:			
Deferred Maintenance	-	-	-
Health and Safety	(113,590)	-	-
Operating Capital	155,342	-	-
Safe Schools - Crime	26,861	-	-
Community Education Programs	-	-	182,624
Early Childhood and Family Educations Programs	-	-	2,243
School Readiness	-	-	3,044
Other Restricted	30,000	20,630	18,844
Assigned:			
Q Comp	99,715	-	-
Unassigned	1,077,133	-	-
Total Fund Balance	<u>1,275,461</u>	<u>20,630</u>	<u>206,755</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 4,573,290</u>	<u>\$ 35,997</u>	<u>\$ 369,847</u>

See accompanying Notes to Basic Financial Statements.

Building Construction	Debt Service	Total Governmental Funds	
		2016	2015
\$ 349,582	\$ 2,837,277	\$ 4,832,995	\$ 5,566,582
-	1,918,029	2,938,264	2,883,393
-	123,853	176,784	201,068
-	-	137,814	213,634
-	-	64,328	43,141
-	45,626	1,935,066	1,901,530
-	-	122,857	122,037
-	-	45,393	41,551
-	-	-	837
<u>\$ 349,582</u>	<u>\$ 4,924,785</u>	<u>\$ 10,253,501</u>	<u>\$ 10,973,773</u>
\$ -	\$ -	\$ 623,838	\$ 647,311
-	-	635,425	607,225
-	-	149,005	901,371
-	-	2,683	2,015
-	-	41,103	32,387
-	-	33,037	33,673
-	-	1,485,091	2,223,982
-	3,926,077	5,867,997	5,866,228
-	115,091	164,368	161,224
-	4,041,168	6,032,365	6,027,452
-	-	-	837
-	-	-	(42,320)
-	-	(113,590)	(330,011)
-	-	155,342	297,910
-	-	26,861	(19,845)
-	-	182,624	140,062
-	-	2,243	2,148
-	-	3,044	1,932
349,582	883,617	1,302,673	1,801,302
-	-	99,715	35,786
-	-	1,077,133	834,538
<u>349,582</u>	<u>883,617</u>	<u>2,736,045</u>	<u>2,722,339</u>
<u>\$ 349,582</u>	<u>\$ 4,924,785</u>	<u>\$ 10,253,501</u>	<u>\$ 10,973,773</u>

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**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
Total Fund Balance for Governmental Funds	\$ 2,736,045	\$ 2,722,339
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	1,735,919	1,735,919
Construction in Progress	-	2,067,026
Land Improvements, Net of Accumulated Depreciation	6,465,122	6,838,899
Buildings and Improvements, Net of Accumulated Depreciation	42,268,739	41,243,680
Equipment, Net of Accumulated Depreciation	271,638	284,088
OPEB trust contributions net of the OPEB liability recognized to date, are not current financial resources and, therefore, are not reported at fund level.		
	1,212,084	1,290,369
The District's net pension liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Net Pension Liability	(11,048,358)	(8,883,295)
Deferred Inflows of Resources - Pension Related	(1,176,771)	(2,703,049)
Deferred Outflows of Resources - Pension Contributions	2,414,070	1,920,059
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as deferred inflows of resources in the funds.		
	164,368	161,224
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(887,253)	(732,797)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(46,220,000)	(51,660,000)
Unamortized Premiums	(3,347,217)	(655,600)
Severance Benefits Payable	(72,244)	(72,244)
Compensated Absences Payable	(28,014)	(33,732)
Total Net Position of Governmental Activities	\$ (5,511,872)	\$ (6,477,114)

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	Major Funds		
	General	Food Service	Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 1,968,697	\$ -	\$ 123,907
Earnings on Investments	3,841	-	-
Other	758,210	422,056	1,009,334
State Sources	14,893,617	33,004	116,462
Federal Sources	305,446	330,689	-
Total Revenues	<u>17,929,811</u>	<u>785,749</u>	<u>1,249,703</u>
EXPENDITURES			
Current:			
Administration	967,746	-	-
District Support Services	420,676	-	-
Regular Instruction	7,747,522	-	-
Vocational Education Instruction	215,148	-	-
Special Education Instruction	2,445,915	-	-
Instructional Support Services	1,289,528	-	-
Pupil Support Services	2,201,218	-	-
Sites and Buildings	1,767,910	-	-
Fiscal and Other Fixed Cost Programs	118,308	-	-
Food Service	-	779,778	-
Community Service	-	-	1,179,117
Capital Outlay	258,474	3,704	8,168
Debt Service:			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>17,432,445</u>	<u>783,482</u>	<u>1,187,285</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	497,366	2,267	62,418
OTHER FINANCING SOURCES (USES)			
Insurance Recovery Proceeds	1,200	-	-
Bonds Proceeds	-	-	-
Principal Payment on Refunded Bonds	-	-	-
Bond Premium	-	-	-
Total Other Financing Sources (Uses)	<u>1,200</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	498,566	2,267	62,418
Fund Balance - Beginning of Year	<u>776,895</u>	<u>18,363</u>	<u>144,337</u>
FUND BALANCE - END OF YEAR	<u>\$ 1,275,461</u>	<u>\$ 20,630</u>	<u>\$ 206,755</u>

See accompanying Notes to Basic Financial Statements.

Building Construction	Debt Service	Total Governmental Funds	
		2016	2015
\$ -	\$ 3,979,235	\$ 6,071,839	\$ 5,687,061
811	4,989	9,641	9,896
113,500	-	2,303,100	1,997,365
-	456,266	15,499,349	14,882,900
-	-	636,135	587,774
<u>114,311</u>	<u>4,440,490</u>	<u>24,520,064</u>	<u>23,164,996</u>
-	-	967,746	903,404
-	-	420,676	413,991
-	-	7,747,522	7,734,701
-	-	215,148	211,511
-	-	2,445,915	2,388,026
-	-	1,289,528	1,217,868
-	-	2,201,218	2,120,300
-	-	1,767,910	1,989,139
-	-	118,308	114,132
-	-	779,778	709,101
-	-	1,179,117	1,179,308
603,718	-	874,064	12,591,615
-	2,740,000	2,740,000	2,560,000
-	1,871,492	1,871,492	1,827,887
<u>603,718</u>	<u>4,611,492</u>	<u>24,618,422</u>	<u>35,960,983</u>
(489,407)	(171,002)	(98,358)	(12,795,987)
-	-	1,200	2,823
-	17,690,000	17,690,000	-
-	(20,390,000)	(20,390,000)	-
-	2,810,864	2,810,864	-
<u>-</u>	<u>110,864</u>	<u>112,064</u>	<u>2,823</u>
(489,407)	(60,138)	13,706	(12,793,164)
<u>838,989</u>	<u>943,755</u>	<u>2,722,339</u>	<u>15,515,503</u>
<u>\$ 349,582</u>	<u>\$ 883,617</u>	<u>\$ 2,736,045</u>	<u>\$ 2,722,339</u>

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**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS
TO STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	2016	2015
Net Change in Fund Balance - Total Governmental Funds	\$ 13,706	\$ (12,793,164)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlay	683,644	12,541,854
Depreciation Expense	(2,111,838)	(1,504,057)
Payment of OPEB benefits are recognized as expenditures at the fund level while the change in the net prepaid OPEB obligation is recognized in the statement of net position.		
	(78,285)	(76,304)
Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.		
	(144,774)	100,343
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of discounts and premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
General Obligation Bond Proceeds	(17,690,000)	-
Bond Premium	(2,810,864)	-
Repayment of Bond Principal	23,130,000	2,560,000
Change in Accrued Interest Expense - General Obligation Bonds	(154,456)	24,935
Amortization of Bond Premium	119,247	138,326
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unavailable in the funds.		
	3,144	(15,679)
In the statement of activities, certain operating expenses - severance benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	5,718	17,779
Change in Net Position of Governmental Activities	\$ 965,242	\$ 994,033

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 1,819,911	\$ 1,873,198	\$ 1,968,697	\$ 95,499
Earnings on Investments	441	3,300	3,841	541
Other	717,056	664,729	758,210	93,481
State Sources	14,503,056	14,714,306	14,893,617	179,311
Federal Sources	302,946	306,602	305,446	(1,156)
Total Revenues	<u>17,343,410</u>	<u>17,562,135</u>	<u>17,929,811</u>	<u>367,676</u>
EXPENDITURES				
Current:				
Administration	902,105	989,185	967,746	(21,439)
District Support Services	402,060	429,869	420,676	(9,193)
Elementary and Secondary Regular Instruction	8,094,769	7,671,017	7,747,522	76,505
Vocational Education Instruction	196,371	212,572	215,148	2,576
Special Education Instruction	2,390,631	2,421,257	2,445,915	24,658
Instructional Support Services	1,145,331	1,299,478	1,289,528	(9,950)
Pupil Support Services	1,916,888	2,189,687	2,201,218	11,531
Sites and Buildings	1,991,280	1,830,439	1,767,910	(62,529)
Fiscal and Other Fixed Cost Programs	115,000	118,308	118,308	-
Capital Outlay	376,736	267,085	258,474	(8,611)
Total Expenditures	<u>17,531,171</u>	<u>17,428,897</u>	<u>17,432,445</u>	<u>3,548</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(187,761)	133,238	497,366	364,128
OTHER FINANCING SOURCES				
Insurance Recovery Proceeds	-	-	1,200	1,200
Net Change in Fund Balance	<u>\$ (187,761)</u>	<u>\$ 133,238</u>	498,566	<u>\$ 365,328</u>
FUND BALANCE				
Beginning of Year			<u>776,895</u>	
End of Year			<u>\$ 1,275,461</u>	

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	358,293	\$ 407,668	\$ 422,056	\$ 14,388
State Sources	28,594	33,681	33,004	(677)
Federal Sources	273,113	311,484	330,689	19,205
Total Revenues	<u>660,000</u>	<u>752,833</u>	<u>785,749</u>	<u>32,916</u>
EXPENDITURES				
Current:				
Food Service	660,000	707,662	779,778	72,116
Capital Outlay	-	-	3,704	3,704
Total Expenditures	<u>660,000</u>	<u>707,662</u>	<u>783,482</u>	<u>75,820</u>
Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 45,171</u>	2,267	<u>\$ (42,904)</u>
FUND BALANCE				
Beginning of Year			<u>18,363</u>	
End of Year			<u>\$ 20,630</u>	

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 110,405	\$ 123,683	\$ 123,907	\$ 224
Other - Primarily Tuition and Fees	880,958	917,770	1,009,334	91,564
State Sources	<u>120,345</u>	<u>116,913</u>	<u>116,462</u>	<u>(451)</u>
Total Revenues	1,111,708	1,158,366	1,249,703	91,337
EXPENDITURES				
Current:				
Community Service	1,099,764	1,175,811	1,179,117	3,306
Capital Outlay	<u>-</u>	<u>9,000</u>	<u>8,168</u>	<u>(832)</u>
Total Expenditures	<u>1,099,764</u>	<u>1,184,811</u>	<u>1,187,285</u>	<u>2,474</u>
Net Change in Fund Balance	<u>\$ 11,944</u>	<u>\$ (26,445)</u>	62,418	<u>\$ 88,863</u>
FUND BALANCE				
Beginning of Year			<u>144,337</u>	
End of Year			<u>\$ 206,755</u>	

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016**

	<u>Postemployment Benefits Irrevocable Trust Fund</u>
ASSETS	
Cash and Investments	\$ 1,273,811
LIABILITIES	
Due to Other Funds	<u>45,393</u>
NET POSITION	
Held in Trust for Postemployment Benefits	<u><u>\$ 1,228,418</u></u>

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016**

	<u>Postemployment Benefits Irrevocable Trust Fund</u>
ADDITIONS	
Investment Earnings	\$ 27,593
DEDUCTIONS	
OPEB Costs	44,957
Purchased Services	250
Total Deductions	<u>45,207</u>
CHANGE IN NET POSITION	(17,614)
Net Position - Beginning of Year	<u>1,246,032</u>
NET POSITION - END OF YEAR	<u><u>\$ 1,228,418</u></u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 883 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Independent School District No. 883 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

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

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

Student activities of the District are under the School Board's Control; therefore, activity is included within the General Fund.

C. Basic Financial Statement Presentation

The District-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

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

D. Measurement Focus and Basis of Accounting

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

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

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 U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Description of Funds

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

Major Governmental Funds

General Fund

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

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund are generated from user fees, federal reimbursements, and state aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes and state aids.

Capital Projects – Building Construction Fund

The Building Construction Fund is used to account for financial resources restricted, committed, or assigned to be used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific voter-approved bond issues.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Funds (Continued)

Debt Service Fund

The Debt Service Fund is used to account for and report financial resources restricted, committed, or assigned to pay general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service except for refunding bond issues, for which a separate refunding bond trust account is established.

Fiduciary Funds

Postemployment Benefits Irrevocable Trust Fund

This trust fund is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits. District contributions to this fund must be expensed to an operating fund.

E. Budgeting

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

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

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

Budgeted amounts include mid-year budget amendments that increased or decreased revenue and expenditure budgets as follows:

<u>Revenues and Other Financing Sources</u>	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	\$ 17,343,410	\$ 218,725	\$ 17,562,135
Special Revenue Funds:			
Food Service Fund	660,000	92,833	752,833
Community Service Fund	1,111,708	46,658	1,158,366
Building Construction Fund	-	114,050	114,050
Debt Service Fund	4,661,381	(209,177)	4,452,204
<u>Expenditures</u>			
General Fund	\$ 17,531,171	\$ (102,274)	\$ 17,428,897
Special Revenue Funds:			
Food Service Fund	660,000	47,662	707,662
Community Service Fund	1,099,764	85,047	1,184,811
Building Construction Fund	1,314,176	(668,136)	646,040
Debt Service Fund	4,646,480	(145,513)	4,500,967

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

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

F. Cash and Investments

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

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, Bankers' acceptances, and U.S. Treasury and agency obligations.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable

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

H. Property Taxes

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

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Property Taxes (Continued)

In accordance with state law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$108,596) for the District. Certain other portions of the District's 2015 pay 2016 levy, normally revenue for the 2016-17 fiscal year are also advance recognized as of June 30, 2016, as required by state statute to match revenue with the same fiscal year as the related expenditures.

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

I. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 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. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports 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. The District will not recognize the related outflow until a future event occurs.

K. Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bonds payable are reported net of applicable premiums and discounts which are amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

L. Accrued Employee Benefits

Vacation Pay

The District's twelve-month employees are entitled to annual vacations. These benefits are reported as liabilities in the District-wide financial statements and as expenditures when taken in the fund financial statements.

Sick Pay

Substantially all district employees are entitled to sick leave at various rates. For certain employees, unused sick leave is a factor in the calculation of an employee's severance pay upon retirement.

Severance and Health Benefits

Severance and health benefits consist of lump sum early retirement incentive payments and postemployment health care benefits. Accounting policies for severance and health benefits are described below.

1. Severance and Convertible Sick Leave

The District maintains various severance payment plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements and unused accumulated sick leave upon termination subject to certain conditions. No employee can receive severance payments exceeding one year's salary. If retirement occurs by year-end, the related benefits are included with salaries and other compensated absences as a current liability. Effective for contracts beginning July 1, 2005, the District provides Health Care Savings Account contributions based upon contract agreements. These amounts, to the extent applicable, are included in the calculation of severance liability.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accrued Employee Benefits (Continued)

Severance and Health Benefits (Continued)

1. Severance and Convertible Sick Leave (Continued)

During fiscal year 2016, the District's expenditures for convertible sick leave related to severance totaled \$21,425. At June 30, 2016, the long-term portion of the early retirement incentive and convertible sick leave liability is included as part of non-current liabilities on the statement of net position.

2. Other Postemployment Benefits Payable

Under the provisions of the various employee and union contracts the District provides Health and Dental Care coverage until age 65 if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract.

M. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

N. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has legal claim to them. The District has reported unearned revenues for the unearned grant revenue, charges for services and school lunch deposits.

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.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long term receivables, and corpus on any permanent fund. Nonspendable portions of fund balance are related to prepaid items and inventory. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Superintendent and Business Manager to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

It is also the District's policy to strive to maintain a minimum unassigned fund balance in the General Fund of 8% of the General Fund annual expenditure budget.

Q. 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; and natural disasters. The District purchases commercial insurance coverage for such risks.

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

R. Net Position

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

S. Comparative Data

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund at June 30, 2016.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 17,428,897	\$ 17,432,445	\$ 3,548
Special Revenue Fund:			
Food Service Fund	707,662	783,482	75,820
Community Service Fund	1,184,811	1,187,285	2,474
Debt Service Fund	4,500,967	4,611,492	110,525

The overages were considered by District management to be the result of necessary expenditures critical to operations and were approved by the Board.

B. Due to/from Other Funds

	<u>Payable Fund</u>
	OPEB Trust
	Fund
Receivable Fund:	
General Fund	<u>\$ 45,393</u>

The amount due to the General Fund from the OPEB Trust Fund relates to OPEB expenditures paid by the General Fund to be reimbursed by the Trust.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Investments." The District does have an investment policy which follows Minnesota Statutes. The District maintains deposits at financial institutions which are authorized by the School District's Board.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

The District's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rate "A" or better
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers

At June 30, 2016, the District's investment balances were as follows:

Type	Amount
Negotiable Certificates of Deposit	\$ 1,096,083
MN Trust Investment Shares	4,996,273
Total	\$ 6,092,356

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District’s investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity:

Type	Total	12 Months or Less	13 to 24 Months	24 Months or More
Negotiable Certificates of Deposit	\$ 1,096,083	\$ 102,201	\$ 339,099	\$ 654,783
MN Trust Investment Shares	4,996,273	4,996,273	-	-
Total	<u>\$ 6,092,356</u>	<u>\$ 5,098,474</u>	<u>\$ 339,099</u>	<u>\$ 654,783</u>

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following chart summarizes year-end ratings for the District’s investments as rated by Standard & Poor’s:

Type	Credit Quality Rating	Amount
Certificate of Deposits	NR	\$ 1,096,083
MN Trust Investment Shares	AAAm	4,996,273
Total		<u>\$ 6,092,356</u>

Custodial Credit Risk – For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the School District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District’s bond documents require insurance of all balances held with each investment account. As of June 30, 2016, the investment balances were fully covered by insurance.

The District’s deposits (\$14,450) and investments (\$6,092,356) are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 4,832,995
Cash and Investments - Statement of Fiduciary Net Position	1,273,811
Total Cash and Investments	<u>\$ 6,106,806</u>

**ROCKFORD AREA SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Fair Value Measurements

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

- Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.
- Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

<u>Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
CD's	\$ 1,096,084	\$ -	\$ -	\$ 1,096,084

**ROCKFORD AREA SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,735,919	\$ -	\$ -	\$ 1,735,919
Construction in Progress	2,067,026	-	(2,067,026)	-
Total Capital Assets, Not Being Depreciated	3,802,945	-	(2,067,026)	1,735,919
Capital Assets, Being Depreciated:				
Land Improvements	9,142,386	-	-	9,142,386
Buildings and Improvements	59,634,747	2,704,527	-	62,339,274
Equipment	5,548,627	46,143	-	5,594,770
Total Capital Assets, Being Depreciated	74,325,760	2,750,670	-	77,076,430
Accumulated Depreciation for:				
Land Improvements	(2,303,487)	(373,777)	-	(2,677,264)
Buildings and Improvements	(18,391,067)	(1,679,468)	-	(20,070,535)
Equipment	(5,264,539)	(58,593)	-	(5,323,132)
Total Accumulated Depreciation	(25,959,093)	(2,111,838)	-	(28,070,931)
Total Capital Assets, Being Depreciated, Net	48,366,667	638,832	-	49,005,499
Governmental Activities Capital Assets, Net	<u>\$ 52,169,612</u>	<u>\$ 638,832</u>	<u>\$ (2,067,026)</u>	<u>\$ 50,741,418</u>

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

Governmental Activities	
Regular Instruction	\$ 1,860,930
Instructional Support Services	2,198
Pupil Support Services	19,266
Sites and Buildings	229,444
Total Depreciation Expense, Governmental Activities	<u>\$ 2,111,838</u>

**ROCKFORD AREA SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Debt

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
2009	1.35% - 4.00%	\$ 1,865,000	2/1/2017	\$ 270,000	\$ 270,000
2010	2.00% - 3.50%	1,875,000	2/1/2025	115,000	1,180,000
2010	2.00% - 4.00%	6,240,000	2/1/2017	885,000	885,000
2013	2.00%	26,890,000	2/1/2029	165,000	26,195,000
2016	5.00%	17,690,000	2/1/2023	910,000	17,690,000
Total General Obligation Bonds				2,345,000	46,220,000
Bond Premium - Net				-	3,347,217
Severance Benefits Payable				23,990	72,244
Compensated Absences Payable				28,014	28,014
Total				<u>\$ 2,397,004</u>	<u>\$ 49,667,475</u>

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including severance, other postemployment benefits payable, or other compensated absences are as follows:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2017	\$ 2,345,000	\$ 1,874,176
2018	2,860,000	1,594,488
2019	3,050,000	1,463,038
2020	3,230,000	1,323,888
2021	3,315,000	1,176,588
2022 - 2026	19,010,000	3,639,288
2027 - 2029	12,410,000	751,950
Total	<u>\$ 46,220,000</u>	<u>\$ 11,823,416</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt

General Obligation School Building Bonds

These bonds were issued to finance acquisition, construction, and/or improvement of capital facilities or to refinance (refund) previous bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. Total deferred tax levies available to retire bond principal and interest payable at June 30, 2016 are \$60,945,585. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

On November 10, 2010, the District issued \$6,240,000 of General Obligation School Building Refunding Bonds, Series 2010B. The proceeds of this issue were used on February 1, 2011 to refund the \$11,425,000 General Obligation School Building Bonds, Series 2001.

On January 30, 2013, the District issued \$26,890,000 of General Obligation Building Bonds, Series 2013A. The proceeds of this issue are being used for the maintenance, renovation, and remodeling of the Middle School and High School and to renovate athletic facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds.

In November 2015, the District issued \$17,690,000 General Obligation School Building Refunding Bonds, Series 2015A. The Bonds were issued for a current refunding of: 2006A General Obligation School Building Refunding Bonds of \$21,265,000. The total gross savings to the District attributable to the refunding and defeasance of these bonds is \$2,361,656 with a net present value savings of approximately \$2,221,212.

General Obligation Taxable OPEB Bonds

On October 13, 2009, the District issued \$1,865,000 General Obligation Taxable OPEB Bonds, Series 2009B. The proceeds are to be used to finance the OPEB liability. Repayment of the principal will be in seven annual installments, plus variable interest at 1.35% to 4.00%, commencing February 1, 2011.

**ROCKFORD AREA SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

General Obligation Capital Facilities Bonds

On March 3, 2010, the District issued \$1,875,000 General Obligation Capital Facilities Bonds, Series 2010A. The proceeds are being used to complete capital improvements to enhance the energy efficiency of District school buildings.

Severance Benefits Payable

Severance benefits payable consist of administrator experience benefits and other severance pay. Severance benefits have been paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

During fiscal 2005, the District initiated a Health Reimbursement Plan. The purpose of the Plan is to provide certain Employees with an opportunity to receive reimbursement for certain Health Care Expenses as provided in the Plan. It is the intention of the Adopting Employer that the benefits payable under this Plan be eligible for exclusion from the gross income of Participants as provided by Sections 105(b) and 106 of the Code. In addition, it is the intention of the Adopting Employer that the Plan qualify as a Health Reimbursement Arrangement (HRA) under IRS Revenue Ruling 2002-41 (June 26, 2002) and IRS Notice 2002-45 (June 26, 2002).

D. Changes in Long-Term Debt

	June 30, 2015	Net Additions	Retirements	June 30, 2016
Bonds Payable	\$ 51,660,000	\$ 17,690,000	\$ (23,130,000)	\$ 46,220,000
Bond Premium	655,600	2,810,864	(119,247)	3,347,217
Severance Benefits Payable	72,244	-	-	72,244
Compensated Absences Payable - Net	33,732	-	(5,718)	28,014
Total	<u>\$ 52,421,576</u>	<u>\$ 20,500,864</u>	<u>\$ (23,254,965)</u>	<u>\$ 49,667,475</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 RESTRICTED FUND BALANCES

A. Restricted for Deferred Maintenance

Deferred Maintenance aid and levy can only be used for projects and costs that would be eligible for health and safety revenue, disabled access levy, or deferred maintenance projects necessary to prevent further erosion of facilities.

B. Restricted for Health and Safety

The District levies taxes and receives state aid to be used for health and safety projects in accordance with a plan approved by the State. The balance in the account represents approved expenditures incurred by the District for which it has future levy authority.

C. Restricted for Operating Capital

The District levies taxes and receives state aid to be used for the purchase of equipment or facilities. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

D. Restricted for Safe Schools

This restriction represents the unspent resources from the crime levy to be used for crime prevention, student and staff safety, and violence prevention measures.

E. Restricted for Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

F. Restricted for Early Childhood and Family Education Programs

This fund balance restriction represents accumulated resources available to provide services for early childhood and family education programming.

G. Restricted for School Readiness

The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

H. Restricted for Greenhouse

The fund balance restriction of \$30,000 in the General Fund represents accumulated resources available for the construction of a greenhouse at the Middle School.

I. Restricted for Other Purposes

Restricted for other purposes represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 ASSIGNED FUND BALANCES

A. Assigned for Q Comp

This represents an amount set aside for Q Comp expenditures of \$43,057; an amount set aside for specific projects of \$6,658; and an amount of \$50,000 set aside for capital projects.

NOTE 8 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Fund (TRA)

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

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

B. Benefits Provided

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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

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

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

1. 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.

2. TRA Benefits

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

**ROCKFORD AREA SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier 1 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 of Service 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 Services Years are July 1, 206 or After	1.9% per Year

With these provisions:

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

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members. 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 Statutes. 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.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (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.

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in fiscal year 2016. Coordinated Plan members contributed 6.5% of pay in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members. The District's contributions to the GERF for the Plan's fiscal year ended June 30, 2016, were \$204,438. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

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

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

The District's contributions to TRA for the Plan's fiscal year ended June 30, 2016, were \$538,361. The District's contributions were equal to the required contributions for each year as set by state statute.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of \$2,363,229 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 .0456% which was an increase of .0024% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$287,325 for its proportionate share of GERF's pension expense.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 21,916	\$ 119,147
Changes in Actuarial Assumptions	147,174	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	210,371
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	97,390	-
District Contributions Subsequent to the Measurement Date	204,467	-
Total	<u>\$ 470,947</u>	<u>\$ 329,518</u>

\$204,467 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (11,474)
2017	(11,474)
2018	(96,019)
2019	55,929
2020	-

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of \$8,685,129 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was .1404% at the end of the measurement period and .1487% for the beginning of the period.

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:

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 8,685,129
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	1,065,169

A change in benefit provisions that affected the measurement of the total pension liability since the prior measurement date was an increase of the contribution rates for both the member and employer.

For the year ended June 30, 2016, the District recognized pension expense of \$611,283. It also recognized \$188,308 as pension expense for the support provided by direct aid.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 445,025	\$ -
Changes in Actuarial Assumptions	667,656	-
Net Difference Between Projected and Actual Investment Earnings	-	664,257
Changes in Proportion Differences Between Contributions and Made and the District's Proportionate Share of Contributions	292,081	182,996
District Contributions Subsequent to the Measurement Date	538,361	-
Total	<u>\$ 1,943,123</u>	<u>\$ 847,253</u>

\$538,361 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2016	\$ (3,727)
2017	(3,727)
2018	(3,727)
2019	464,376
2020	104,314

**ROCKFORD AREA SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

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

Legislation enacted in 2014 merged the Duluth Teachers Retirement Fund Association (DTRFA) with TRA effective June 30, 2015. The beginning balances of the 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 (A)	\$ 24,901,612,000	\$ 25,299,564,000
Plan Fiduciary Net Position (B)	<u>20,293,684,000</u>	<u>20,519,756,000</u>
Net Pension Liability (A-B)	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

F. Actuarial Assumptions

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

<u>Assumptions</u>	<u>GERF</u>	<u>TRA</u>
Inflation	2.75% per Year	3.50%
Active Member Payroll Growth	3.50% per Year	3.75% Based on Years of Service
Investment Rate of Return	7.90% per Year	8.25%

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

The following changes in actuarial assumptions for GERF occurred in 2015: the discount rate was changed from 8.0 percent through June 30, 2017 and 8.5 percent thereafter to 8.0 percent for all years, the inflation assumption was changed from 3.0 percent to 2.75 percent, the payroll growth assumption was changed from 3.75 percent to 3.5 percent, assumed increases in member salaries were decreased by 0.25 percent at all ages and the assumed postretirement benefit increase rate was changed from 1.0 percent per year through 2026 and 2.5 percent thereafter to 1.0 percent per year through 2034 and 2.5 percent per year thereafter.

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date for TRA. Postretirement benefit adjustments are now assumed to increase from 2.0 percent annually to 2.5 percent projected. The prior year valuation assumed a 2.5 percent increase commencing July 1, 2034.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments is 7.9 percent for GERP and 8.0 percent for TRA. 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 Expected Real Rate of Return
Domestic Equity	45 %	5.50 %
International Equity	15	6.00
Bonds	18	1.45
Alternative Assets	20	6.40
Cash	2	0.50
Totals	<u>100 %</u>	

G. Discount Rate

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 8 PENSION PLANS (CONTINUED)

H. Pension Liability Sensitivity

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

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
District's Proportionate Share of the GERF Net Pension Liability	\$ 3,715,835	\$ 2,363,229	\$ 1,246,183
<u>TRA Discount Rate</u>	7.00%	8.00%	9.00%
District's Proportionate Share of the TRA Net Pension Liability	\$ 13,219,890	\$ 8,685,129	\$ 4,900,739

I. Pension Plan Fiduciary Net Position

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

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan (the Plan) that provides health and dental insurance to eligible employees and their spouses through the District's health insurance plan. There are 201 active participants and 10 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. For fiscal year 2016, the District made no contribution to the plan; the current year benefits were paid from the District's OPEB Trust Fund.

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the Plan, and changes in the District's net OPEB obligation.

Annual Required Contribution (ARC)	\$ 51,163
Interest on Net OPEB Obligation	(38,711)
Adjustment to ARC	65,833
Annual OPEB Cost	<u>78,285</u>
Contributions During the Year	<u>-</u>
Increase in Net OPEB Obligation	78,285
Net OPEB - Beginning of the Year	(1,290,369)
Net OPEB - End of the Year	<u><u>\$ (1,212,084)</u></u>

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2016 and the preceding two years:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation (Asset)
June 30, 2014	\$ 65,072	\$ -	- %	\$ (1,366,673)
June 30, 2015	76,304	-	-	(1,290,369)
June 30, 2016	78,285	-	-	(1,212,084)

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation, the District's OPEB trust assets exceeded the actuarial accrued liability by \$486,702. The annual payroll for active employees covered by the plan in the actuarial valuation was \$8,687,605 for a ratio of UAAL to covered payroll of negative 5.6%.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014	\$ 1,270,338	\$ 783,636	\$ (486,702)	162.1%	\$ 8,687,605	(5.6)%

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.5% to 5% in eight years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis over a 30-year period.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan which is classified as a “cafeteria plan” under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which is January 1 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions to the plan, whether or not such contributions have been made.

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

All assets of the plan are administered by a third party administrator. Payments are made by the third party administrator to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the participant. Payments of insurance premiums (health, dental, life, and disability) are made by the District directly to the designated insurance companies.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District’s general creditors. Participants’ rights under the plan are equal to those of general creditors of the District in an amount equal to eligible health care and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 11 COMMITMENTS AND CONTINGENCIES

Federal and State Programs

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

REQUIRED SUPPLEMENTARY INFORMATION

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2010	\$ 1,825,442	\$ 1,330,552	\$ (494,890)	137.2 %	\$ 6,642,606	(7.5)%
7/1/2012	1,606,049	1,063,083	(542,966)	151.1	7,323,907	(7.4)
7/1/2014	1,270,338	783,636	(486,702)	162.1	8,687,605	(5.6)

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF EMPLOYER CONTRIBUTIONS
LAST SEVEN YEARS**

Year Ended	Annual Required Contribution	Percentage Contributed
June 30, 2009	\$ 186,776	86.6 %
June 30, 2010	186,330	982.3
June 30, 2011	60,679	-
June 30, 2013	63,514	-
June 30, 2014	65,072	-
June 30, 2015	76,304	-
June 30, 2016	78,285	-

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2016**

	Measurement Date <u>June 30, 2016</u>	Measurement Date <u>June 30, 2015</u>
PERA		
District's Proportion of the Net Pension Liability (Asset)	0.05%	0.04%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 2,363,229	\$ 2,030,005
District's Covered-Employee Payroll	\$ 2,724,708	\$ 2,278,585
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	86.73%	89.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%	78.75%
TRA		
District's Proportion of the Net Pension Liability (Asset)	0.14%	0.15%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 8,685,129	\$ 6,853,290
District's Covered-Employee Payroll	\$ 7,178,669	\$ 6,892,344
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	120.99%	99.43%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.80%	81.50%

NOTE: Information prior to 2014 is unavailable.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA			
Contractually Required Contribution	\$ 204,438	\$ 188,695	\$ 165,198
Contributions in Relation to the Contractually Required Contribution	<u>(204,438)</u>	<u>(188,695)</u>	<u>(165,198)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 2,724,708	\$ 2,551,634	\$ 2,278,585
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.40%	7.25%
 TRA			
Contractually Required Contribution	\$ 538,361	\$ 538,422	\$ 484,692
Contributions in Relation to the Contractually Required Contribution	<u>(538,361)</u>	<u>(538,422)</u>	<u>(484,692)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 7,178,669	\$ 7,177,021	\$ 6,892,344
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.03%

Note: Information is presented prospectively and an accumulation of ten years will be provided.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

NOTE 1 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN

Beginning with the actuarial study performed on July 1, 2010, the District's policy for retiree health insurance has been adjusted for all new hires. The District's policy used to pay for retiree's premiums up to the age of 65, however, this policy was phased out and new hires no longer receive this benefit as of June 15, 2014. The new hires will have to pay for the full amount of premium if they continue to stay on the District's plan.

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SUPPLEMENTARY INFORMATION

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
GENERAL FUND
BALANCE SHEET
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
ASSETS		
Cash and Investments	\$ 1,333,475	\$ 887,247
Receivables:		
Current Taxes	957,666	899,494
Delinquent Taxes	48,794	55,124
Accounts and Interest Receivable	133,128	174,077
Due from Other Minnesota School Districts	53,769	35,571
Due from Minnesota Department of Education	1,878,208	1,844,193
Due from Federal Government through the Minnesota Department of Education	122,857	122,037
Due from Other Funds	45,393	41,551
Prepaid Items	-	837
Total Assets	\$ 4,573,290	\$ 4,060,131
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Liabilities:		
Salaries and Compensated Absences Payable	\$ 614,427	\$ 637,282
Payroll Deductions and Employer Contributions Payable	635,425	607,225
Accounts and Contracts Payable	144,945	195,740
Due to Other Minnesota School Districts	41,103	32,387
Due to Other Governmental Units	2,683	1,243
Total Liabilities	1,438,583	1,473,877
 Deferred Inflows of Resources:		
Property Taxes Levied for Subsequent Year	1,813,844	1,765,119
Unavailable Revenue - Delinquent Taxes	45,402	44,240
Total Deferred Inflows of Resources	1,859,246	1,809,359
 Fund Balance:		
Prepaid Items	-	837
Restricted:		
Deferred Maintenance	-	(42,320)
Health and Safety	(113,590)	(330,011)
Operating Capital	155,342	297,910
Safe Schools - Crime	26,861	(19,845)
Other Restricted	30,000	-
Assigned:		
Q Comp	99,715	35,786
Unassigned	1,077,133	834,538
Total Fund Balance	1,275,461	776,895
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 4,573,290	\$ 4,060,131

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**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Property Taxes	\$ 1,873,198	\$ 1,968,697	\$ 95,499	\$ 1,580,493
Earnings on Investments	3,300	3,841	541	636
Other	664,729	758,210	93,481	792,546
State Sources	14,714,306	14,893,617	179,311	14,264,120
Federal Sources	306,602	305,446	(1,156)	294,007
Total Revenues	17,562,135	17,929,811	367,676	16,931,802
EXPENDITURES				
Current:				
Administration:				
Salaries	696,277	683,440	(12,837)	649,767
Employee Benefits	210,451	205,405	(5,046)	181,967
Purchased Services	33,441	32,755	(686)	29,632
Supplies and Materials	16,770	14,100	(2,670)	20,065
Other Expenditures	32,246	32,046	(200)	21,973
Total Administration	989,185	967,746	(21,439)	903,404
District Support Services:				
Salaries	229,577	229,577	-	183,026
Employee Benefits	67,803	67,939	136	54,285
Purchased Services	125,860	116,702	(9,158)	164,522
Supplies and Materials	6,300	6,129	(171)	11,829
Other Expenditures	329	329	-	329
Total District Support Services	429,869	420,676	(9,193)	413,991
Elementary and Secondary Regular Instruction:				
Salaries	4,850,846	4,849,925	(921)	5,009,535
Employee Benefits	1,636,478	1,747,529	111,051	1,608,544
Purchased Services	502,889	502,842	(47)	458,527
Supplies and Materials	675,904	642,712	(33,192)	653,146
Capital Expenditures	101,600	87,361	(14,239)	197,510
Other Expenditures	4,900	4,514	(386)	4,949
Total Elementary and Secondary Regular Instruction	7,772,617	7,834,883	62,266	7,932,211

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued):				
Vocational Education Instruction:				
Salaries	\$ 140,471	\$ 140,527	\$ 56	\$ 154,356
Employee Benefits	35,825	39,123	3,298	41,154
Purchased Services	26,993	27,111	118	2,496
Supplies and Materials	9,283	8,387	(896)	13,505
Total Vocational Education Instruction	212,572	215,148	2,576	211,511
Special Education Instruction:				
Salaries	1,735,795	1,733,600	(2,195)	1,569,310
Employee Benefits	414,711	440,553	25,842	396,090
Purchased Services	259,069	258,604	(465)	412,412
Supplies and Materials	10,887	12,433	1,546	9,419
Capital Expenditures	16,655	15,350	(1,305)	1,480
Other Expenditures	795	725	(70)	795
Total Special Education Instruction	2,437,912	2,461,265	23,353	2,389,506
Instructional Support Services:				
Salaries	894,520	875,865	(18,655)	835,209
Employee Benefits	200,917	214,278	13,361	179,209
Purchased Services	103,366	100,263	(3,103)	140,912
Supplies and Materials	97,175	95,028	(2,147)	59,053
Capital Expenditures	-	-	-	9,464
Other Expenditures	3,500	4,094	594	3,485
Total Instructional Support Services	1,299,478	1,289,528	(9,950)	1,227,332
Pupil Support Services:				
Salaries	304,398	304,586	188	275,077
Employee Benefits	61,242	67,355	6,113	65,579
Purchased Services	1,816,704	1,821,800	5,096	1,761,887
Supplies and Materials	7,343	7,477	134	17,757
Total Pupil Support Services	2,189,687	2,201,218	11,531	2,120,300

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued):				
Sites and Buildings:				
Salaries	\$ 604,469	\$ 603,569	\$ (900)	\$ 554,414
Employee Benefits	177,618	177,307	(311)	155,569
Purchased Services	919,892	866,214	(53,678)	1,113,660
Supplies and Materials	127,752	120,820	(6,932)	164,786
Capital Expenditures	148,830	155,763	6,933	67,805
Other Expenditures	708	-	(708)	710
Total Sites and Buildings	1,979,269	1,923,673	(55,596)	2,056,944
Fiscal and Other Fixed Cost Programs:				
Purchased Services	118,308	118,308	-	114,132
Total Expenditures	17,428,897	17,432,445	3,548	17,369,331
Deficiency of Revenues				
Under Expenditures	133,238	497,366	364,128	(437,529)
OTHER FINANCING SOURCES				
Insurance Recovery Proceeds	-	1,200	1,200	2,823
Net Change in Fund Balance	\$ 133,238	498,566	\$ 365,328	(434,706)
FUND BALANCE				
Beginning of Year		776,895		1,211,601
End of Year		\$ 1,275,461		\$ 776,895

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
FOOD SERVICE SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
ASSETS		
Cash and Investments	\$ 31,311	\$ 15,419
Receivables:		
Accounts and Interest Receivable	4,686	21,407
Due from Minnesota Department of Education	-	2,135
Total Assets	\$ 35,997	\$ 38,961
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Unearned Revenue	\$ 15,367	\$ 20,598
Fund Balance:		
Restricted:		
Other Restricted	20,630	18,363
Total Liabilities and Fund Balance	\$ 35,997	\$ 38,961

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Other - Primarily Meal Sales	\$ 407,668	\$ 422,056	\$ 14,388	\$ 368,595
State Sources	33,681	33,004	(677)	30,799
Federal Sources	311,484	330,689	19,205	293,767
Total Revenues	752,833	785,749	32,916	693,161
EXPENDITURES				
Current:				
Salaries	292,558	337,931	45,373	299,027
Employee Benefits	1,160	-	(1,160)	1,162
Purchased Services	30,850	27,789	(3,061)	21,829
Supplies and Materials	383,094	414,058	30,964	387,083
Capital Outlay	-	3,704	3,704	-
Total Expenditures	707,662	783,482	75,820	709,101
Net Change in Fund Balance	\$ 45,171	2,267	\$ (42,904)	(15,940)
FUND BALANCE				
Beginning of Year		18,363		34,303
End of Year		\$ 20,630		\$ 18,363

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
COMMUNITY SERVICE SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Investments	\$ 281,350	\$ 207,108
Receivables:		
Current Taxes	62,569	59,831
Delinquent Taxes	4,137	4,580
Accounts and Interest Receivable	-	18,150
Due from Other Minnesota School Districts	10,559	7,570
Due from Minnesota Department of Education	<u>11,232</u>	<u>8,609</u>
Total Assets	<u><u>\$ 369,847</u></u>	<u><u>\$ 305,848</u></u>
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Liabilities:		
Salaries and Compensated Absences Payable	\$ 9,411	\$ 10,029
Accounts and Contracts Payable	4,060	10,985
Unearned Revenue	<u>17,670</u>	<u>13,075</u>
Total Liabilities	31,141	34,089
Deferred Inflows of Resources:		
Property Taxes Levied for Subsequent Year	128,076	123,683
Unavailable Revenue - Delinquent Taxes	<u>3,875</u>	<u>3,739</u>
Total Deferred Inflows of Resources	131,951	127,422
Fund Balance:		
Restricted:		
Community Education Programs	182,624	140,062
Early Childhood and Family Education Programs	2,243	2,148
School Readiness	3,044	1,932
Other Restricted	<u>18,844</u>	<u>195</u>
Total Fund Balance	<u>206,755</u>	<u>144,337</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u><u>\$ 369,847</u></u>	<u><u>\$ 305,848</u></u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
COMMUNITY SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Property Taxes	\$ 123,683	\$ 123,907	\$ 224	\$ 118,402
Other - Primarily Tuition and Fees	917,770	1,009,334	91,564	836,224
State Sources	<u>116,913</u>	<u>116,462</u>	<u>(451)</u>	<u>122,056</u>
Total Revenues	1,158,366	1,249,703	91,337	1,076,682
EXPENDITURES				
Current:				
Salaries	835,310	838,909	3,599	802,837
Employee Benefits	151,446	150,010	(1,436)	177,852
Purchased Services	113,017	110,831	(2,186)	113,756
Supplies and Materials	75,471	78,800	3,329	83,827
Other Expenditures	567	567	-	1,036
Capital Outlay	<u>9,000</u>	<u>8,168</u>	<u>(832)</u>	<u>-</u>
Total Expenditures	<u>1,184,811</u>	<u>1,187,285</u>	<u>2,474</u>	<u>1,179,308</u>
Net Change in Fund Balance	<u><u>\$ (26,445)</u></u>	62,418	<u><u>\$ 88,863</u></u>	(102,626)
FUND BALANCE				
Beginning of Year		<u>144,337</u>		<u>246,963</u>
End of Year		<u><u>\$ 206,755</u></u>		<u><u>\$ 144,337</u></u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
BUILDING CONSTRUCTION FUND
BALANCE SHEET
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
ASSETS		
Cash and Investments	\$ 349,582	\$ 1,534,407
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts and Contracts Payable	-	694,646
Due to Other Governmental Unit	-	772
Total Liabilities	-	695,418
Fund Balance:		
Restricted:		
Capital Projects	349,582	838,989
Total Liabilities and Fund Balance	\$ 349,582	\$ 1,534,407

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
BUILDING CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	2016		Over (Under) Final Budget	2015
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Earnings on Investments	\$ 550	\$ 811	\$ 261	\$ 9,260
Other - Primarily Meal Sales	113,500	113,500	-	-
Total Revenues	114,050	114,311	261	9,260
EXPENDITURES				
Current:				
Salaries	-	-	-	26,466
Employee Benefits	-	-	-	4,005
Purchased Services	16,800	16,304	(496)	2,083,414
Supplies and Materials	700	867	167	28,897
Capital Outlay	628,540	586,547	(41,993)	10,172,574
Total Expenditures	646,040	603,718	(42,322)	12,315,356
 Net Change in Fund Balance	 <u>\$ (531,990)</u>	 (489,407)	 <u>\$ 42,583</u>	 (12,306,096)
FUND BALANCE				
Beginning of Year		838,989		13,145,085
End of Year		<u>\$ 349,582</u>		<u>\$ 838,989</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
DEBT SERVICE FUND
BALANCE SHEET
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and Investments	\$ 2,837,277	\$ 2,922,401
Receivables:		
Current Taxes	1,918,029	1,924,068
Delinquent Taxes	123,853	141,364
Due from Minnesota Department of Education	<u>45,626</u>	<u>46,593</u>
Total Assets	<u><u>\$ 4,924,785</u></u>	<u><u>\$ 5,034,426</u></u>
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Deferred Inflows of Resources:		
Property Taxes Levied for Subsequent Year	\$ 3,926,077	\$ 3,977,426
Unavailable Revenue - Delinquent Taxes	<u>115,091</u>	<u>113,245</u>
Total Deferred Inflows of Resources	4,041,168	4,090,671
 Fund Balance:		
Restricted	<u>883,617</u>	<u>943,755</u>
Total Deferred Inflows of Resources and Fund Balance	<u><u>\$ 4,924,785</u></u>	<u><u>\$ 5,034,426</u></u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2015)**

	2016			2015
	Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget	Actual Amounts
REVENUES				
Local Sources:				
Property Tax	\$ 3,977,427	\$ 3,979,235	\$ 1,808	\$ 3,988,166
Earnings on Investments	4,990	4,989	(1)	-
State Sources	<u>469,787</u>	<u>456,266</u>	<u>(13,521)</u>	<u>465,925</u>
Total Revenues	4,452,204	4,440,490	(11,714)	4,454,091
EXPENDITURES				
Debt Service:				
Bond Principal	2,740,000	2,740,000	-	2,560,000
Bond Interest	1,758,717	1,869,242	110,525	1,825,637
Paying Agent Fees and Other	<u>2,250</u>	<u>2,250</u>	<u>-</u>	<u>2,250</u>
Total Expenditures	<u>4,500,967</u>	<u>4,611,492</u>	<u>110,525</u>	<u>4,387,887</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(48,763)	(171,002)	(122,239)	66,204
OTHER FINANCING SOURCES				
Bonds Proceeds	20,390,338	17,690,000	(2,700,338)	-
Principal Payment on Refunded Bonds	(20,390,000)	(20,390,000)	-	-
Bond Premium	<u>-</u>	<u>2,810,864</u>	<u>2,810,864</u>	<u>-</u>
Total Other Financing Sources	<u>338</u>	<u>110,864</u>	<u>110,526</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (48,425)</u>	(60,138)	<u>\$ (11,713)</u>	66,204
Fund Balance - Beginning of Year		<u>943,755</u>		<u>877,551</u>
Fund Balance - End of Year		<u>\$ 883,617</u>		<u>\$ 943,755</u>

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**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2016**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenues	\$ 17,931,011	\$ 17,931,009	\$ 2	Total Revenues	\$ 114,311	\$ 114,308	\$ 3
Total Expenditures	17,432,445	17,432,443	2	Total Expenditures	603,718	603,717	1
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Fac. Program	-	-	-
406 Health & Safety	(113,590)	(113,590)	-	413 Projects Funded by COP/LP	-	-	-
407 Capital Project Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	349,582	349,582	-
409 Alternative Facilities	-	-	-	<i>Unassigned:</i>			
413 Projects Funded by COP/LP	-	-	-	463 Unassigned Fund Balance	-	-	-
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-	07 DEBT SERVICE			
417 Excess Taconite Building Maint. Funds	-	-	-	Total Revenues	4,170,816	4,170,817	(1)
423 Certain Teacher Programs	-	-	-	Total Expenditures	24,720,882	24,720,882	-
424 Operating Capital	155,342	155,342	-	<i>Nonspendable:</i>			
426 \$25 Taconite	-	-	-	460 Nonspendable Fund Balance	-	-	-
427 Disabled Accessibility	-	-	-	<i>Restricted/Reserved:</i>			
428 Learning & Development	-	-	-	425 Bond Refundings	-	-	-
434 Area Learning Center	-	-	-	451 QZAB and QSCB Payments	-	-	-
435 Contracted Alt. Programs	-	-	-	<i>Restricted:</i>			
436 St. Approved Alt. Prog.	-	-	-	464 Restricted	813,159	813,159	-
438 Gifted & Talented	-	-	-	<i>Unassigned</i>			
441 Basic Skills	-	-	-	463 Unassigned Fund Balance	-	-	-
445 Career and Technical Programs	-	-	-				
449 Safe Schools Levy	26,861	26,861	-	08 TRUST			
450 Pre-Kindergarten	-	-	-	Total Revenues	-	-	-
451 QZAB and QSCB Payments	-	-	-	Total Expenditures	-	-	-
452 OPEB Liab. Not in Trust	-	-	-	422 Net Assets	-	-	-
453 Unfunded Sev & Retirement Levy	-	-	-				
<i>Restricted:</i>				09 AGENCY			
464 Restricted Fund Balance	30,000	30,000	-	<i>Unrestricted: Should Always Be -0-</i>			
<i>Committed:</i>				422 Unassigned	-	-	-
418 Committed for Separation	-	-	-				
461 Committed Fund Balance	-	-	-	20 INTERNAL SERVICE			
<i>Assigned:</i>				Total Revenues	-	-	-
462 Assigned Fund Balance	99,715	99,715	-	Total Expenditures	-	-	-
<i>Unassigned:</i>				422 Net Assets	-	-	-
422 Unassigned	1,077,133	1,077,133	-				
				25 OPEB REVOCABLE TRUST			
02 FOOD SERVICE				Total Revenues	-	-	-
Total Revenues	785,749	785,750	(1)	Total Expenditures	-	-	-
Total Expenditures	783,482	783,481	1	422 Net Assets	-	-	-
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	-	-	-	45 OPEB IRREVOCABLE TRUST			
<i>Restricted/Reserved:</i>				Total Revenues	27,593	27,594	(1)
452 OPEB Liab. Not in Trust	-	-	-	Total Expenditures	45,207	45,207	-
464 Restricted Fund Balance	20,630	20,631	(1)	422 Net Assets	1,228,418	1,228,418	-
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-	47 OPEB DEBT SERVICE			
				Total Revenues	269,674	269,674	-
04 COMMUNITY SERVICE				Total Expenditures	280,610	280,610	-
Total Revenues	1,249,703	1,249,705	(2)	<i>Nonspendable:</i>			
Total Expenditures	1,187,285	1,187,287	(2)	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	-	-	-	425 Bond Refundings	-	-	-
<i>Restricted/Reserved:</i>				464 Restricted Fund Balance	70,458	70,458	-
426 \$25 Taconite	-	-	-	<i>Unassigned</i>			
431 Community Education	182,624	182,624	-	463 Unassigned Fund Balance	-	-	-
432 E.C.F.E.	2,243	2,243	-				
444 School Readiness	3,044	3,044	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liab. Not in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	18,844	18,845	(1)				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

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OTHER REQUIRED REPORTS



**INDEPENDENT AUDITORS' 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**

School Board
Independent School District No. 883
Rockford Area Schools
Rockford, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 883 (the District), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 6, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

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 District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses listed as 2016-001 to be a material weakness.

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*.

The District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 6, 2016

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

School Board
Independent School District No. 883
Rockford Area Schools
Rockford, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 883 (the District), as of June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated September 6, 2016.

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

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

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
September 6, 2016

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**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016**

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2016-001 - Financial Statement Preparation

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 34.

Condition: The District does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

Effect: The design of controls over the financial reporting process would affect the ability of the District to report financial data consistently with the assertions of management in the financial statements.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The District will continue to have the audit firm prepare the financial statements; however, the District has established internal control procedures to document the annual review of the financial statements.

Official Responsible for Ensuring CAP:

The District's Business Manager is the official responsible for ensuring corrective action of the deficiency.

Planned Completion Date for CAP:

The corrective action plan will be implemented beginning with the audit for the year ending June 30, 2017.

Plan to Monitor Completion of CAP:

The corrective action plan will be monitored each year jointly by the audit firm, District financial staff and the School Board as a part of the process of developing the annual audit report.

FINDINGS – MINNESOTA LEGAL COMPLIANCE

NONE

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