

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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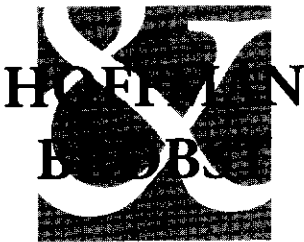
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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
SCHEDULE OF SCHOOL BOARD MEMBERS AND OFFICIALS
JUNE 30, 2016

<u>SCHOOL BOARD MEMBERS</u>		<u>TERM EXPIRES</u>
Carnie Allex	Chairperson	2016
Eric Dahlager	Vice-Chairperson	2018
Mark Molenaar	Clerk	2016
Heather McLagan	Treasurer	2016
Darin Bratsch	Director	2018
Rick Marks	Director	2016
 <u>SCHOOL OFFICIAL</u>		
Michelle Mortensen	Superintendent of Schools	



PLLP

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Independent School District No. 2890
Renville County West
Renville, 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. 2890, Renville County West, Renville, Minnesota as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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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 Independent School District No. 2890, Renville County West, Renville, Minnesota as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Independent School District No. 2890, Renville County West, Renville, Minnesota's basic financial statements. The introductory section, other supplementary information, and the uniform financial accounting and reporting standards compliance table listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

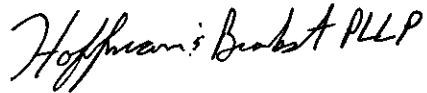
The introductory section and other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Report on Summarized Comparative Information

We have previously audited the District's June 30, 2015 financial statements, and our report, dated November 4, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2016, on our consideration of Independent School District No. 2890, Renville County West, Renville, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 2890, Renville County West, Renville, Minnesota's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Hoffman & Brobst PLLP".

Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

November 7, 2016

REQUIRED SUPPLEMENTAL INFORMATION

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

As management of Independent School District No. 2890, Renville County West, Renville, Minnesota, we offer readers of Independent School District No. 2890, Renville County West, Renville, Minnesota's financial statements this narrative overview and analysis of the financial activities of Independent School District No. 2890, Renville County West, Renville, Minnesota for the fiscal year ended June 30, 2016.

FINANCIAL HIGHLIGHTS

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

- Net position in the Statement of Net Position decreased \$155,869 from the prior year to \$2,113,079. This decrease was due to a variety of factors, primarily the decrease in fund balance in the Building Construction Fund partially offset by the increase in construction in progress, decrease in District debt due to the scheduled principal payments on long-term debt, and the favorable operating results in the General Fund.
- The General Fund fund balance increased \$150,988 to \$3,136,312. The unassigned fund balance increased \$256,311 to \$2,889,954. The combined total of the committed, assigned and unassigned fund balance in the General Fund amounts to 44.7% of annual budgeted expenditures which meets the District's fund balance goal of a minimum of 10% of operating budget.
- During the 2015 fiscal year, the District incurred new debt of \$5,360,000 to fund an addition of classrooms and a gymnasium expansion. All activity related to this project is reflected in the Building Construction Fund. Expenditures on these projects for the current fiscal year totaled \$3,854,300. The fund balance of \$1,191,212 will be used to complete the project during the fiscal year ended June 30, 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts. They are:

- Independent Auditor's Report,
- Required Supplementary Information which includes the Management's Discussion and Analysis (this section),
- Basic financial statements, notes to financial statements, and
- Other supplementary information and other required reports and information.

The basic financial statements include two kinds of statements that present different views of the District:

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

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

The government-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.

The two government-wide statements report the District's net position and how it has changed. Net position – the difference between the District's assets, deferred outflows of resources, 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 are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- **Governmental Activities** – Most of the District's basic services are included here, such as regular and special education, transportation, administration, food service, 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 – rather than 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 or to show that it is properly using certain revenues.

The District has two kinds of funds:

- **Governmental funds** – The District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information (reconciliation schedules) follows the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.
- **Fiduciary funds** – The District is the trustee, or fiduciary, for various funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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

The District's combined net position was \$2,113,079 on June 30, 2016. This was a decrease of 6.9% from the previous year total of \$2,268,948. A summary of the District's net position is as follows:

Net Position – Governmental Activities			Percentage Change
	<u>6/30/2016</u>	<u>6/30/2015</u>	
Current and Other Assets	\$ 6,969,814	\$ 10,997,673	
Capital Assets	<u>13,111,108</u>	<u>9,667,394</u>	
Total Assets	<u>20,080,922</u>	<u>20,665,067</u>	(2.8%)
Related to Pensions	<u>854,266</u>	<u>683,826</u>	
Total Deferred Outflows of Resources	<u>854,266</u>	<u>683,826</u>	24.9%
Current Liabilities	1,056,891	1,197,486	
Noncurrent Liabilities	<u>15,336,127</u>	<u>15,031,658</u>	
Total Liabilities	<u>16,393,018</u>	<u>16,229,144</u>	1.0%
Property Taxes Levied for Subsequent Year's Expenditures	1,826,883	1,744,391	
Related to Pensions	<u>602,208</u>	<u>1,106,410</u>	
Total Deferred Inflows of Resources	<u>2,429,091</u>	<u>2,850,801</u>	(14.8%)
Invested in Capital Assets	3,423,935	3,278,107	
Restricted	314,361	408,102	
Unrestricted	<u>(1,625,217)</u>	<u>(1,417,261)</u>	
Total Net Position	<u>\$ 2,113,079</u>	<u>\$ 2,268,948</u>	(6.9%)

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (GOVERNMENT-WIDE STATEMENTS)
(Cont'd)**

CHANGE IN NET POSITION

The change in net position occurs as a result of expenses being greater than its revenues for the year ended June 30, 2016, and a prior period adjustment for the merger of Duluth Teachers Retirement Fund Association (DTRFA) into the Minnesota statewide Teachers Retirement Association (TRA). A summary of the District's revenues and expenses is as follows:

Change in Net Position – Governmental Activities			Percentage
	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 314,303	\$ 336,462	
Operating Grants and Contributions	1,642,516	1,797,101	
General Revenues			
Property Taxes	1,950,306	1,774,798	
Unallocated Federal and State Aid	3,929,944	3,780,515	
Other	<u>26,597</u>	<u>85,754</u>	
Total Revenues	<u>7,863,666</u>	<u>7,774,630</u>	1.1%
Expenses			
District and School Administration	514,685	494,240	
District Support Services	386,970	360,549	
Regular Instruction	3,347,868	3,145,598	
Vocational Instruction	83,205	78,325	
Exceptional Instruction	1,089,048	995,642	
Community Education and Services	198,954	172,377	
Instructional Support Services	84,332	82,184	
Pupil Support Services	942,427	928,049	
Site, Buildings and Equipment	932,658	921,800	
Fiscal and Other Fixed Cost Programs	38,308	31,951	
Interest on Long-Term Debt	297,260	203,201	
Loss on the Disposal of Equipment	<u>3,270</u>	<u>12,519</u>	
Total Expenses	<u>7,918,985</u>	<u>7,426,435</u>	6.6%
Increase in Net Position	<u>(55,319)</u>	<u>348,195</u>	
Beginning of Year Net Position,			
As Originally Stated	2,268,948	6,070,734	
Prior Period Adjustment (GASB 68)	<u>(100,550)</u>	<u>(4,149,981)</u>	
Beginning Net Position, as Restated	<u>2,168,398</u>	<u>1,920,753</u>	
End of Year Net Position	<u>\$ 2,113,079</u>	<u>\$ 2,268,948</u>	(6.9%)

The District's total revenues consisted of program revenues of \$1,956,819, property taxes of \$1,950,306, unallocated federal and state aids of \$3,929,944 and a small amount from miscellaneous other sources. Expenses totaling \$7,918,985 consisted primarily of student instructional costs of \$4,520,121, student support services of \$1,026,759, administration costs of \$901,655, site, buildings and equipment costs of \$932,658, community education services of \$198,954 and minor other amounts.

The cost of all governmental activities this year was \$7,918,985.

- The users of the District's programs paid for 4.0%, or \$314,303, of the costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled \$1,642,516 or 20.7% of the total costs.
- Most of the District's net cost of services (\$5,962,166), however, were paid for by state taxpayers based on the statewide education aid formula and by District taxpayers.

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$4,675,049. This was down from \$8,521,550 at the end of the prior year, a decrease of \$3,846,501. This overall decrease is primarily due to capital outlay for construction in progress in the Building Construction Fund. The General Fund increased due to a decrease in capital outlay. The Food Service Fund decreased due to an increase in supplies and materials and more salaries and wages than expected. The Community Service Fund decreased due to an increase in salaries and wages. The decrease in the Building Construction Fund was due to expenditures for capital outlay. The Debt Service Fund decreased due to planned principal and interest payments being greater than revenues.

REVENUES AND EXPENDITURES

Revenues and other financing sources of the District's governmental funds totaled \$7,792,610. This was a decrease of 40.9% from the previous year total of \$13,176,357. Total expenditures were \$11,639,111. This was an increase of 40.6% from the previous year total of \$8,277,883. A summary of the revenues, expenditures, and other sources (uses) reported on the governmental financial statements is as follows:

Revenues and Expenditures – Governmental Funds

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other Sources (Uses)</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 6,867,633	\$ 6,717,005	\$ 360	\$ 150,988
Food Service Fund	340,756	355,242	-	(14,486)
Community Service Fund	178,367	196,284	-	(17,917)
Building Construction Fund	9,387	3,863,687	-	(3,854,300)
Debt Service Fund	396,107	506,893	-	(110,786)
Totals	\$ <u>7,792,250</u>	\$ <u>11,639,111</u>	\$ <u>360</u>	\$ <u>(3,846,501)</u>

GENERAL FUND

The General Fund is used by the District to record the primary operations of providing educational services to students from kindergarten through grade twelve. Pupil transportation activities, capital purchases and major maintenance projects are also included in the General Fund.

The following schedule presents a summary of General Fund revenues and other financing sources:

Revenues – General Fund

	<u>Year Ended 6/30/2016</u>	<u>Year Ended 6/30/2015</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Local Sources				
Property Taxes	\$ 1,489,283	\$ 1,300,244	\$ 189,039	14.5%
Tuition Contracts	57,001	76,355	(19,354)	(25.3%)
Other Local Sources	144,669	217,487	(72,818)	(33.5%)
State Sources	4,960,689	4,999,264	(38,575)	(0.8%)
Federal Sources	215,991	274,338	(58,347)	(21.3%)
Total Revenues	<u>6,867,633</u>	<u>6,867,688</u>	<u>(55)</u>	<u>0.0%</u>
Other Financing Sources				
Proceeds from Sale of Equipment	360	-	360	100.0%
Total Revenues and Other Financing Sources	\$ <u>6,867,993</u>	\$ <u>6,867,688</u>	\$ <u>305</u>	0.0%

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

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

The following schedule presents a summary of General Fund expenditures:

Expenditures – General Fund

	Year Ended 6/30/2016	Year Ended 6/30/2015	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries and Wages	\$ 4,121,640	\$ 3,935,491	\$ 186,149	4.7%
Employee Benefits	1,069,938	1,014,327	55,611	5.5%
Purchased Services	805,437	719,583	85,854	11.9%
Supplies and Materials	227,452	298,292	(70,840)	(23.7%)
Other Expenditures	26,318	28,514	(2,196)	(7.7%)
Capital Expenditures	344,380	987,485	(643,105)	(65.1%)
Debt Service Expenditures	121,840	121,841	(1)	0.0%
Total Expenditures	<u>\$ 6,717,005</u>	<u>\$ 7,105,533</u>	<u>\$ (388,528)</u>	<u>(5.5%)</u>

In summary, the 2015-2016 General Fund revenues and other financing sources exceeded expenditures by \$150,988 resulting in the total fund balance increasing to \$3,136,312 at June 30, 2016. After deducting statutory and accounting standards restrictions and fund balance policy commitments and assignments, the unassigned fund balance increased \$256,311 to \$2,889,954 at June 30, 2016. The District closely monitors the General Fund unassigned fund balance through its budgeting process throughout the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year ended June 30, 2016 the District revised its operating budget once. This revision was planned, and was necessary because when the initial budget was prepared and adopted (a budget must be in place prior to the beginning of the fiscal year on July 1) details of student enrollment numbers, salary details, staffing levels, and other significant information items were not yet known. This revision was made in March to reflect significant changes in enrollment data, state funding adjustments, and unforeseen changes in revenue and expenditure categories.

The District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$56,326; the actual results for the year showed a surplus of \$150,988.

- Actual revenues were \$68,320, or 1.0 percent, more than budget. This was due to funding fluctuations in multiple areas.
- Actual expenditures were \$139,034, or 2.0 percent, less than budget. This was due to the District paying less than expected for contracted services for pupil support and site, buildings and equipment, and paying less than expected for capital outlay in district support services.

FOOD SERVICE FUND

The Food Service Fund revenue for 2015-2016 totaled \$340,756 and expenditures were \$355,242, resulting in a fund balance decrease of \$14,486. Increased costs in supplies and materials were primarily responsible for this decrease. The June 30, 2016 Food Service Fund fund balance is \$31,473.

COMMUNITY SERVICE FUND

In 2015-2016, the total revenues for the Community Service Fund were \$178,367 and total expenditures were \$196,284, resulting in a fund balance decrease of \$17,917. The Community Service Fund fund balance as of June 30, 2016 is \$1,438.

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (FUND FINANCIAL STATEMENTS) (Cont'd)
BUILDING CONSTRUCTION FUND**

Total expenditures exceeded revenues by \$3,854,300 for 2015-2016 in the Building Construction Fund. This decrease is due to spending funds for the construction of new classrooms and a gymnasium expansion for the Renville County West school facility. The fund balance at June 30, 2016 is \$1,191,212, which is anticipated to be spent in the next fiscal year to complete these projects.

DEBT SERVICE

In 2015-2016, total revenues were \$396,107 and total expenditures were \$506,893. This resulted in a fund balance decrease of \$110,786. The fund balance at June 30, 2016 is \$314,614.

TRUST FUND

The Trust Fund deductions exceeded additions by \$246 in 2015-2016. The net position of \$44,225 at June 30, 2016 is available for scholarships.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

As of June 30, 2016, the District had net capital assets of \$13,111,108 representing a broad range of capital assets, including construction in progress, school buildings and improvements, computer and audio-visual equipment, and various other equipment for instructional support and administrative purposes. Total depreciation expense for the year was \$370,673. Information about the District's capital assets is shown below. More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Capital Assets – Governmental Activities

	<u>6/30/2016</u>	<u>6/30/2015</u>	Percentage Change
Land	\$ 10,350	\$ 10,350	0.0%
Construction in Progress	3,641,136	297,712	1,123.0%
Buildings and Improvements	12,515,541	12,069,398	3.7%
Equipment and Vehicles	1,627,732	1,619,274	0.5%
Less Accumulated Depreciation	<u>(4,683,651)</u>	<u>(4,329,340)</u>	8.2%
Total Net Capital Assets	<u>\$13,111,108</u>	<u>\$ 2,667,394</u>	35.6%

DEBT ADMINISTRATION

At year-end, the District had \$10,270,000 in general obligation bonds outstanding. The District also had various other long-term liabilities as detailed in Note 5 to the financial statements.

- The District continues to pay down its debt, retiring \$334,002 of bonds and capital leases in the year ending June 30, 2016.

Outstanding Debt

	<u>6/30/2016</u>	<u>6/30/2015</u>	Percentage Change
General Obligation Bonds	\$ 10,270,000	\$10,525,000	(2.4%)
Capital Lease Obligations	<u>1,114,943</u>	<u>1,193,945</u>	(6.6%)
Total	<u>\$ 11,384,943</u>	<u>\$11,718,945</u>	(2.9%)

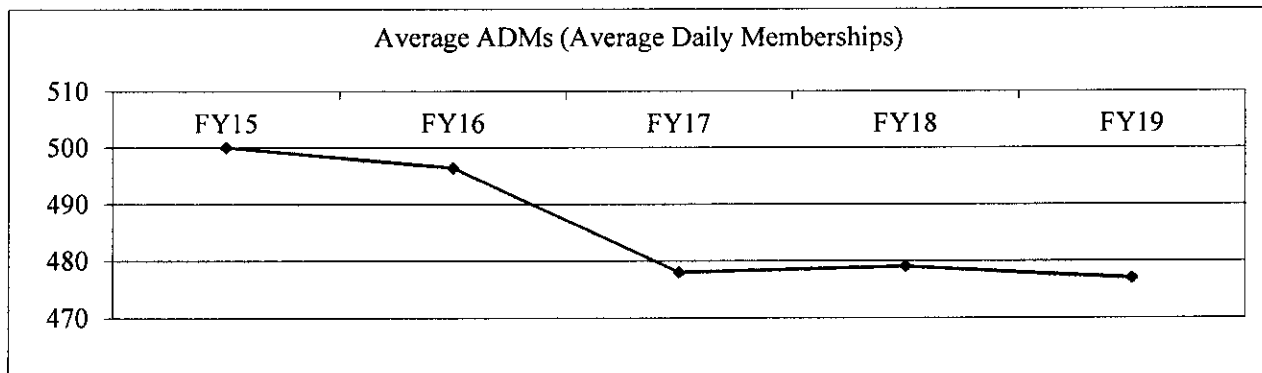
**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016**

FACTORS BEARING ON THE DISTRICT'S FUTURE

The Legislature approved foundation formula increases for both the 2015-2016 and 2016-2017 fiscal years. This has a very positive effect for school district operations and maintaining a balanced budget. Economic conditions in Minnesota continue to get better and the Legislature in 2017 will continue to have more options available to them in providing programs and support for K-12 education.

The majority of labor contracts are in effect for two-year periods. The contract with District certified teachers is in effect for the two-year period ending June 30, 2017. The contracts with other District personnel are in effect for the two-year period ending June 30, 2017. The District tries to be fair with staff during the negotiations process, but always needs to balance that approach with the availability of resources, along with looking at the long-term financial well-being of the District. Negotiated settlements are always an area of financial challenge for the District. Labor costs and related benefits account for approximately 77% of the District's General Fund operating expenditures.

The District's future projections reflect a decline in enrollment. This impacts the District's funding since enrollment is what actually determines most of a school's funding components. Hence, if there was an increase in enrollment the District could anticipate an increase in revenues even if there were no increases to the formulas. Maintaining stability of the District's enrollment continues to be one of the District's goals.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide District citizens, taxpayers, customers, 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 one has questions about this report or needs additional financial information, contact the Business Office, Independent School District No. 2890, Renville County West, 301 NE 3rd St, Renville, MN 56284, visit the District website at rew.k12.mn.us, or call (320) 329-8362.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 STATEMENT OF NET POSITION
 JUNE 30, 2016
 (with Partial Comparative Information as of June 30, 2015)

	Governmental Activities	
	2016	2015
ASSETS		
Current Assets:		
Cash and Investments	\$ 5,319,062	\$ 9,324,907
Property Taxes Receivable-Net	1,033,715	993,791
Accounts and Interest Receivable	3,094	6,352
Due From State of Minnesota	435,399	405,250
Due From Federal Government	66,552	121,114
Due From Other Minnesota Districts	108,824	144,279
Inventory	3,168	1,980
Total Current Assets	6,969,814	10,997,673
Noncurrent Assets:		
Capital Assets:		
Land	10,350	10,350
Construction in Progress	3,641,136	297,712
Other Capital Assets, Net of Depreciation	9,459,622	9,359,332
Total Noncurrent Assets	13,111,108	9,667,394
TOTAL ASSETS	20,080,922	20,665,067
DEFERRED OUTFLOWS OF RESOURCES		
Related to Pensions	854,266	683,826
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 20,935,188	\$ 21,348,893
LIABILITIES		
Current Liabilities:		
Salaries Payable	34,595	21,762
Accounts and Interest Payable	435,437	651,642
Due to Other Governmental Units	9,661	16
Payroll Liabilities	36,030	97,380
Unearned Revenue	23,422	20,548
Current Portion of Long-Term Liabilities	517,746	406,138
Total Current Liabilities	1,056,891	1,197,486
Noncurrent Liabilities:		
Noncurrent Portion of Long-Term Liabilities	15,336,127	15,031,658
Total Noncurrent Liabilities	15,336,127	15,031,658
TOTAL LIABILITIES	16,393,018	16,229,144
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year's Expenditures	1,826,883	1,744,391
Related to Pensions	602,208	1,106,410
TOTAL DEFERRED INFLOWS OF RESOURCES	2,429,091	2,850,801
NET POSITION		
Net Investment in Capital Assets	3,423,935	3,278,107
Restricted For:		
Capital Asset Acquisition	20,775	8,337
Debt Service	144,292	261,862
Food Service	31,473	45,959
Community Service	67,507	57,135
Other Activities	50,314	34,809
Unrestricted	(1,625,217)	(1,417,261)
TOTAL NET POSITION	2,113,079	2,268,948
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 20,935,188	\$ 21,348,893

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

(with Partial Comparative Information for the Year Ended June 30, 2015)

	2016				2015	
	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Governmental Activities:						
District and School Administration	\$ 514,685				(514,685)	\$ (494,240)
District Support Services	386,970				(386,970)	(360,549)
Regular Instruction	3,347,868	\$ 103,162	\$ 782,999		(2,461,707)	(2,074,429)
Vocational Instruction	83,205	-	-		(83,205)	(78,325)
Exceptional Instruction	1,089,048	1,816	538,416		(548,816)	(459,367)
Community Education and Services	198,954	35,607	75,488		(87,859)	(67,756)
Instructional Support Services	84,332	-	-		(84,332)	(82,184)
Pupil Support Services	942,427	172,018	245,613		(524,796)	(508,251)
Site, Buildings and Equipment	932,658	1,700	-		(930,958)	(920,100)
Fiscal and Other Fixed Cost Programs	38,308	-	-		(38,308)	(31,951)
Interest on Long-Term Debt	297,260	-	-		(297,260)	(203,201)
Loss on the Disposal of Equipment	3,270	-	-		(3,270)	(12,519)
Total Governmental Activities	7,918,985	314,303	1,642,516	\$ -	(5,962,166)	(5,292,872)

General Revenues:

Property Taxes Levied for:

General Purposes

Community Education and Service

Debt Service

Federal and State Aid Not

Restricted to Specific Purposes

Earnings on Investments

Miscellaneous Revenues

Total General Revenues

Change in Net Position

Net Position - Beginning of Year, As Originally Stated

Prior Period Adjustment

Net Position - Beginning of Year, As Restated

Net Position - Ending

	1,513,438	1,331,912
	63,334	64,544
	373,534	378,342
	3,929,944	3,780,515
	18,169	1,583
	8,428	84,171
Total General Revenues	5,906,847	5,641,067
Change in Net Position	(55,319)	348,195
Net Position - Beginning of Year, As Originally Stated	2,268,948	6,070,734
Prior Period Adjustment	(100,550)	(4,149,981)
Net Position - Beginning of Year, As Restated	2,168,398	1,920,753
Net Position - Ending	\$ 2,113,079	\$ 2,268,948

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2016

(with Partial Comparative Information as of June 30, 2015)

	Major Funds						Total Governmental Funds			
	General	Food Service		Community Service		Building Construction		Debt Service	Total Governmental Funds	
									2016	2015
ASSETS										
Cash and Investments	\$ 3,264,212	\$ 25,230	\$ 58,227	\$ 1,418,871	\$ 552,522	\$ 9,324,907				
Current Property Taxes Receivable	738,631	-	29,633	-	228,325	953,761				
Delinquent Property Taxes Receivable	32,481	-	1,197	-	3,448	40,030				
Accounts and Interest Receivable	2,797	177	120	-	-	6,352				
Due From State of Minnesota	430,828	-	2,384	-	2,187	405,250				
Due From Federal Government	57,681	8,871	-	-	-	121,114				
Due From Other Minnesota Districts	108,824	-	-	-	-	144,279				
Inventory	-	3,168	-	-	-	1,980				
TOTAL ASSETS	\$ 4,635,454	\$ 37,446	\$ 91,561	\$ 1,418,871	\$ 786,482	\$ 10,997,673				
LIABILITIES										
Salaries Payable	\$ 27,365	\$ 2,874	\$ 4,356	\$ -	\$ -	\$ 21,762				
Accounts and Interest Payable	89,993	3,099	6,297	227,659	-	551,996				
Due to Other Governmental Units	9,661	-	-	-	-	16				
Payroll Liabilities	36,030	-	-	-	-	97,380				
Unearned Revenue	6,011	-	17,411	-	-	20,548				
TOTAL LIABILITIES	169,060	5,973	28,064	227,659	-	691,702				
DEFERRED INFLOWS OF RESOURCES										
Unavailable Revenue - Delinquent Property Taxes	32,481	-	1,197	-	3,448	40,030				
Property Tax Levied for Subsequent Year's Expenditures	1,297,601	-	60,862	-	468,420	1,744,391				
TOTAL DEFERRED INFLOWS OF RESOURCES	1,330,082	-	62,059	-	471,868	1,784,421				
FUND BALANCES										
Nonspendable Fund Balance	-	3,168	-	-	-	1,980				
Restricted Fund Balances	71,089	28,305	1,438	1,191,212	314,614	5,577,392				
Committed Fund Balances	127,280	-	-	-	-	151,136				
Assigned Fund Balances	47,989	-	-	-	-	157,399				
Unassigned Fund Balances	2,889,954	-	-	-	-	2,633,643				
TOTAL FUND BALANCES	3,136,312	31,473	1,438	1,191,212	314,614	8,521,550				
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 4,635,454	\$ 37,446	\$ 91,561	\$ 1,418,871	\$ 786,482	\$ 10,997,673				

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION**
 JUNE 30, 2016
 (with Partial Comparative Information as of June 30, 2015)

	2016	2015
Total Fund Balances for Governmental Funds	\$ 4,675,049	\$ 8,521,550
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Those assets consist of:		
Land	10,350	10,350
Construction in Progress	3,641,136	297,712
Other Capital Assets, Net of \$4,683,651 of Accumulated Depreciation	9,459,622	9,359,332
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 reported as unavailable revenue in the funds.		
	37,126	40,030
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(108,389)	(99,646)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	854,266	683,826
Deferred Inflows of Resources Related to Pensions	(602,208)	(1,106,410)
Long-term liabilities, including bonds payable and unamortized bond premium, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year-end consist of:		
Bonds Payable	(10,270,000)	(10,525,000)
Lease Purchase Agreements	(1,114,943)	(1,193,945)
Other Post Employment Benefits Payable	161,724	178,902
Severance Benefits Payable	(127,280)	(151,136)
Pension Benefits Payable	(4,416,899)	(3,653,928)
Unamortized Bond Premiums	(86,475)	(92,689)
Total Net Position of Governmental Activities	\$ 2,113,079	\$ 2,268,948

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2016
 (with Partial Comparative Information for the Year Ended June 30, 2015)

	Major Funds					Total Governmental Funds	
	General	Food Service	Community Service	Building Construction	Debt Service	2016	2015
REVENUES							
Local Property Tax Levies	\$ 1,489,283	\$ -	\$ 63,447	\$ -	\$ 373,252	\$ 1,925,982	\$ 1,742,006
Other Local and County Revenues	198,783	102	89,781	9,387	980	299,033	336,671
Revenue From State Sources	4,960,689	16,130	24,711	-	21,875	5,023,405	5,052,766
Revenue From Federal Sources	215,991	216,652	-	-	-	432,643	472,429
Sales and Other Conversion of Assets	2,887	107,872	428	-	-	111,187	154,791
TOTAL REVENUES	6,867,633	340,756	178,367	9,387	396,107	7,792,250	7,758,663
EXPENDITURES							
Current:							
District and School Administration	508,015	-	-	-	-	508,015	499,725
District Support Services	363,358	-	-	-	-	363,358	343,296
Regular Instruction	3,157,508	-	-	-	-	3,157,508	3,034,826
Vocational Instruction	81,759	-	-	-	-	81,759	77,785
Exceptional Instruction	1,081,321	-	-	-	-	1,081,321	1,005,404
Community Education and Services	-	-	196,284	-	-	196,284	173,013
Instructional Support Services	84,339	-	-	-	-	84,339	82,250
Pupil Support Services	482,396	355,242	-	-	-	837,638	831,891
Site, Buildings and Equipment	453,781	-	-	226,651	-	680,432	675,637
Fiscal and Other Fixed Cost Programs	38,308	-	-	-	-	38,308	31,951
Capital Outlay:	344,380	-	-	3,637,036	-	3,981,416	1,023,704
Debt Service:							
Principal	79,002	-	-	-	255,000	334,002	321,251
Interest	42,838	-	-	-	251,893	294,731	177,150
TOTAL EXPENDITURES	6,717,005	355,242	196,284	3,863,687	506,893	11,639,111	8,277,883
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	150,628	(14,486)	(17,917)	(3,854,300)	(110,786)	(3,846,861)	(519,220)
OTHER FINANCING SOURCES (USES)							
Proceeds from Sale of Equipment	360	-	-	-	-	360	-
Bond Proceeds	-	-	-	-	-	-	5,360,000
Bond Issuance Premium	-	-	-	-	-	-	57,694
TOTAL OTHER FINANCING SOURCES (USES)	360	-	-	-	-	360	5,417,694
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND USES	150,988	(14,486)	(17,917)	(3,854,300)	(110,786)	(3,846,501)	4,898,474
FUND BALANCE BEGINNING OF YEAR	2,985,324	45,959	19,355	5,045,512	425,400	8,521,550	3,623,076
FUND BALANCE END OF YEAR	\$ 3,136,312	\$ 31,473	\$ 1,438	\$ 1,191,212	\$ 314,614	\$ 4,675,049	\$ 8,521,550

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016**
 (with Partial Comparative Information for the Year Ended June 30, 2015)

	2016	2015
Total Net Change in Fund Balances - Governmental Funds	\$ (3,846,501)	\$ 4,898,474
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net position and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceeds depreciation expense in the period.		
Capital Outlays	3,818,017	913,428
Depreciation Expense	(370,673)	(353,658)
Proceeds from the sale of capital assets are reported in governmental funds as other financing sources without regard to any cost basis adjustment. However, for governmental activities those proceeds are adjusted for any remaining cost basis of the assets that were disposed.	-	(12,519)
	(3,630)	(12,519)
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities on the statement of net position. In the current period these amounts consist of:		
Repayment of Bond Principal	255,000	245,000
Repayment of Capital Lease Principal	79,002	76,251
Long-term borrowing is reported as revenue (other financing sources) in governmental funds, but these proceeds increase long-term liabilities on the statement of net position. In the current period these amounts consisted of:		
Issuance of School Building Bonds	-	(5,360,000)
Premiums associated with bond financing are reported as revenue (other financing sources) in governmental funds, but these amounts increase long-term liabilities on the statement of net position.	-	(57,694)
Interest on long-term debt 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. In addition, the amortization of bond premium decreases interest expense in the statement of activities.	(2,529)	(26,051)
Property taxes that will not be collected for several months after the District's fiscal year end are not considered available revenues in the governmental funds, and are instead considered unavailable tax revenues. They are, however, recorded as revenues in the statement of activities.	(2,904)	7,697
In the statement of activities, other post employment benefits are measured by the amounts actuarially accrued during the year. In the governmental funds, however, expenditures for these items are measured by the amount of actual or implicit resources used.	(17,178)	(42,687)
Governmental funds recognized pension contributions as expenditures at the time of payment whereas the statement of activities factors in items related to pensions on a full accrual perspective.	74,320	8,270
State Aid Related to Pension Expense	(62,099)	65,199
Pension Expense		
In the statement of activities, severance benefits 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 paid).	23,856	(13,515)
Change in Net Position of Governmental Activities	\$ (55,319)	\$ 348,195

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
JUNE 30, 2016
(with Comparative Actual Amounts for the Year Ended June 30, 2015)

	<u>Private-Purpose Trust Fund</u>		<u>Agency Fund</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
ASSETS				
Cash and Investments	\$ 44,225	\$ 44,436	\$ 3,670	\$ 3,648
Accounts and Interest Receivable	<u>-</u>	<u>35</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 44,225</u>	<u>\$ 44,471</u>	<u>\$ 3,670</u>	<u>\$ 3,648</u>
LIABILITIES				
Amounts Held in Trust for Others	<u>-</u>	<u>-</u>	<u>\$ 3,670</u>	<u>\$ 3,648</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>\$ 3,670</u>	<u>\$ 3,648</u>
NET POSITION HELD IN TRUST FOR SCHOLARSHIPS	<u>\$ 44,225</u>	<u>\$ 44,471</u>		

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016
 (with Comparative Actual Amounts for the Year Ended June 30, 2015)

	Private-Purpose Trust Fund	
	2016	2015
ADDITIONS:		
Investment Income:		
Interest	\$ 254	\$ 219
TOTAL ADDITIONS	254	219
DEDUCTIONS:		
Scholarship Awarded	500	1,000
TOTAL DEDUCTIONS	500	1,000
NET INCREASE (DECREASE)	(246)	(781)
NET POSITION BEGINNING OF YEAR	44,471	45,252
NET POSITION END OF YEAR	\$ 44,225	\$ 44,471

The accompanying notes are an integral part of these statements.

INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The financial statements of Independent School District No. 2890, Renville County West, Renville, Minnesota 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. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

B. FINANCIAL REPORTING ENTITY

Independent School District No. 2890, Renville County West, Renville, Minnesota (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. These financial statements include all funds of the District. There are no other entities for which the District is financially accountable.

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

C. BASIC FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. BASIC FINANCIAL STATEMENT PRESENTATION (Cont'd)

Separate fund financial statements are provided for governmental funds and fiduciary funds. Since the resources in the fiduciary fund cannot be used for District operations, they are not included in the government-wide statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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. 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.
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.

Fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the period in which they are incurred and become measurable.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. 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 is as follows:

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.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Cont'd)

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

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

Building Construction Fund – The Building Construction Fund is used to account for financial resources to be used for the construction of major capital facilities.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term debt principal, interest, and related costs.

Fiduciary Funds

Private-Purpose Trust Fund – The Private-Purpose Trust Fund is used to account for assets held by the District in a fiduciary capacity. Major sources of revenue include gifts, donations, and interest income. Expenditures are allowed for any purpose for which the original trust was created.

Agency Fund – The Agency Fund is used to account for assets held by the District in a fiduciary capacity as a fiscal agent for another organization. Revenues and expenditures are not reported in this fund.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. Although only the General Fund, Building Construction Fund, and Debt Service Fund are major funds by definition, the District has elected to report all funds as major funds and therefore presents all funds in separate columns on the fund financial statements – an option permitted by GASB Statement No. 34.

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, Debt Service, and Trust Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. 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.

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are generally not recorded.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. CASH AND INVESTMENTS

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Investments are reported at fair value.

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

The District has formal policies in place as of June 30, 2016 to address custodial credit risk for deposits. The District does not have formal policies in place to address credit risk, concentration of credit risk and interest rate risk for investments.

G. RECEIVABLES

Accounts receivable represent amounts receivable from individuals and others for goods and services furnished by the District. Amounts due from the State of Minnesota and from other governmental units for general education aids and reimbursements under various specific programs are reported at the estimated amounts to be received based on available information at the date of this report. In some instances adjustments and proration by these agencies, which are dependent upon the amount of funds available for distribution, may result in differing amounts actually being received. Any such differences will be absorbed into operations of the subsequent period. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are delinquent property taxes receivable, which are generally immaterial.

H. INVENTORIES

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

I. PREPAYMENTS

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

J. PROPERTY TAXES

The School Board annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property owners in May and October of each year. The taxes are collected by the County Treasurer and tax settlements are made to the District periodically throughout the year.

Statutory funding formulas determine the majority of the District revenue in the General and special revenue funds. This revenue is divided between property 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." The remaining portion of taxes collectible in 2016 is recorded as a deferred inflow of resources (property tax levied for subsequent year's expenditures).

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

J. PROPERTY TAXES (Cont'd)

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 reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not available to finance the operations of the District in the current year.

K. CAPITAL ASSETS

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

Capital assets are recorded in the government-wide financial 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, if any.

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.

L. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued, bond premiums and discounts will be deferred and amortized over the life of the bonds using the straight-line method. Bonds payable will be reported net of the applicable bond premium or discount.

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. Principal payments are reported as debt service expenditures.

M. DEFERRED OUTFLOWS OF RESOURCES

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

N. DEFERRED INFLOWS OF RESOURCES

In addition to liabilities, the Statement of Net Position and the governmental funds Balance Sheet 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 or fund balance that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

O. DEFINED BENEFIT PENSION PLANS

Teachers Retirement Association

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 8.

Public Employees Retirement Association

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. ACCRUED EMPLOYEE BENEFITS

Vacation Pay

Non-certified full-time employees are annually granted one to four weeks vacation depending on years of service; one week after one year, two weeks for between two and eight years of service, three weeks between eight and sixteen years of service, and four weeks after sixteen years of service. Certified employees are not granted vacations.

Sick Pay

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

Severance Pay

The District has an early retirement plan for full time teachers, confidential employees, principals, and the coordinator of educational services who have completed at least fifteen years of continuous full time service and are at least fifty-five years of age.

Early retirement pay consists of the amount of unused sick leave days times their daily rate of pay, up to a maximum limit of seventy-five days. The retiree's daily rate of pay is the basic daily rate at retirement, as provided in the basic salary schedule, for the basic school year, not including any additional compensation for extracurricular activities. Severance pay will be paid by the School Board in four equal monthly installments commencing on November 1 of the year of retirement.

At June 30, 2016, a liability for severance pay totaling \$127,280 is included in long-term debt in the Statement of Net Position as described in Note 5.

The District also offers health insurance to teachers, principals, and the coordinator of educational services who are at least fifty-five years old and have served the District for at least ten years at retirement. The health insurance for qualifying retirees will continue until they reach the age of sixty-five.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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; injuries to employees; natural disasters and workers compensation. 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. FUND BALANCE

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

Nonspendable – consists of amounts that cannot be spent because it is not in spendable form, such as prepaid and inventory items.

Restricted – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

Assigned – consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School Board itself or by an official to which the School Board delegates the authority. Pursuant to School Board resolution, the Finance Officer is authorized to establish assignments of fund balance.

Unassigned – is the residual classification for the General Fund and also reflects negative residual amounts in other funds.

If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned as determined by the School Board.

The District has formally adopted a fund balance policy. To ensure the financial strength and stability of the District, the Board will endeavor to maintain at least 10% of the District's General Fund operating budget, excluding those accounts associated within the restricted category, in the combined total of the General Fund committed, assigned and unassigned fund balances.

S. NET POSITION

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide financial statements. Net position invested in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. All other net position items that do not meet the definition of "net investment in capital assets" or "restricted" are reported as unrestricted.

INDEPENDENT SCHOOL DISTRICT NO. 2890
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RENVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

T. USE OF ESTIMATES

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

U. RECLASSIFICATIONS

Certain amounts in the prior year data have been reclassified in order to be consistent with the current year's presentation. The total amount of the District's prior year fund balance did not change due to these reclassifications.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. DEFICIT FUND BALANCES

At June 30, 2016, the District had no funds with negative fund balances.

3. DEPOSITS AND INVESTMENTS

A. DEPOSITS

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board, all of which are members of the Federal Reserve System.

Minnesota Statutes require that all District deposits be secured by a bank guaranty bond or 110% of collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk: For deposits, is the risk that, in the event of failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. At various times throughout the year, the District did not have sufficient collateral; however, as of June 30, 2016, the District's bank balance was not exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

B. INVESTMENTS

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investments were not exposed to interest rate risk at June 30, 2016.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investments were not exposed to credit risk at June 30, 2016.

Concentration of Credit Risk: Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District has no formal investment policy that places limits on the amount the District may invest in any one issuer. More than 5% of the District's investments are in MSDLAF and Minnesota Trust Investment Shares.

Custodial Credit Risk: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments were not exposed to custodial credit risk at June 30, 2016.

INDEPENDENT SCHOOL DISTRICT NO. 2890
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

3. DEPOSITS AND INVESTMENTS (Cont'd)

B. INVESTMENTS (Cont'd)

The following table presents the District's cash and investment balances at June 30, 2016:

<u>Cash/Investment Type</u>	<u>Credit Rating</u>	<u>Average Maturities</u>	<u>Percentage of Total</u>	<u>Fair Value</u>
Pooled Cash and Investments:				
Money Market Funds	N/A	N/A	20.8%	\$ 1,106,230
Minnesota Trust Investment Shares	N/A	N/A	21.2	1,129,657
Certificates of Deposit	N/A	5.29 Months	54.2	2,883,519
Checking Account	N/A	N/A	3.7	197,656
Petty Cash	N/A	N/A	0.1	<u>2,000</u>
Total Cash and Investments			100.0%	<u>\$ 5,319,062</u>

Cash and Investments are presented in the June 30, 2016 basic financial statements as follows:

Statement of Net Position:

Current Assets:

Cash and Investments \$ 5,319,062

C. FAIR VALUE MEASUREMENT

The District's cash and investments consist of checking accounts, petty cash, certificates of deposit, and shares in Minnesota's pooled investment accounts, none of which is subject to fair value measurement under GASB Statement No. 72.

4. CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 10,350			\$ 10,350
Construction in Progress	<u>297,712</u>	\$ 3,637,036	\$ 293,612	<u>3,641,136</u>
Total Capital Assets, Not Being Depreciated	<u>308,062</u>	<u>3,637,036</u>	<u>293,612</u>	<u>3,651,486</u>
Capital Assets, Being Depreciated				
Land Improvements	504,332	9,907	-	514,239
Buildings and Improvements	11,565,066	436,236	-	12,001,302
Equipment and Transportation Vehicles	<u>1,619,274</u>	<u>28,450</u>	<u>19,992</u>	<u>1,627,732</u>
Total Capital Assets, Being Depreciated	<u>13,688,672</u>	<u>474,593</u>	<u>19,992</u>	<u>14,143,273</u>
Accumulated Depreciation for:				
Land Improvements	368,453	8,740	-	377,193
Buildings and Improvements	3,169,265	224,061	-	3,393,326
Equipment and Transportation Vehicles	<u>791,622</u>	<u>137,872</u>	<u>16,362</u>	<u>913,132</u>
Total Accumulated Depreciation	<u>4,329,340</u>	<u>370,673</u>	<u>16,362</u>	<u>4,683,651</u>
Total Capital Assets, Being Depreciated, Net	<u>9,359,332</u>	<u>103,920</u>	<u>3,630</u>	<u>9,459,622</u>
Governmental Activities Capital Assets, Net	<u>\$ 9,667,394</u>	<u>\$ 3,740,956</u>	<u>\$ 297,242</u>	<u>\$ 13,111,108</u>

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

4. CAPITAL ASSETS (Cont'd)

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

Governmental Activities	
District and School Administration	\$ 314
District Support Services	6,267
Regular Instruction	6,513
Vocational Instruction	87
Exceptional Instruction	258
Community Education and Services	860
Pupil Support Services	104,079
Site, Buildings and Equipment	<u>252,295</u>
Total Depreciation Expense, Governmental Activities	\$ <u>370,673</u>

5. LONG-TERM LIABILITIES

A. DESCRIPTION OF LONG-TERM DEBT

Long-term liabilities are comprised of the following as of June 30, 2016:

Issue	Interest Rate	Original Amount	Maturity Date	Debt Outstanding
Alternative Facilities Bonds, Series 2012A	2.00 – 3.00%	\$6,120,000	2032	\$ 4,910,000
General Obligation School Building Bonds, Series 2015A	2.00 – 3.00%	5,360,000	2035	5,360,000
Capital Lease Payable	4.47%	620,202	2026	492,792
Capital Lease Payable	2.94%	774,000	2027	<u>622,151</u>
Total Outstanding Long-Term Debt				\$ <u>11,384,943</u>

General Obligation Bonds

On May 24, 2012, the District issued \$6,120,000 of General Obligation Alternative Facilities Bonds, Series 2012A. The proceeds of this bond issue were used for ventilation, air handling and indoor air quality improvements to the existing facility. The District levied property taxes for the retirement of these bonds. Principal and interest payments on these bonds are recorded in the Debt Service Fund. Interest paid in 2015-2016 was \$126,660.

On March 18, 2015, the District issued \$5,360,000 of General Obligation School Building Bonds, Series 2015A. The proceeds of this bond issue were used for construction of new classrooms, weight room, and gymnasium. The District levied property taxes for the retirement of these bonds. Principal and interest payments on these bonds are recorded in the Debt Service Fund. Interest paid in 2015-2016 was \$125,233.

Capital Lease Obligations

On September 23, 2011, the District entered into a fifteen-year lease agreement for \$620,202 with Green Campus Partners, LLC. The lease calls for fifteen annual payments of \$57,687 including principal and interest at a rate of 4.47%. The lease proceeds were used to make improvements to the school building and will be paid for from regular General Fund revenues. The total cost of the building improvements was \$620,202. Interest paid in 2015-2016 was \$23,554.

On October 9, 2012, the District entered into a fifteen-year lease agreement for \$774,000 with Kinetic Leasing, Inc. The lease calls for thirty semi-annual payments of \$32,077 including principal and interest at a rate of 2.94%. The lease proceeds were used for the new classroom building addition facility and will be paid for from regular General Fund revenues. The total cost of the new building was \$774,000. Interest paid in 2015-2016 was \$19,285.

These assets are being depreciated using a straight line method over the life of the asset.

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 RENVILLE, MINNESOTA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2016

5. LONG-TERM LIABILITIES (Cont'd)

B. MINIMUM DEBT PAYMENTS

Minimum annual principal and interest payments to retire general obligation bonds payable are as follows:

Year Ending June 30	General Obligation Bonds Payable	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 410,000	\$ 265,598
2018	415,000	257,398
2019	435,000	249,098
2020	445,000	240,398
2021	450,000	231,497
2022 – 2026	2,400,000	1,015,457
2027 – 2031	2,950,000	687,849
2032 – 2035	<u>2,765,000</u>	<u>210,600</u>
	<u>\$10,270,000</u>	<u>\$ 3,157,895</u>

The future minimum lease obligations and the net present value of the minimum lease payments of the capital leases as of June 30, 2016 are as follows:

Year Ending June 30	Building Improvements
	<u>Principal</u>
2017	\$ 121,841
2018	121,841
2019	121,841
2020	121,841
2021	121,841
2022-2026	609,202
2027-2028	<u>153,917</u>
Net Minimum Lease Payments	1,372,324
Less Amount Representing Interest	<u>(257,381)</u>
Present Value of Net Minimum Lease Payments	<u>\$ 1,114,943</u>

C. CHANGES IN LONG-TERM LIABILITIES

Long-term liability balances and activity for the year ended June 30, 2016 were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
Governmental Activities					
Alternative Facilities Bonds, Series 2012A	\$ 5,165,000		\$ 255,000	\$ 4,910,000	\$ 260,000
General Obligation School Building Bonds, Series 2015A	5,360,000		-	5,360,000	150,000
Capital Lease Payable	526,925		34,133	492,792	35,659
Capital Lease Payable	667,020		44,869	622,151	46,198
OPEB Payable					
(Advance Payments)	(178,902)	\$ 17,178	-	(161,724)	-
Severance Pay Payable	151,136	42,066	65,922	127,280	19,675
Pension Benefits Payable	3,653,928	1,337,255	574,284	4,416,899	-
Unamortized Premiums	<u>92,689</u>	<u>-</u>	<u>6,214</u>	<u>86,475</u>	<u>6,214</u>
	<u>\$15,437,796</u>	<u>\$ 1,396,499</u>	<u>\$ 980,422</u>	<u>\$15,853,873</u>	<u>\$ 517,746</u>

**INDEPENDENT SCHOOL DISTRICT NO. 2890
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JUNE 30, 2016**

6. OTHER POST EMPLOYMENT BENEFITS

The District follows Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*.

A. PLAN DESCRIPTION

The District provides health insurance benefits for certain retired employees under a single-employer fully-insured plan. Active employees who retire from the District when eligible to receive a retirement benefit from the Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA) and do not participate in any other health benefits program providing similar coverage, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program. Retirees are required to pay 100% of the total premium cost. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. As of July 1, 2015 there were approximately 9 retirees participating in the District's group health plan. Benefit and eligibility provisions are established through individual contracts and negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The District's OPEB plan issues a stand-alone financial report that may be obtained by writing or calling the District.

B. FUNDING POLICY

The District funds its other post employment benefit (OPEB) obligation on a pay as you go basis. For fiscal year 2016, the District contributed \$161,384 to the plan.

C. ANNUAL OPEB COST AND NET OPEB OBLIGATION

The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for fiscal year 2015 and 2016, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

	<u>2016</u>	<u>2015</u>
Annual Required Contribution (ARC)	\$ 175,263	\$ 159,548
Interest on Net OPEB Obligation	(6,262)	(9,972)
Amortization of Net OPEB Obligation with interest	<u>9,561</u>	<u>13,308</u>
Annual OPEB Cost	178,562	162,884
Contributions Made (Including Implicit Subsidy)	<u>(161,384)</u>	<u>(120,197)</u>
Increase (Decrease) in Net OPEB Obligation	17,178	42,687
Net OPEB Obligation, Beginning of Year	<u>(178,902)</u>	<u>(221,589)</u>
Net OPEB Obligation, End of Year	\$ (161,724)	\$ (178,902)

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

Fiscal Year Ended	Annual OPEB Cost	Percentage Contributed	Net OPEB Obligation
6/30/2016	\$ 178,562	90.38%	\$ (161,724)
6/30/2015	\$ 162,884	73.79%	\$ (178,902)

D. FUNDED STATUS AND FUND PROGRESS

As of July 1, 2015, most recent actuarial valuation date, the District's unfunded actuarial and accrued liability (UAAL) was \$1,844,981. The annual payroll for active employees covered by the plan in the actuarial valuation was \$3,504,898, for a ratio of UAAL to covered payroll of 52.6%.

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6. OTHER POST EMPLOYMENT BENEFITS (Cont'd)

D. FUNDED STATUS AND FUND PROGRESS (Cont'd)

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 immediately following the notes to the basic financial statements presents required supplementary 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 (as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5% discount rate, which is based on the estimated long-term investment yield on the general assets of the District. The annual healthcare cost trend rate is 7.25% initially, reduced incrementally to an ultimate rate of 5% after nine years. The unfunded actuarial accrued liability is being amortized over a closed 30-year period increasing at 3.0% per year (the payroll growth rate).

The District is not required to have another actuarial valuation until July 1, 2017.

7. FUND BALANCE CLASSIFICATION

At June 30, 2016, a summary of the governmental fund balance classifications is as follows:

	<u>General Fund</u>	<u>Food Service Fund</u>	<u>Community Service Fund</u>	<u>Building Construction Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Nonspendable:						
Inventory	\$ -	\$ 3,168	\$ -	\$ -	\$ -	\$ 3,168
	<u>-</u>	<u>3,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,168</u>
Restricted for:						
Deferred Maintenance	3,585	-	-	-	-	3,585
Gifted and Talented	32,277	-	-	-	-	32,277
Health and Safety	(911)	-	-	-	-	(911)
Safe Schools - Crime	11,156	-	-	-	-	11,156
Operating Capital	18,101	-	-	-	-	18,101
Staff Development	6,881	-	-	-	-	6,881
Food Service	-	28,305	-	-	-	28,305
Community Education	-	-	36,218	-	-	36,218
Community Service	-	-	9,774	-	-	9,774
Early Childhood Family Education	-	-	20,318	-	-	20,318
School Readiness	-	-	(64,872)	-	-	(64,872)
Building Construction	-	-	-	1,191,212	-	1,191,212
Debt Service	-	-	-	-	314,614	314,614
	<u>71,089</u>	<u>28,305</u>	<u>1,438</u>	<u>1,191,212</u>	<u>314,614</u>	<u>1,606,658</u>
Committed for:						
Separation/Retirement Benefits	127,280	-	-	-	-	127,280
	<u>127,280</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>127,280</u>
Assigned for:						
Projected Budget Deficit	47,989	-	-	-	-	47,989
	<u>47,989</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,989</u>
Unassigned:	<u>2,889,954</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,889,954</u>
Total Fund Balance:	<u>\$ 3,136,312</u>	<u>\$ 31,473</u>	<u>\$ 1,438</u>	<u>\$ 1,191,212</u>	<u>\$ 314,614</u>	<u>\$ 4,675,049</u>

The District is reporting a negative restricted fund balance in School Readiness and Health and Safety at June 30, 2016. Minnesota Statutes require the District to report a deficit in the restricted fund balance, when applicable, in order to permit the statutory revenue formula calculations. This deficit will be offset with future operating tax levies.

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8. PENSION PLANS

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

A. TEACHERS RETIREMENT ASSOCIATION

1. Plan Description

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

Teachers employed in Minnesota's public elementary and secondary 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.

2. Benefits Provided

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

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

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

With these provisions:

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

or

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8. PENSION PLANS (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

2. Benefits Provided (Cont'd)

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

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

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

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

3. Contribution Rate

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

	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

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

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

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8. PENSION PLANS (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

3. Contribution Rate (Cont'd)

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

4. 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 total pension liability and fiduciary net position were adjusted to reflect the merger of DTRFA.

	6/30/14 Prior to Merger	6/30/14 After Merger
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>

5. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Measurement Date	June 30, 2015
Valuation Date	July 1, 2015
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	8.0%
Wage Inflation	3.0%
Projected Salary increase	3.5 – 12%, based on years of service
Cost of living adjustment	2.0%

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8. PENSION PLANS (Cont'd)
 A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)
 5. Actuarial Assumptions (Cont'd)

Mortality Assumption

Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years.
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rates set back 3 years.
Post-disability	RP 2000 disabled retiree mortality, without adjustment.

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

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

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

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

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

6. Discount Rate

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

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8. PENSION PLANS (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

7. Net Pension Liability

On June 30, 2016, the District reported a liability of \$3,427,038 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0554% at the end of the measurement period and 0.0585% for the beginning of the year.

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

District's proportionate share of net pension liability	\$	3,427,038
State's proportionate share of the net pension liability associated with the District	\$	420,390

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

For the year ended June 30, 2015, the District recognized pension expense of \$284,360. It also recognized \$74,320 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 175,633	\$ -
Changes in actuarial assumptions	263,449	-
Net difference between projected and actual earnings on pension plan investments	-	262,108
Change in Proportion	33,796	149,324
Contributions paid to TRA subsequent to the measurement date	<u>218,357</u>	<u>-</u>
Total	<u>\$ 691,235</u>	<u>\$ 411,432</u>

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8. PENSION PLANS (Cont'd)

A. TEACHERS RETIREMENT ASSOCIATION (Cont'd)

7. Net Pension Liability (Cont'd)

\$218,357 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year ended June 30	Pension Expense Amount
2017	\$ (36,514)
2018	\$ (36,514)
2019	\$ (36,515)
2020	\$ 152,871
2021	\$ 18,118
Thereafter	\$ -

8. Pension Liability Sensitivity

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

District proportionate share of NPL		
1 percent decrease (7.0%)	Current (8.0%)	1 percent increase (9.0%)
\$5,216,395	\$3,427,038	\$1,933,767

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

9. Pension Plan Fiduciary Net Position

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

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

1. Plan Description

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

General Employees Retirement Plan (GERF)

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

2. Benefits Provided

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

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8. PENSION PLANS (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)

2. Benefits Provided (Cont'd)

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

The benefit provisions stated in the following paragraph 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.

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.

3. Contributions

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of Basic Plan members and 7.5% for the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2016, were \$92,206. The District's contributions were equal to the required contributions for each year as set by State Statute.

4. Pension Costs

GERF Pension Costs

At June 30, 2016, the District reported a liability of \$989,861 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0191%, which was a decrease of 6.4% from its proportion measured as of June 30, 2014.

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

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8. PENSION PLANS (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)

4. Pension Costs (Cont'd)

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

For the year ended June 30, 2016, the District recognized pension expense of \$88,303 for its proportionate share of GERS's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 9,180	\$ 49,906
Changes in actuarial assumptions	61,645	-
Difference between projected and Actual earnings on pension plan investments	-	88,117
Changes in proportion	-	52,753
Contributions paid to PERA subsequent to the measurement date	<u>92,206</u>	<u>-</u>
Total	<u>\$ 163,031</u>	<u>\$ 190,776</u>

\$92,206 reported as deferred outflows of resources related to pensions resulting from District contributions to GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERS pensions will be recognized in pension expense as follows:

Year ended June 30	Pension Expense Amount
2017	\$ (35,987)
2018	\$ (35,988)
2019	\$ (71,404)
2020	\$ 23,428
2021	\$ -
Thereafter	\$ -

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8. PENSION PLANS (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)

5. Actuarial Assumptions

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

Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	7.90%

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

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

The long-term expected rate of return on pension plan investments is 7.9%. 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 Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	<u>2%</u>	0.50%
Total	<u>100%</u>	

6. Discount Rate

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

7. Pension Liability Sensitivity

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

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

8. PENSION PLANS (Cont'd)

B. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Cont'd)

7. Pension Liability Sensitivity (Cont'd)

District proportionate share of GERS NPL		
1 percent decrease	Current	1 percent increase
(6.9%)	(7.9%)	(8.9%)
\$1,556,414	\$989,861	\$521,976

8. Pension Plan Fiduciary Net Position

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

9. OPERATING LEASE AGREEMENT

Equipment Lease

The District entered into an operating lease agreement in July 2014 with De Lage Landen Financial Services, Inc. for four copiers. This lease calls for monthly payments of \$890, and runs through July 2018. Lease expenditures for the year ended June 30, 2016 were \$10,680.

Future minimum lease obligations are as follows:

2017	\$ 10,680
2018	10,680
2019	890
2020	-
2021	-

10. PRIOR PERIOD ADJUSTMENT

The beginning net position of the governmental activities has been decreased to reflect the merger of the Duluth Teachers Retirement Fund Association (DTRFA) with TRA during the measurement year used for the June 30, 2016 audit, as mentioned in Note 8. The result of this merger records the District's proportionate share of the additional net pension liability on the District's government-wide financial statements. Beginning governmental activities net position has been restated from \$2,268,948 to \$2,168,398 (a decrease of \$100,550).

11. GASB STANDARD ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as they relate to governments that provide other postemployment benefits (OPEB) to their employees. Statement No. 75 requires governments providing other postemployment benefits to recognize their long-term obligation for OPEB as a liability for the first time, and to more comprehensively and comparably measure the annual costs of OPEB benefits. Statement No. 75 is effective for implementation for the year ended June 30, 2018.

12. SUBSEQUENT EVENTS

The master agreement between the District and the educational support professionals was approved in September 2016 for the period July 1, 2015 through June 30, 2017. A retroactive 30 cent raise for the 2015-2016 year was paid in September 2016. This amounted to \$14,568 in additional wages.

REQUIRED SUPPLEMENTARY INFORMATION

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS
FOR POSTEMPLOYMENT BENEFIT PLANS
JUNE 30, 2016**

SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLANS

Other Postemployment Benefits						
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)
7/01/2015	\$-	\$1,844,981	\$1,844,981	0.00%	\$ 3,504,898	52.6%
7/01/2012	-	1,644,473	1,644,473	0.00	2,994,293	54.9
7/01/2009	-	1,910,305	1,910,305	0.00	2,808,934	68.0

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR POSTEMPLOYMENT BENEFIT PLANS

Other Postemployment Benefits				
Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage Contributed	Net OPEB Obligation
6/30/2016	\$ 178,562	\$ 161,384	90.38%	\$ (161,724)
6/30/2015	162,884	120,197	73.79	(178,902)
6/30/2014	163,029	175,370	107.57	(221,589)
6/30/2013	162,170	207,814	128.15	(209,248)
6/30/2012	173,971	216,488	124.44	(163,604)
6/30/2011	172,677	256,130	148.33	(121,087)
6/30/2010	172,111	209,745	121.87	(37,634)

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF DISTRICT'S SHARE OF NET PENSION LIABILITY AND DISTRICT'S
 CONTRIBUTIONS
 FOR DEFINED BENEFIT PENSION PLANS
 JUNE 30, 2016

TEACHERS RETIREMENT ASSOCIATION

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY

Fiscal Year Ending	District's Proportion (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability (Asset) associated with District (b)	Total (a+b)	District's Covered- Employee Payroll (c)	District's	Plan
						Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/c)	Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	0.0554%	\$3,427,038	\$ 420,390	\$ 3,847,428	\$2,891,927	118.5%	76.8%
6/30/2014	0.0585	2,695,638	189,588	2,885,226	2,668,401	101.0	81.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

TEACHERS RETIREMENT ASSOCIATION

SCHEDULE OF DISTRICT'S CONTRIBUTIONS

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered- Employee Payroll (d)	Contributions
					as a Percentage of Covered- Employee Payroll (b/d)
6/30/2016	\$ 218,357	\$ 218,357	\$ -	\$2,981,851	7.3%
6/30/2015	215,393	215,393	-	2,891,927	7.4

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF DISTRICT'S SHARE OF NET PENSION LIABILITY AND DISTRICT'S
CONTRIBUTIONS
FOR DEFINED BENEFIT PENSION PLANS
JUNE 30, 2016
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT PLAN

Fiscal Year Ending	District's Proportion (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	District's Covered- Employee Payroll (b)	District's	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
				Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	
6/30/2015	0.0191%	\$ 989,861	\$1,137,228	87.0%	78.2%
6/30/2014	0.0204	958,290	1,098,702	87.2	78.7

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT PLAN

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions
					as a Percentage of Covered- Employee Payroll (b/d)
6/30/2016	\$ 92,206	\$ 92,206	\$ -	\$1,234,545	7.5%
6/30/2015	82,241	82,241	-	1,137,228	7.2

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (with Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016 Budgeted Amounts		2016 Actual	Variance	2015 Actual	Increase (Decrease) Actual
	Original	Final				
REVENUES						
Local Property Tax Levies:						
Maintenance Levy	\$ 1,263,360	\$ 1,443,814	\$ 1,461,109	\$ 17,295	\$ 1,275,960	\$ 185,149
Health and Safety Levy	28,174	28,174	28,174	-	24,284	3,890
	<u>1,291,534</u>	<u>1,471,988</u>	<u>1,489,283</u>	<u>17,295</u>	<u>1,300,244</u>	<u>189,039</u>
Other Local and County Revenues:						
County Apportionment	10,000	9,603	9,866	263	10,537	(671)
Other School Districts	68,000	55,677	57,001	1,324	76,355	(19,354)
Admissions and Fees	82,300	76,642	90,609	13,967	101,039	(10,430)
Earnings From Investments	1,500	7,000	7,593	593	1,395	6,198
Rent for School Facilities	300	200	1,700	1,500	1,700	-
Miscellaneous Revenues	22,200	28,662	32,014	3,352	53,471	(21,457)
	<u>184,300</u>	<u>177,784</u>	<u>198,783</u>	<u>20,999</u>	<u>244,497</u>	<u>(45,714)</u>
Revenue From State Sources:						
Endowment Fund Apportionment	13,865	16,051	16,536	485	15,986	550
General Education Aid	4,473,586	4,373,759	4,376,396	2,637	4,423,740	(47,344)
Literacy Incentive Aid	23,411	21,789	23,057	1,268	22,195	862
Disparity Aid	10,035	12,496	12,496	-	10,035	2,461
Homestead/Agricultural Levy Credits	6,015	16,154	16,154	-	6,015	10,139
Special Education	530,000	490,000	453,475	(36,525)	447,827	5,648
Miscellaneous State Revenue	70,156	68,863	62,575	(6,288)	73,466	(10,891)
	<u>5,127,068</u>	<u>4,999,112</u>	<u>4,960,689</u>	<u>(38,423)</u>	<u>4,999,264</u>	<u>(38,575)</u>
Revenue From Federal Sources:						
Title I Educationally Deprived Children	105,000	116,179	111,503	(4,676)	99,794	11,709
Migrant Education	4,600	4,600	4,600	-	4,600	-
Title II	80,000	18,819	6,655	(12,164)	76,449	(69,794)
Federal Special Education	-	-	84,941	84,941	81,311	3,630
Other Federal Programs	8,292	8,292	8,292	-	12,184	(3,892)
	<u>197,892</u>	<u>147,890</u>	<u>215,991</u>	<u>68,101</u>	<u>274,338</u>	<u>(58,347)</u>
Sales and Other Conversion of Assets:						
Sales of Materials	1,200	1,270	1,338	68	1,345	(7)
Insurance Recovery	-	1,269	1,549	280	48,000	(46,451)
	<u>1,200</u>	<u>2,539</u>	<u>2,887</u>	<u>348</u>	<u>49,345</u>	<u>(46,458)</u>
TOTAL REVENUES	6,801,994	6,799,313	6,867,633	68,320	6,867,688	(55)
EXPENDITURES						
Current:						
District and School Administration:						
Salaries and Wages	378,678	378,668	373,898	4,770	366,664	7,234
Employee Benefits	109,632	111,262	111,226	36	108,044	3,182
Purchased Services	15,050	10,915	14,131	(3,216)	11,412	2,719
Supplies and Materials	1,800	920	566	354	712	(146)
Other Expenditures	11,050	8,194	8,194	-	12,893	(4,699)
	<u>516,210</u>	<u>509,959</u>	<u>508,015</u>	<u>1,944</u>	<u>499,725</u>	<u>8,290</u>
District Support Services:						
Salaries and Wages	173,709	144,199	146,930	(2,731)	160,393	(13,463)
Employee Benefits	50,008	46,150	46,573	(423)	47,746	(1,173)
Purchased Services	116,000	118,686	133,593	(14,907)	105,392	28,201
Supplies and Materials	22,000	28,697	26,197	2,500	19,988	6,209
Other Expenditures	10,000	10,065	10,065	-	9,777	288
	<u>371,717</u>	<u>347,797</u>	<u>363,358</u>	<u>(15,561)</u>	<u>343,296</u>	<u>20,062</u>
Regular Instruction:						
Salaries and Wages	2,285,357	2,288,415	2,265,811	22,604	2,151,854	113,957
Employee Benefits	592,427	624,887	637,914	(13,027)	587,663	50,251
Purchased Services	119,250	112,751	151,169	(38,418)	160,568	(9,399)
Supplies and Materials	122,804	109,912	95,974	13,938	128,989	(33,015)
Other Expenditures	5,685	6,678	6,640	38	5,752	888
	<u>3,125,523</u>	<u>3,142,643</u>	<u>3,157,508</u>	<u>(14,865)</u>	<u>3,034,826</u>	<u>122,682</u>
Vocational Instruction:						
Salaries and Wages	59,948	59,867	59,968	(101)	57,436	2,532
Employee Benefits	14,454	14,480	14,627	(147)	14,110	517
Purchased Services	-	-	664	(664)	278	386
Supplies and Materials	4,500	5,521	6,500	(979)	5,961	539
	<u>78,902</u>	<u>79,868</u>	<u>81,759</u>	<u>(1,891)</u>	<u>77,785</u>	<u>3,974</u>
Exceptional Instruction:						
Salaries and Wages	785,812	748,806	739,819	8,987	693,911	45,908
Employee Benefits	171,324	153,606	156,594	(2,988)	162,073	(5,479)
Purchased Services	261,000	158,918	178,855	(19,937)	144,304	34,551
Supplies and Materials	7,000	5,000	6,053	(1,053)	5,116	937
	<u>1,225,136</u>	<u>1,066,330</u>	<u>1,081,321</u>	<u>(14,991)</u>	<u>1,005,404</u>	<u>75,917</u>

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (with Comparative Actual Amounts for the Year Ended June 30, 2015)

EXPENDITURES (Cont'd)	2016 Budgeted Amounts		2016 Actual	Variance	2015 Actual	Increase (Decrease) Actual
	Original	Final				
Current (Cont'd)						
Instructional Support Services:						
Salaries and Wages	\$ 7,242	\$ 14,290	\$ 10,785	\$ 3,505	\$ 5,982	\$ 4,803
Employee Benefits	534	2,085	1,665	420	752	913
Purchased Services	65,400	67,110	69,723	(2,613)	73,066	(3,343)
Supplies and Materials	2,500	2,000	2,166	(166)	2,450	(284)
	<u>75,676</u>	<u>85,485</u>	<u>84,339</u>	<u>1,146</u>	<u>82,250</u>	<u>2,089</u>
Pupil Support Services:						
Salaries and Wages	260,116	330,090	312,619	17,471	303,722	8,897
Employee Benefits	42,209	51,014	52,294	(1,280)	47,417	4,877
Purchased Services	146,847	130,894	66,074	64,820	60,803	5,271
Supplies and Materials	92,079	58,489	51,409	7,080	76,240	(24,831)
	<u>541,251</u>	<u>570,487</u>	<u>482,396</u>	<u>88,091</u>	<u>488,182</u>	<u>(5,786)</u>
Site, Buildings and Equipment:						
Salaries and Wages	193,636	223,720	211,810	11,910	195,529	16,281
Employee Benefits	46,800	50,196	49,045	1,151	46,522	2,523
Purchased Services	183,000	188,427	152,920	35,507	131,809	21,111
Supplies and Materials	82,500	42,779	38,587	4,192	58,836	(20,249)
Other Expenditures	-	-	1,419	(1,419)	92	1,327
	<u>505,936</u>	<u>505,122</u>	<u>453,781</u>	<u>51,341</u>	<u>432,788</u>	<u>20,993</u>
Fiscal And Other Fixed Cost Programs:						
Purchased Services	<u>35,000</u>	<u>38,308</u>	<u>38,308</u>	<u>-</u>	<u>31,951</u>	<u>6,357</u>
Capital Outlay:						
District and School Administration	-	808	808	-	-	808
District Support Services	85,000	70,000	22,857	47,143	13,364	9,493
Regular Instruction	120,400	149,911	145,804	4,107	126,512	19,292
Vocational Instruction	2,000	1,000	-	1,000	1,536	(1,536)
Pupil Support Services	88,500	319	319	-	166,957	(166,638)
Site, Buildings and Equipment	66,300	166,161	174,592	(8,431)	679,116	(504,524)
	<u>362,200</u>	<u>388,199</u>	<u>344,380</u>	<u>43,819</u>	<u>987,485</u>	<u>(643,105)</u>
Debt Service:						
Principal	79,003	79,002	79,002	-	76,251	2,751
Interest	42,839	42,839	42,838	1	45,590	(2,752)
	<u>121,842</u>	<u>121,841</u>	<u>121,840</u>	<u>1</u>	<u>121,841</u>	<u>(1)</u>
TOTAL EXPENDITURES	<u>6,959,393</u>	<u>6,856,039</u>	<u>6,717,005</u>	<u>139,034</u>	<u>7,105,533</u>	<u>(388,528)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(157,399)</u>	<u>(56,726)</u>	<u>150,628</u>	<u>207,354</u>	<u>(237,845)</u>	<u>388,473</u>
OTHER FINANCING USES						
Proceeds from Sale of Equipment	-	400	360	(40)	-	360
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>400</u>	<u>360</u>	<u>(40)</u>	<u>-</u>	<u>360</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	<u>(157,399)</u>	<u>(56,326)</u>	<u>150,988</u>	<u>207,314</u>	<u>(237,845)</u>	<u>388,833</u>
FUND BALANCE BEGINNING OF YEAR	<u>2,985,324</u>	<u>2,985,324</u>	<u>2,985,324</u>	<u>-</u>	<u>3,223,169</u>	<u>(237,845)</u>
FUND BALANCE END OF YEAR	<u>\$ 2,827,925</u>	<u>\$ 2,928,998</u>	<u>\$ 3,136,312</u>	<u>\$ 207,314</u>	<u>\$ 2,985,324</u>	<u>\$ 150,988</u>
FUND BALANCE ANALYSIS						
RESTRICTED FUND BALANCE						
Deferred Maintenance			\$ 3,585		\$ 962	
Gifted and Talented			32,277		31,292	
Health and Safety			(911)	**	7,375	
Safe Schools - Crime			11,156		2,109	
Operating Capital			18,101		-	
Teacher Development and Evaluation			-		1,408	
Staff Development			6,881		-	
TOTAL RESTRICTED FUND BALANCE			<u>71,089</u>		<u>43,146</u>	
COMMITTED FUND BALANCE						
Separation/Retirement Benefits			<u>127,280</u>		<u>151,136</u>	
ASSIGNED FUND BALANCE						
Projected Budget Deficit			<u>47,989</u>		<u>157,399</u>	
UNASSIGNED FUND BALANCE			<u>2,889,954</u>		<u>2,633,643</u>	
TOTAL FUND BALANCE			<u>\$ 3,136,312</u>		<u>\$ 2,985,324</u>	

** Required by MN Statute to record a deficit, when applicable, in order to permit statutory revenue formula calculations.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - FOOD SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (with Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016 Budgeted Amounts		2016 Actual	Variance	2015 Actual	Increase (Decrease) Actual
	Original	Final				
REVENUES						
Other Local and County Revenues:						
Miscellaneous Local Revenue	\$ 50	\$ 50	\$ 102	\$ 52	\$ 31	\$ 71
Revenue From State Sources:						
Breakfast Program Aid	4,500	10,000	3,872	(6,128)	8,168	(4,296)
Special Milk Program Aid	1,100	800	968	168	894	74
Lunch Program Aid	9,000	10,000	11,290	1,290	11,506	(216)
	<u>14,600</u>	<u>20,800</u>	<u>16,130</u>	<u>(4,670)</u>	<u>20,568</u>	<u>(4,438)</u>
Revenue From Federal Sources:						
School Lunch Aid	27,300	22,000	26,780	4,780	25,110	1,670
Free/Reduced Lunch Aid	115,000	100,000	94,843	(5,157)	96,976	(2,133)
School Breakfast Program	38,000	30,000	35,483	5,483	33,761	1,722
USDA Commodity Rebates	500	200	85	(115)	275	(190)
USDA Commodities	24,000	18,000	19,128	1,128	18,373	755
Fresh Fruit and Vegetable Program	-	16,897	16,897	-	-	16,897
Summer Food Program	15,000	15,000	17,302	2,302	16,560	742
Child and Adult Care Food Program	7,000	6,640	6,134	(506)	7,036	(902)
	<u>226,800</u>	<u>208,737</u>	<u>216,652</u>	<u>7,915</u>	<u>198,091</u>	<u>18,561</u>
Sales And Other Conversion Of Assets:						
Sale of Lunches and Other	114,950	111,850	107,872	(3,978)	105,076	2,796
TOTAL REVENUES	<u>356,400</u>	<u>341,437</u>	<u>340,756</u>	<u>(681)</u>	<u>323,766</u>	<u>16,990</u>
EXPENDITURES						
Current:						
Pupil Support Services:						
Salaries and Wages	107,479	104,907	109,655	(4,748)	111,291	(1,636)
Employee Benefits	24,715	24,747	24,760	(13)	25,144	(384)
Purchased Services	18,850	18,210	20,764	(2,554)	19,193	1,571
Supplies and Materials	189,571	199,423	197,434	1,989	187,103	10,331
Other Expenditures	1,000	2,595	2,629	(34)	978	1,651
	<u>341,615</u>	<u>349,882</u>	<u>355,242</u>	<u>(5,360)</u>	<u>343,709</u>	<u>11,533</u>
Capital Outlay:						
Pupil Support Services	-	-	-	-	32,119	(32,119)
TOTAL EXPENDITURES	<u>341,615</u>	<u>349,882</u>	<u>355,242</u>	<u>(5,360)</u>	<u>375,828</u>	<u>(20,586)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>14,785</u>	<u>(8,445)</u>	<u>(14,486)</u>	<u>(6,041)</u>	<u>(52,062)</u>	<u>37,576</u>
FUND BALANCE BEGINNING OF YEAR	<u>45,959</u>	<u>45,959</u>	<u>45,959</u>	<u>-</u>	<u>98,021</u>	<u>(52,062)</u>
FUND BALANCE END OF YEAR	<u>\$ 60,744</u>	<u>\$ 37,514</u>	<u>\$ 31,473</u>	<u>\$ (6,041)</u>	<u>\$ 45,959</u>	<u>\$ (14,486)</u>
FUND BALANCE END OF YEAR						
NONSPENDABLE FUND BALANCE						
Inventory			\$ 3,168		\$ 1,980	
RESTRICTED FUND BALANCE						
Food Service			<u>28,305</u>		<u>43,979</u>	
FUND BALANCE END OF YEAR			<u>\$ 31,473</u>		<u>\$ 45,959</u>	

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - COMMUNITY SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (with Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016 Budgeted Amounts		2016 Actual	Variance	2015 Actual	Increase (Decrease) Actual
	Original	Final				
REVENUES						
Local Property Tax Levies:						
Community Service Levy	\$ 65,501	\$ 63,423	\$ 63,447	\$ 24	\$ 64,615	\$ (1,168)
Other Local And County Revenues:						
Tuition and Fees From Patrons	25,800	30,488	34,649	4,161	28,199	6,450
Miscellaneous Local Revenue	31,530	42,790	55,132	12,342	63,810	(8,678)
	<u>57,330</u>	<u>73,278</u>	<u>89,781</u>	<u>16,503</u>	<u>92,009</u>	<u>(2,228)</u>
Revenue From State Sources:						
Disparity Aid	1,890	1,621	1,621	-	1,890	(269)
Homestead Market Value	1,133	2,096	2,096	-	1,133	963
Preschool Screening	1,683	1,665	2,840	1,175	2,805	35
Community Education	9,880	18,154	18,154	-	9,880	8,274
Other State Revenues	-	-	-	-	(418)	418
	<u>14,586</u>	<u>23,536</u>	<u>24,711</u>	<u>1,175</u>	<u>15,290</u>	<u>9,421</u>
Sales And Other Conversion Of Assets:						
Sales of Materials	500	428	428	-	370	58
TOTAL REVENUES	<u>137,917</u>	<u>160,665</u>	<u>178,367</u>	<u>17,702</u>	<u>172,284</u>	<u>6,083</u>
EXPENDITURES						
Current:						
Community Education And Services:						
Salaries and Wages	110,479	125,758	135,839	(10,081)	112,904	22,935
Employee Benefits	20,804	24,773	26,188	(1,415)	21,066	5,122
Purchased Services	4,950	4,950	8,013	(3,063)	7,604	409
Supplies and Materials	18,350	17,686	26,244	(8,558)	31,439	(5,195)
TOTAL EXPENDITURES	<u>154,583</u>	<u>173,167</u>	<u>196,284</u>	<u>(23,117)</u>	<u>173,013</u>	<u>23,271</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(16,666)</u>	<u>(12,502)</u>	<u>(17,917)</u>	<u>(5,415)</u>	<u>(729)</u>	<u>(17,188)</u>
FUND BALANCE BEGINNING OF YEAR	<u>19,355</u>	<u>19,355</u>	<u>19,355</u>	-	<u>20,084</u>	<u>(729)</u>
FUND BALANCE END OF YEAR	<u>\$ 2,689</u>	<u>\$ 6,853</u>	<u>\$ 1,438</u>	<u>\$ (5,415)</u>	<u>\$ 19,355</u>	<u>\$ (17,917)</u>
FUND BALANCE ANALYSIS						
RESTRICTED FUND BALANCE						
Community Education			\$ 36,218		\$ 29,442	
Community Service			9,774		7,482	
Early Childhood Family Education			20,318		18,900	
School Readiness			(64,872)**		(36,469)**	
TOTAL RESTRICTED FUND BALANCE			<u>1,438</u>		<u>19,355</u>	
TOTAL FUND BALANCE			<u>\$ 1,438</u>		<u>\$ 19,355</u>	

** Required by MN Statute to record a deficit, when applicable, in order to permit statutory revenue formula calculations.

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2016

1. DEFINED BENEFIT PENSION PLANS

Teachers Retirement Association

Change of benefit terms. The DTRFA was merged into TRA on June 30, 2015.

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

Public Employees Retirement Association

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions from the prior measurement date.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. DEFICIT SPENDING

The fiscal year 2016 budget approved by the School Board projected deficit spending in the following funds:

<u>Fund</u>	
General Fund	\$ 56,326
Food Service Fund	\$ 8,445
Community Service Fund	\$ 12,502

B. EXPENDITURES EXCEEDING APPROPRIATIONS

For the year ended June 30, 2016, the District had the following funds with expenditures exceeding the latest amended budget:

<u>Fund</u>	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Food Service Fund	\$ 349,882	\$ 355,242	\$ 5,360
Community Service Fund	\$ 173,167	\$ 196,284	\$ 23,117

Budget revisions were last approved in March of 2016. These excesses were realized since that time and are approved by the School Board upon acceptance of this report.

OTHER SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - BUILDING CONSTRUCTION FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (with Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016 Budgeted Amounts		2016 Actual	Variance	2015 Actual	Increase (Decrease) Actual
	Original	Final				
REVENUES						
Other Local And County Revenues:						
Earnings From Investments	\$ 125,000	\$ 2,800	\$ 9,387	\$ 6,587	\$ -	\$ 9,387
TOTAL REVENUES	125,000	2,800	9,387	6,587	-	9,387
EXPENDITURES						
Current:						
Site, Buildings and Equipment:						
Purchased Services	-	500,000	226,651	273,349	242,849	(16,198)
Capital Outlay:						
Site, Building and Equipment	5,360,000	3,598,827	3,637,036	(38,209)	4,100	3,632,936
TOTAL EXPENDITURES	5,360,000	4,098,827	3,863,687	235,140	246,949	3,616,738
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(5,235,000)	(4,096,027)	(3,854,300)	241,727	(246,949)	(3,607,351)
OTHER FINANCING SOURCES (USES)						
Bond Proceeds	-	-	-	-	5,360,000	(5,360,000)
Bond Issuance Premium	-	-	-	-	57,694	(57,694)
Transfer Out to Other Funds	-	-	-	-	(125,233)	125,233
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	5,292,461	(5,292,461)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(5,235,000)	(4,096,027)	(3,854,300)	241,727	5,045,512	(8,899,812)
FUND BALANCE BEGINNING OF YEAR	5,045,512	5,045,512	5,045,512	-	-	5,045,512
FUND BALANCE END OF YEAR	\$ (189,488)	\$ 949,485	\$ 1,191,212	\$ 241,727	\$ 5,045,512	\$ (3,854,300)
FUND BALANCE ANALYSIS						
RESTRICTED FUND BALANCE						
Building Construction			\$ 1,191,212		\$ 5,045,512	

INDEPENDENT SCHOOL DISTRICT NO. 2890
 RENVILLE COUNTY WEST
 RENVILLE, MINNESOTA
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2016
 (with Comparative Actual Amounts for the Year Ended June 30, 2015)

	2016 Budgeted Amounts		2016 Actual	Variance	2015 Actual	Increase (Decrease) Actual
	Original	Final				
REVENUES						
Local Property Tax Levies:						
Maintenance Levy	\$ 377,744	\$ 373,534	\$ 373,252	\$ (282)	\$ 377,147	\$ (3,895)
Other Local And County Revenues:						
Earnings from Investments	-	-	980	980	134	846
	-	-	980	980	134	846
Revenue From State Sources:						
Disparity Aid	11,031	9,541	9,541	-	11,031	(1,490)
Homestead Market Value	6,613	12,334	12,334	-	6,613	5,721
	17,644	21,875	21,875	-	17,644	4,231
TOTAL REVENUES	395,388	395,409	396,107	698	394,925	1,182
EXPENDITURES						
Debt Service:						
Principal	255,000	255,000	255,000	-	245,000	10,000
Interest	270,698	251,983	251,893	90	131,560	120,333
TOTAL EXPENDITURES	525,698	506,983	506,893	90	376,560	130,333
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(130,310)	(111,574)	(110,786)	788	18,365	(129,151)
OTHER FINANCING SOURCES						
Transfer In from Other Funds	-	-	-	-	125,233	(125,233)
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	(130,310)	(111,574)	(110,786)	788	143,598	(254,384)
FUND BALANCE BEGINNING OF YEAR	425,400	425,400	425,400	-	281,802	143,598
FUND BALANCE END OF YEAR	\$ 295,090	\$ 313,826	\$ 314,614	\$ 788	\$ 425,400	\$ (110,786)
FUND BALANCE ANALYSIS						
RESTRICTED FUND BALANCE						
Debt Service			\$ 314,614		\$ 425,400	

INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GENERAL FUND - HISTORICAL ANALYSIS

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
REVENUES					
Local Property Tax Levies	\$ 1,328,993	\$ 1,457,082	\$ 2,064,014	\$ 1,300,244	\$ 1,489,283
Other Local and County Revenues	273,932	263,698	236,697	244,497	198,783
Revenue From State Sources	4,286,655	4,490,874	4,410,370	4,999,264	4,960,689
Revenue From Federal Sources	279,429	231,443	251,844	274,338	215,991
Sales and Other Conversion of Assets	23,399	88,587	2,134	49,345	2,887
Capital Lease Financing	864,224	-	-	-	-
Proceeds from Sale of Equipment	5	-	-	-	360
Proceeds from Sale of Real Estate	16,500	-	-	-	-
TOTAL REVENUES	<u>7,073,137</u>	<u>6,531,684</u>	<u>6,965,059</u>	<u>6,867,688</u>	<u>6,867,993</u>
EXPENDITURES - PROGRAMS					
District and School Administration	506,693	466,184	477,792	499,725	508,823
District Support Services	306,957	427,594	410,945	356,660	386,215
Regular Instruction	2,954,046	2,942,613	2,935,844	3,161,338	3,303,312
Vocational Instruction	66,455	72,143	75,419	79,321	81,759
Exceptional Instruction	881,511	902,682	1,037,695	1,005,404	1,081,321
Instructional Support Services	113,964	77,156	102,999	82,250	84,339
Pupil Support Services	592,684	732,399	602,420	655,139	482,715
Site, Buildings, and Equipment	1,433,973	658,020	655,132	1,111,904	628,373
Fiscal and Other Fixed Cost Programs	294,105	193,283	245,441	153,792	160,148
Transfers Out	-	10,000	20,000	-	-
TOTAL EXPENDITURES	<u>7,150,388</u>	<u>6,482,074</u>	<u>6,563,687</u>	<u>7,105,533</u>	<u>6,717,005</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(77,251)	49,610	401,372	(237,845)	150,988
FUND BALANCE BEGINNING OF YEAR	<u>2,849,438</u>	<u>2,772,187</u>	<u>2,821,797</u>	<u>3,223,169</u>	<u>2,985,324</u>
FUND BALANCE END OF YEAR	<u>\$ 2,772,187</u>	<u>\$ 2,821,797</u>	<u>\$ 3,223,169</u>	<u>\$ 2,985,324</u>	<u>\$ 3,136,312</u>
ADJUSTED CASH BALANCES	<u>\$ 1,343,105</u>	<u>\$ 2,218,801</u>	<u>\$ 3,139,346</u>	<u>\$ 3,359,022</u>	<u>\$ 3,264,212</u>
EXPENDITURES - OBJECT					
Salaries and Wages	\$ 3,630,741	\$ 3,612,849	\$ 3,753,100	\$ 3,935,491	\$ 4,121,640
Employee Benefits	975,280	1,046,165	1,022,107	1,014,327	1,069,938
Purchased Services	754,465	767,300	868,930	719,583	805,437
Supplies and Materials	271,655	254,390	291,514	298,292	227,452
Other Expenditures/Transfers	46,798	32,687	42,872	28,514	26,318
Capital Expenditures	1,190,030	594,780	379,183	987,485	344,380
Debt Service Expenditures	281,419	173,903	205,981	121,841	121,840
TOTAL EXPENDITURES	<u>\$ 7,150,388</u>	<u>\$ 6,482,074</u>	<u>\$ 6,563,687</u>	<u>\$ 7,105,533</u>	<u>\$ 6,717,005</u>

OTHER REQUIRED REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE
JUNE 30, 2016

2016-001 Audit Adjustments

Condition: During our audit, we proposed various audit adjustments that resulted in significant changes to the District's financial statements. This finding was also reported in the prior year audit. The District's corrective action plan for the prior year audit filed with the Minnesota Department of Education stated that the District will review the prior year journal entries to determine training needs and will contract with the SW/WC Service Cooperative. The District has continued to work with the service cooperative to prepare the annual audit adjustments.

Effect: A control deficiency 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 misstatements of the financial statements on a timely basis. One control deficiency that typically is considered significant is identification by the auditor of a misstatement in the financial statement not initially identified by the entity's internal controls. This could affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause: The District's personnel did not use a proper cut off when analyzing payroll liabilities. The Service Cooperative prepared a majority of the year end entries, however all accounts were not reviewed for accuracy, requiring the auditors to propose significant journal entries.

Criteria: The District's accounting staff should prepare journal entries during the year, or at a minimum, at year end to convert the cash basis general ledger to a modified accrual basis general ledger. The external auditor's staff cannot be considered to be part of the District's internal control and should not be relied upon to propose a significant number of material audit adjustments.

Recommendation: We recommend that the District's accounting staff continue to work towards its goal of preparing all required year end adjustments. If the District determines that this plan is not attainable, the plan should be amended to reflect the attainable goal.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and the auditor's recommendations will be adopted.

2016-002 Legal Compliance - Lack of Adequate Collateral Coverage

Condition: The District did not have adequate collateral coverage for the District's deposits two out of the three months tested during the year. The District did have adequate coverage at the end of the year.

Effect: The District was at risk of economic loss for deposit amounts in excess of collateral coverage.

Cause: The level of deposits was not sufficiently monitored to ensure that adequate collateral coverage was in place.

Criteria: Minnesota Statute §118A.03 subd. 3 requires that all deposits be backed by pledged collateral in the amount of 110% of the excess over the FDIC insurance limit.

Recommendation: We recommend that the District personnel more closely monitor the deposit levels and the level of pledged collateral to ensure compliance with Minnesota Statutes and to minimize the risk of economic loss.

Views of Responsible Officials and Planned Corrective Actions: The District agrees with the finding and the auditor's recommendations will be adopted.

INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
SCHEDULE OF FINDINGS ON INTERNAL CONTROL STRUCTURE AND COMPLIANCE
CORRECTIVE ACTION PLAN
JUNE 30, 2016

2016-001 Audit Adjustments

Auditor Recommendation

We recommend that the District's accounting staff continue to work towards its goal of preparing all required year end adjustments. If the District determines that this plan is not attainable, the plan should be amended to reflect the attainable goal.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding

The District still intends to follow the corrective action plan previously filed with the Minnesota Department of Education. The District will continue to contract with SW/WC Service Cooperative.

3. Official Responsible for Insuring CAP

The Superintendent is the official responsible for insuring corrective action of the deficiency.

4. Planned Completion Date for CAP

This plan will be implemented during the 2016-2017 fiscal year. The District is working on gaining the knowledge needed to prepare a final working trial balance.

5. Plan to Monitor Completion of CAP

The Superintendent and the School Board will be monitoring this corrective action plan.

2016-002 Legal Compliance - Lack of Adequate Collateral Coverage

Auditor Recommendation

We recommend that the District personnel more closely monitor the deposit levels and the level of pledged collateral to ensure compliance with Minnesota Statutes and to minimize the risk of economic loss.

Corrective Action Plan (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding

The District will be monitoring the reports provided by the bank to ensure that all District deposits are listed by the bank and are covered by adequate collateral.

3. Official Responsible for Insuring CAP

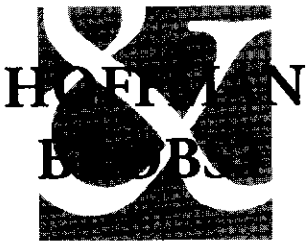
The Superintendent is the official responsible for insuring corrective action of the deficiency.

4. Planned Completion Date for CAP

This plan will be implemented immediately.

5. Plan to Monitor Completion of CAP

The Superintendent will be monitoring this corrective action plan.



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CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the School Board
Independent School District No. 2890
Renville County West
Renville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the 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. 2890, Renville County West, Renville, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Independent School District No. 2890, Renville County West, Renville, Minnesota's basic financial statements and have issued our report thereon dated November 7, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 2890, Renville County West, Renville, Minnesota'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 Independent School District No. 2890, Renville County West, Renville, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2890, Renville County West, Renville, Minnesota'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 on internal control structure and compliance we identified a certain 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying schedule of findings on internal control structure and compliance as item 2016-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 2890, Renville County West, Renville, Minnesota'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*; however, we noted a certain matter of noncompliance that is required to be reported under Minnesota Statutes. This item of noncompliance is described in the accompanying schedule of findings on internal control structure and compliance as item 2016-002.

Independent School District No. 2890, Renville County West, Renville, Minnesota's Response to Finding

Independent School District No. 2890, Renville County West, Renville, Minnesota's response to the findings identified in our audit is described in the accompanying schedule of findings on internal control structure and compliance corrective action plan. Independent School District No. 2890, Renville County West, Renville, Minnesota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

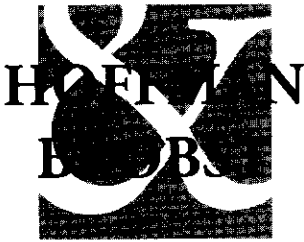
Purpose of this Report

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



Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

November 7, 2016



PLLP

CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE**

Members of the School Board
Independent School District No. 2890
Renville County West
Renville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2890, Renville County West, Renville, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 2890, Renville County West, Renville, Minnesota failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the accompanying schedule of findings on internal control and compliance as item 2016-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 2890, Renville County West, Renville, Minnesota's noncompliance regarding the above referenced provisions.

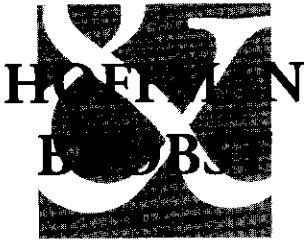
The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

November 7, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA**

**STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2016**



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CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the School Board, Advisors, and Students
Independent School District No. 2890
Renville County West
Renville, Minnesota

We have audited the statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 2890, Renville County West, Renville, Minnesota for the year ended June 30, 2016. This financial statement is the responsibility of the District's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash transactions of the District's student activity accounts for the year ended June 30, 2016, and the cash balances at that date.

Hoffman & Brobst PLLP

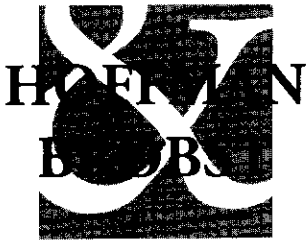
Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

November 7, 2016

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INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2016

<u>Activity Account</u>	<u>7/1/2015</u> <u>Balance</u>	<u>Receipts</u>	<u>Disburse-</u> <u>ments</u>	<u>6/30/2016</u> <u>Balance</u>
TADA	\$ 214	\$ 670	\$ 177	\$ 707
FFA	1,274	15,181	15,564	891
High School Student Council	242	3,451	3,207	486
Annual	1,225	6,584	7,189	620
Invision	507	4,543	5,050	-
Senior High Drama Club	363	-	39	324
FFA Greenhouse Project	14,952	24,985	16,935	23,002
Music Trip	22,001	28,263	39,345	10,919
Travel Group	516	-	-	516
Football Group	1,407	7,750	6,045	3,112
Class of 2017	404	9,935	3,352	6,987
Class of 2016	11,661	20,625	32,286	-
Interest Earned	(95)	130	-	35
TOTALS	\$ 54,671	\$ 122,117	\$ 129,189	\$ 47,599



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CERTIFIED PUBLIC ACCOUNTANTS

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

To the School Board, Advisers, and Students of
Independent School District No. 2890
Renville County West
Renville, Minnesota

We have audited the statement of cash receipts and disbursements of the extracurricular student activity accounts of Independent School District No. 2890, Renville County West, Renville, Minnesota for the year ended June 30, 2016, and have issued our report thereon dated November 7, 2016 which was modified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the Manual for Activity Fund Accounting (MAFA), issued by the Minnesota Department of Education, pursuant to Minnesota Statutes § 123.38.

The Manual for Activity Fund Accounting (MAFA) provides uniform financial accounting and reporting standards for student activities. Compliance with this manual is the responsibility of the District's management. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, the District did not comply, in all material respects with the provisions referred to in the above paragraph. Weaknesses pertaining to compliance with the Manual for Activity Fund Accounting (MAFA) and internal control are noted on page 59. With respect to items not tested, nothing came to our attention that caused us to believe that the District had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the School Board, management, and students of Independent School District No. 2890, Renville County West, Renville, Minnesota and the Minnesota Department of Education and is not intended to be and should not be used by anyone other than these specified parties.

Hoffman & Brobst PLLP
Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

November 7, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 2890
RENVILLE COUNTY WEST
RENVILLE, MINNESOTA
FINDINGS ON STUDENT ACTIVITY INTERNAL CONTROL STRUCTURE AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2016**

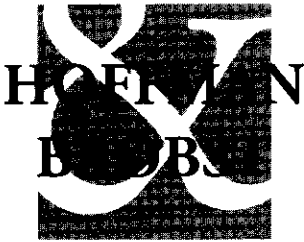
1. FINDING:

The District is not in compliance with the Manual for Activity Fund Accounting (MAFA) regarding the student activity account in these areas:

- Some student activity checks only had one signature noted; MAFA requires two signatures.
- Commissions paid to students from the Music Trip account do not appear to be proper student activity expenses.

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Action Planned in Response to Finding
The District will work towards following the Manual for Activity Fund Accounting (MAFA) to govern the student activity account fund.
3. Official Responsible for Insuring CAP
The Superintendent is the official responsible for insuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The District will continue working towards compliance with MAFA.
5. Plan to Monitor Completion of CAP
The Superintendent will be monitoring this plan.



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CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT LETTER

Members of the School Board
Independent School District No. 2890
Renville County West
Renville, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2890, Renville County West, Renville, Minnesota, for the year ended June 30, 2016, we considered the District's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of the following opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control and any related significant deficiencies and material weaknesses in our report dated November 7, 2016. This letter does not affect that report or our report dated November 7, 2016, on the financial statements of Independent School District No. 2890, Renville County West, Renville, Minnesota.

- Due to the limited number of office personnel within Independent School District No. 2890, Renville County West, Renville, Minnesota, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. The District has responded to this deficiency by implementing various oversight controls by the School Board and Management. These oversight controls help to mitigate the risk to the organization created by the lack of segregation of duties within the accounting function. However, the risks that are created by the lack of segregation of duties can never be completely eliminated. The School Board and Management should continue to be diligent in their review of financial transactions, and document these procedures by initialing invoices, and approving expenditure reports.
- The Minnesota Department of Education updated the guidance for Student Activity accounts effective for the 2017 fiscal year. This guidance is available on the Minnesota Department of Education's website and should be reviewed by all applicable District personnel to ensure the District is in compliance with the updated student activity guidelines.

If you have any questions regarding these items, please contact us.

Hoffman & Brobst PLLP

Hoffman & Brobst, PLLP
Certified Public Accountants
Marshall, Minnesota

November 7, 2016

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Fiscal Compliance Report - 6/30/2016

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District: RENVILLE COUNTY WEST (2890-1) Back Print

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$6,867,633	<u>\$6,867,634</u>	(\$1)	Total Revenue	\$9,387	<u>\$9,387</u>	\$0
Total Expenditures	\$6,717,005	<u>\$6,717,007</u>	(\$2)	Total Expenditures	\$3,863,687	<u>\$3,863,687</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$6,881	<u>\$6,881</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.05 Deferred Maintenance	\$3,585	<u>\$3,585</u>	<u>\$0</u>	4.09 Alternative Facility Program	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	(\$911)	<u>(\$911)</u>	<u>\$0</u>	4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.09 Alternative Facility Program	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$1,191,212	<u>\$1,191,212</u>	<u>\$0</u>
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>	07 DEBT SERVICE			
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$396,107	<u>\$396,106</u>	<u>\$1</u>
4.23 Certain Teacher Programs	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$506,893	<u>\$506,893</u>	<u>\$0</u>
4.24 Operating Capital	\$18,101	<u>\$18,101</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$314,614	<u>\$314,614</u>	<u>\$0</u>
4.38 Gifted & Talented	\$32,277	<u>\$32,277</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>	08 TRUST			
4.45 Career Tech Programs	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$254	<u>\$254</u>	<u>\$0</u>
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$500	<u>\$500</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	\$11,156	<u>\$11,156</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$44,225	<u>\$44,225</u>	<u>\$0</u>
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>	20 INTERNAL SERVICE			
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>	25 OPEB REVOCABLE TRUST			
<i>Restricted:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.18 Committed for Separation	\$127,280	<u>\$127,280</u>	<u>\$0</u>	45 OPEB IRREVOCABLE TRUST			
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
<i>Assigned:</i>				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.62 Assigned Fund Balance	\$47,989	<u>\$47,989</u>	<u>\$0</u>				
<i>Unassigned:</i>							
4.22 Unassigned Fund Balance	\$2,889,954	<u>\$2,889,954</u>	<u>\$0</u>				
02 FOOD SERVICES							
Total Revenue							

Total Expenditures	\$340,756	<u>\$340,757</u>	<u>(\$1)</u>
<i>Non Spendable:</i>	\$355,242	<u>\$355,243</u>	<u>(\$1)</u>
4.60 Non Spendable Fund Balance	\$3,168	<u>\$3,168</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$28,305	<u>\$28,305</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

04 COMMUNITY SERVICE

Total Revenue	\$178,367	<u>\$178,367</u>	<u>\$0</u>
Total Expenditures	\$196,284	<u>\$196,284</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$36,218	<u>\$36,218</u>	<u>\$0</u>
4.32 E.C.F.E	\$20,318	<u>\$20,318</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	(\$64,872)	<u>(\$64,872)</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$9,774	<u>\$9,774</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
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47 OPEB DEBT SERVICE

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