

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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NORTHOME, MINNESOTA  
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NORTHOME, MINNESOTA  
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**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
ROSTER OF SCHOOL OFFICIALS  
June 30, 2016**

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Dustin Waller	Chairperson
Ralph Lewis	Vice-Chairperson
Andrew Dreher	Treasurer
Caroline Claybundy	Clerk
Philip Dreher	Director
Teresa Rud	Director
Jim Muckenhirn	Superintendent



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Independent School District No. 363  
Northome, 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. 363, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

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

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, 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, budgetary comparison information, and schedules as listed in the table of contents as required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

October 26, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2016**

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This section of Independent School District No. 363's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section. Certain reclassifications have been made to the 2015 financial statements in order to conform with the 2016 presentation.

**Financial Highlights**

The general fund balance decreased \$163,426 during the 2015-2016 school year. The District's enrollment is also declining. The adjusted average daily membership went from 331 students to 268 students during the school year.

**Overview of the Financial Statements**

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

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

District-wide Statements

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

The two district-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets, liabilities, and deferred inflows/outflows 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 indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.



**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2016**

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

- *Governmental activities:* All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. 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 (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has one kind of fund:

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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance to help explain the relationship (or differences) between governmental funds and governmental activities.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2016**

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**Financial Analysis of the District as a Whole**

Net Position

The District's combined net position was \$4,611,636 on June 30, 2016 (see details in Table A-1). This was a decrease of 5.9 percent from the prior year.

**Table A-1  
Statement of Net Position**

	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 6,447,550	\$ 6,550,776	(1.6) %
Capital Assets	3,830,431	4,140,312	(7.5)
Total Assets	<u>10,277,981</u>	<u>10,691,088</u>	(3.9)
Deferred Outflows of Resources	<u>640,881</u>	<u>517,438</u>	23.9
Long-Term Liabilities	4,670,165	4,361,986	7.1
Other Liabilities	702,903	697,538	0.8
Total Liabilities	<u>5,373,068</u>	<u>5,059,524</u>	6.2
Deferred Inflows of Resources	<u>934,158</u>	<u>1,249,907</u>	(25.3)
Net Position			
Net Investment in Capital Assets	2,550,495	2,688,239	(5.1)
Restricted	538,375	513,851	4.8
Unrestricted	<u>1,522,766</u>	<u>1,697,005</u>	(10.3)
Total Net Position	<u>\$ 4,611,636</u>	<u>\$ 4,899,095</u>	(5.9) %

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2016**

Change in Net Position

Table A-2 presents the change in net position of the District.

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

	<u>2016</u>	<u>2015</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 82,303	\$ 90,192	(8.7) %
Operating Grants and Contributions	1,342,146	1,604,999	(16.4)
Capital Grants and Contributions	43,185	61,297	(29.5)
General Revenues			
Property Taxes	1,093,455	889,295	23.0
Unrestricted State Aid	3,132,101	3,671,217	(14.7)
Other Sources	66,751	77,003	(13.3)
Total Revenues	<u>5,759,941</u>	<u>6,394,003</u>	(9.9)
Expenses			
Administration	284,372	305,642	(7.0)
District Support Services	133,523	92,978	43.6
Elementary & Secondary Regular Instruction	2,680,148	2,738,330	(2.1)
Vocational Education Instruction	80,002	114,699	(30.3)
Special Education Instruction	610,456	741,397	(17.7)
Community Education and Services	84,175	118,690	(29.1)
Instructional Support Services	85,536	82,008	4.3
Pupil Support Services	1,237,238	1,384,362	(10.6)
Sites and Buildings	596,922	793,014	(24.7)
Fixed Costs	55,028	43,894	25.4
Interest on Long-Term Debt	28,398	29,253	(2.9)
Depreciation - Unallocated	171,602	171,602	0.0
Total Expenses	<u>6,047,400</u>	<u>6,615,869</u>	(8.6)
Change in Net Position	(287,459)	(221,866)	(29.6)
Net Position - Beginning	<u>4,899,095</u>	<u>5,120,961</u>	(4.3)
Net Position - Ending	<u>\$ 4,611,636</u>	<u>\$ 4,899,095</u>	(5.9) %

The District's total revenues were \$5,759,941 for the year ended June 30, 2016. Property taxes and state aid payments accounted for 91 percent of total revenue for the year.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2016**

The total cost of all programs and services was \$6,047,400. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position \$287,459 over last year.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

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

	<u>Total Cost of Services</u>		<u>Total Percentage Change</u>	<u>Net Cost of Services</u>		<u>Total Percentage Change</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Expenses						
Administration	\$ 284,372	\$ 305,642	(7.0) %	\$ 284,372	\$ 305,642	(7.0) %
District Support Services	133,523	92,978	43.6	133,523	92,978	43.6
Elementary & Secondary						
Regular Instruction	2,680,148	2,738,330	(2.1)	2,227,807	2,309,853	(3.6)
Vocational Education Instruction	80,002	114,699	(30.3)	62,003	83,244	(25.5)
Special Education Instruction	610,456	741,397	(17.7)	100,685	51,667	94.9
Community Education and Services	84,175	118,690	(29.1)	62,439	104,403	(40.2)
Instructional Support Services	85,536	82,008	4.3	50,476	26,291	92.0
Pupil Support Services	1,237,238	1,384,362	(10.6)	834,972	870,048	(4.0)
Sites and Buildings	596,922	793,014	(24.7)	590,364	783,467	(24.6)
Fixed Costs	55,028	43,894	25.4	33,125	30,933	7.1
Interest on Long-Term Debt	28,398	29,253	(2.9)	28,398	29,253	(2.9)
Depreciation - Unallocated	171,602	171,602	0.0	171,602	171,602	0.0
	<u>\$ 6,047,400</u>	<u>\$ 6,615,869</u>	(8.6) %	<u>\$ 4,579,766</u>	<u>\$ 4,859,381</u>	(5.8) %

**Financial Analysis of the District's Funds**

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

**Table A-4  
Major Funds**

	<u>Fund Balance</u>		<u>Decrease</u>	<u>Percentage Decrease</u>
	<u>6/30/16</u>	<u>6/30/15</u>		
Governmental Funds				
General	\$ 5,160,380	\$ 5,323,806	\$ (163,426)	(3.1) %
Debt Service Fund	49,079	58,528	(9,449)	(16.1)

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2016**

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General Fund

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

Table A-5 presents a summary of general fund revenue.

**Table A-5  
General Fund Revenue**

	<u>2016</u>	<u>2015</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Local Sources				
Property Taxes	\$ 904,475	\$ 685,781	\$ 218,694	31.9 %
Interest Earnings	7,904	24,898	(16,994)	(68.3)
Other	71,694	77,614	(5,920)	(7.6)
State Sources	4,132,938	5,011,053	(878,115)	(17.5)
Federal Sources	146,011	121,141	24,870	20.5
Sale of Capital Asset	387		387	100.0
Total General Fund Revenue	<u>\$ 5,263,409</u>	<u>\$ 5,920,487</u>	<u>\$ (657,078)</u>	(11.1) %

Total general fund revenue decreased by \$657,078 or 11.1 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Table A-6 presents a summary of general fund expenditures.

**Table A-6  
General Fund Expenditures**

	<u>2016</u>	<u>2015</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 3,002,717	\$ 3,233,064	\$ (230,347)	(7.1) %
Employee Benefits	862,218	937,190	(74,972)	(8.0)
Purchased Services	1,087,890	1,057,484	30,406	2.9
Supplies and Materials	273,755	429,806	(156,051)	(36.3)
Capital Expenditures	59,551	205,581	(146,030)	(71.0)
Other Expenditures	30,190	27,819	2,371	8.5
Total General Fund Expenditures	<u>\$ 5,316,321</u>	<u>\$ 5,890,944</u>	<u>\$ (574,623)</u>	(9.8) %

Total general fund expenditures decreased \$574,623 or 9.8 percent from the previous year.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2016**

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General Fund Budgetary Highlights

The District adopted its original budget in June 2015. During the year ended June 30, 2016, the District revised its budget.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$102,241, the actual results for the year show a \$163,426 deficit. The actual expenditures were less than the budget due to administration monitoring and controlling costs.

**Capital Assets and Debt Administration**

Capital Assets

Note 3 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2016. The District disposed of a vehicle and two buses.

Long-Term Liabilities

At year-end, the District had \$4,842,300 of long-term debt consisting of bonded indebtedness net of related premiums of \$1,279,936, net other postemployment benefit obligation of \$87,235, and net pension liability of \$3,475,129. Note 6 to the financial statements presents details and payment provisions of these items.

**Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment coupled with inflation will undoubtedly have a negative impact on the District's financial outlook.
- As the building ages, the District expects the cost of maintaining the building to increase significantly over the years.
- Weakening economic conditions in local economy.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's 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 you have questions about this report or need additional financial information, contact the Administration Offices, Independent School District No. 363, P.O. Box 465, Northome, MN 56661.

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**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**June 30, 2016**

GOVERNMENTAL ACTIVITIES

ASSETS

Cash and Investments	\$ 6,119,862
Property Taxes Receivable, Net of Allowance	179,396
Accounts Receivable	1,488
Due From Other MN School Districts	9,959
Due From Department of Education	2,215
Due From Federal Govt. - DOE	118,820
Prepaid Expenses	8,907
Inventory	6,903
Capital Assets	
Land	193,500
Other Capital Assets, Net of Depreciation	<u>3,636,931</u>

TOTAL ASSETS 10,277,981

DEFERRED OUTFLOWS OF RESOURCES

Cost Sharing Defined Benefit Pension Plan	<u>640,881</u>
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TOTAL DEFERRED OUTFLOWS OF RESOURCES 640,881

LIABILITIES

Accounts Payable	39,972
Salaries Payable	168,098
Due to Other MN School Districts	144,049
Due to Minnesota Department of Education	13,929
Payroll Deductions	152,824
Interest Payable	11,896
Long-Term Liabilities Due Within One Year	172,135
Long-Term Liabilities	
Bonds, Net Unamortized Premium	1,279,936
Net Other Postemployment Benefit Obligation	87,235
Net Pension Liability	3,475,129
Less Amounts Due Within One Year	<u>(172,135)</u>
Total Long-Term Liabilities	<u>4,670,165</u>

TOTAL LIABILITIES 5,373,068

DEFERRED INFLOWS OF RESOURCES

Property Taxes Levied - Subs. Years	403,801
Cost Sharing Defined Benefit Pension Plan	<u>530,357</u>

TOTAL DEFERRED INFLOWS OF RESOURCES 934,158

NET POSITION

Net Investment in Capital Assets	2,550,495
Restricted	
Deferred Maintenance	25,173
Operating Capital	152,258
Career and Tech	6,896
Community Service	1,396
Debt Service	37,181
Building	29,319
Permanent Fund - Nonexpendable	100,000
Permanent Fund - Expendable	186,152
Unrestricted	<u>1,522,766</u>

TOTAL NET POSITION \$ 4,611,636

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



**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	\$ 284,372	\$	\$	\$	\$ (284,372)
District Support Services	133,523				(133,523)
Elementary & Secondary					
Regular Instruction	2,680,148	14,471	394,685	43,185	(2,227,807)
Vocational Education Instruction	80,002		17,999		(62,003)
Special Education Instruction	610,456	2,678	507,093		(100,685)
Community Education and Services	84,175	11,801	9,935		(62,439)
Instructional Support Services	85,536		35,060		(50,476)
Pupil Support Services	1,237,238	53,353	348,913		(834,972)
Sites and Buildings	596,922		6,558		(590,364)
Fixed Costs	55,028		21,903		(33,125)
Interest on Long-Term Debt	28,398				(28,398)
Depreciation - Unallocated	171,602				(171,602)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 6,047,400</b>	<b>\$ 82,303</b>	<b>\$ 1,342,146</b>	<b>\$ 43,185</b>	<b>(4,579,766)</b>
<b>General Revenues</b>					
<b>Taxes</b>					
Property Taxes, Levied for General Purposes					908,455
Property Taxes, Levied for Community Education and Services					6,762
Property Taxes, Levied for Debt Services					178,238
Unrestricted State Aid					3,132,101
Unrestricted Investment Earnings					7,904
Gain on Sale of Capital Assets					5,156
Other General Revenue					53,691
<b>TOTAL GENERAL REVENUES</b>					<b>4,292,307</b>
Change in Net Position					(287,459)
Net Position - Beginning					4,899,095
Net Position - Ending					<b>\$ 4,611,636</b>

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

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2016**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 5,627,843	\$ 167,203	\$ 324,816	\$ 6,119,862
Current Property Taxes Receivable	85,326	88,897	6,622	180,845
Delinquent Property Taxes Receivable	1,555	19,043	953	21,551
Accounts Receivable	1,433		55	1,488
Due From Other MN School Districts	9,959			9,959
Due From Department of Education		1,246	969	2,215
Due From Federal Govt. - DOE	118,043		777	118,820
Prepaid Expenses	8,907			8,907
Due From Other Funds	7,660			7,660
Inventory			6,903	6,903
<b>TOTAL ASSETS</b>	<b>\$ 5,860,726</b>	<b>\$ 276,389</b>	<b>\$ 341,095</b>	<b>\$ 6,478,210</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 39,625	\$	\$ 347	\$ 39,972
Salaries Payable	168,098			168,098
Due To Other MN School Districts	144,049			144,049
Payroll Deductions	152,824			152,824
Due to Minnesota Department of Education	13,929			13,929
Due To Other Funds			7,660	7,660
<b>TOTAL LIABILITIES</b>	<b>518,525</b>		<b>8,007</b>	<b>526,532</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Delinquent Taxes	1,555	19,043	953	21,551
Property Taxes Levied - Subs. Years	180,266	208,267	15,268	403,801
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>181,821</b>	<b>227,310</b>	<b>16,221</b>	<b>425,352</b>
<b>FUND BALANCES</b>				
Fund Balance:				
Nonspendable: Prepaid	8,907			8,907
Nonspendable: Inventory			6,903	6,903
Nonspendable: Scholarships			100,000	100,000
Restricted for Deferred Maintenance	25,173			25,173
Restricted for Operating Capital	152,258			152,258
Restricted for Career and Tech	6,896			6,896
Restricted for Community Service			1,396	1,396
Restricted for Debt Service		49,079		49,079
Restricted for Scholarships			186,152	186,152
Restricted for Building Fund			29,319	29,319
Committed for Severance	255,000			255,000
Unassigned	4,712,146		(6,903)	4,705,243
<b>TOTAL FUND BALANCES</b>	<b>5,160,380</b>	<b>49,079</b>	<b>316,867</b>	<b>5,526,326</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 5,860,726</b>	<b>\$ 276,389</b>	<b>\$ 341,095</b>	<b>\$ 6,478,210</b>

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

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF  
NET POSITION  
June 30, 2016**

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Total fund balances - governmental funds	\$ 5,526,326
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 the governmental funds.	
Cost of capital assets	11,338,112
Less accumulated depreciation	(7,507,681)
Deferred outflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	640,881
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(1,265,000)
Premium on bonds	(14,936)
Net other postemployment benefit obligation	(87,235)
Net pension liability	(3,475,129)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(530,357)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	21,551
An allowance has been set up for taxes receivable in the government-wide financial statements.	(23,000)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	<u>(11,896)</u>
Net position - governmental activities	<u>\$ 4,611,636</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2016**

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Local Property Tax Levies	\$ 904,475	\$ 181,238	\$ 6,948	\$ 1,092,661
Other Local & County Revenues	79,598		33,892	113,490
Revenue From State Sources	4,132,938	12,463	25,978	4,171,379
Revenue From Federal Sources	146,011		123,116	269,127
Sale/Other Conversion of Asset	387		51,148	51,535
<b>TOTAL REVENUES</b>	<b>5,263,409</b>	<b>193,701</b>	<b>241,082</b>	<b>5,698,192</b>
<b>EXPENDITURES</b>				
Current				
Administration	284,372			284,372
District Support Services	133,523			133,523
Elementary & Secondary				
Regular Instruction	2,586,570			2,586,570
Vocational Education Instruction	77,759			77,759
Special Education Instruction	610,456			610,456
Community Education and Services			84,175	84,175
Instructional Support Services	85,536			85,536
Pupil Support Services	894,569		249,090	1,143,659
Sites and Buildings	553,132			553,132
Fixed Costs	30,853		22,975	53,828
Debt Service				
Principal		170,000		170,000
Interest and Fees		33,150		33,150
Capital Outlay	59,551		9,807	69,358
<b>TOTAL EXPENDITURES</b>	<b>5,316,321</b>	<b>203,150</b>	<b>366,047</b>	<b>5,885,518</b>
Revenues Over (Under) Expenditures	(52,912)	(9,449)	(124,965)	(187,326)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Asset	5,156			5,156
Transfers In			115,670	115,670
Transfers Out	(115,670)			(115,670)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(110,514)</b>		<b>115,670</b>	<b>5,156</b>
Net Change in Fund Balances	(163,426)	(9,449)	(9,295)	(182,170)
Fund Balances - Beginning	5,323,806	58,528	326,162	5,708,496
Fund Balances - Ending	\$ 5,160,380	\$ 49,079	\$ 316,867	\$ 5,526,326

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

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016**

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Total net change in fund balances - governmental funds	\$ (182,170)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense. Depreciation expense	(309,881)
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	170,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Also, governmental funds report the effect of premiums when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	3,552
Change in net pension liability	(495,750)
Change in deferred outflows and inflows of resources related to net pension liability	510,560
The change in the allowance for uncollectible taxes increases net position.	7,000
In the statement of activities, certain expenses 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). Other postemployment benefit obligation	15,436
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	<u>(6,206)</u>
Change in net position - governmental activities	<u>\$ (287,459)</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Independent School District No. 363 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are carried on primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's school board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in these basic financial statements.

**C. Basic Financial Statement Presentation**

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

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

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund 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 district-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 or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift". 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:

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 available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

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.

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements.

#### **Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report are as follows:

##### **Major Governmental Funds**

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016**

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**Nonmajor Governmental Funds**

Special Revenue Funds – Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and its purpose is as follows:

Food Service – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service – Accounts for all resources designated for programs other than those for elementary and secondary students.

Building Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

Permanent Fund – Accounts for resources legally restricted such that only the earnings it generates, and not the principal, may be used to finance operations.

**E. Specific Account Information**

Cash and Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2015 which are not payable until 2016, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).



**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016**

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The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated 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."

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. The allowance for uncollectible taxes is \$23,000.

Inventory – Inventory is recorded using the consumption method of accounting and consists 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. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

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

Capital Assets – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are 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 25 years for equipment.

Capital assets not being depreciated include land and construction in process, if any.

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

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 4.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has one item that qualifies for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years*, is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third item, *Cost Sharing Defined Benefit Pension Plan*, represents actuarial differences within PERA and TRA pension plans.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016**

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Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the authority to assign fund balances to the Superintendent.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The school district will strive to maintain a minimum unassigned general fund balance of three months of operating expenses.

**F. Use of Estimates**

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

**NOTE 2 DEPOSITS AND INVESTMENTS**

The District maintains a cash account at its depository bank. Investments are carried at fair value. The District considers certificates of deposit to be cash.

The District's interest income for the year ended June 30, 2016, was \$8,630.

The pooled cash and investment account is comprised of the following:

Cash	\$6,108,914
Investments	<u>10,948</u>
Total	<u>\$6,119,862</u>

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016**

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As of June 30, 2016, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

<u>Investment</u>	<u>Fair Value (Level 1)</u>
Minnesota School District Liquid Asset Fund	\$10,948

The Minnesota School District Liquid Asset Fund is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of school district monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

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

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

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor's.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

Custodial Credit Risk - Deposits - The District does not have a policy for custodial credit risk. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2016, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

**NOTE 3 CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 193,500	\$	\$	\$ 193,500
Capital Assets, Being Depreciated:				
Land Improvements	510,080			510,080
Buildings	9,091,867			9,091,867
Equipment	<u>1,672,554</u>		<u>129,889</u>	<u>1,542,665</u>
Total Capital Assets, Being Depreciated	<u>11,274,501</u>		<u>129,889</u>	<u>11,144,612</u>
Less Accumulated Depreciation For:				
Land Improvements	391,356	7,854		399,210
Buildings	5,830,174	193,931		6,024,105
Equipment	<u>1,106,159</u>	<u>108,096</u>	<u>129,889</u>	<u>1,084,366</u>
Total Accumulated Depreciation	<u>7,327,689</u>	<u>309,881</u>	<u>129,889</u>	<u>7,507,681</u>
Total Capital Assets, Being Depreciated, Net	<u>3,946,812</u>	<u>(309,881)</u>		<u>3,636,931</u>
Governmental Activities Capital Assets, Net	<u>\$ 4,140,312</u>	<u>\$ (309,881)</u>	<u>\$</u>	<u>\$ 3,830,431</u>

In the statement of activities, depreciation expense was charged to the following governmental functions:

Elementary & Secondary Regular Instruction	\$ 11,458
Vocational Education Instruction	1,871
Pupil Support Services	90,966
Sites and Buildings	<u>33,984</u>
	138,279
Unallocated	171,602
Total Depreciation Expense	<u>\$ 309,881</u>

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**NOTE 4 DEFINED BENEFIT PENSION PLANS- STATEWIDE**

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. Public Employees Retirement Association**

Plan Description – The District participates in the following defined benefit pension plans 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 Fund (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.

Benefits Provided – PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to 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.

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 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.

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

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50% of pay, respectively, in fiscal year 2016. The District was required to contribute 11.78% of pay for Basic Plan members

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and 7.50% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2016, were \$74,280. The District's contributions were equal to the required contributions for each year as set by state statute.

Pension Costs – At June 30, 2016, the District reported a liability of \$901,758 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 0.0174% which was a decrease of 0.001% 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.

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 \$84,187 for its proportionate share of GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,843	\$ 45,464
Changes in actuarial assumptions	59,386	
Changes in proportion		35,231
Difference between projected and actual investment earnings		89,793
Contributions paid to PERA subsequent to the measurement date	74,280	
Total	<u>\$ 142,509</u>	<u>\$ 170,488</u>

\$74,280 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

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Year Ending June 30	Pension Expense Amount
2017	\$ (29,829)
2018	(29,830)
2019	(63,942)
2020	21,342

Actuarial Assumptions – The total pension liability in the June 30, 2015, actual 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 GERS was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The 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:

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

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 the 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.

Pension Liability Sensitivity – The following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph,



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as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

District Proportionate Share of NPL		
1% Decrease (6.9%)	Current (7.9%)	1% Increase (8.9%)
\$ <u>1,417,885</u> \$	<u>901,758</u> \$	<u>475,517</u>

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](http://www.mnpera.org); or 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.

**B. Teachers Retirement Association**

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.

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

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

Tier I Benefits:

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

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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

Tier II Benefits:

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

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

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

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

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

	<u>Employee</u>	<u>Employer</u>
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

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:

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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>
Employer contributions reported in schedule of employer and non-employer pension allocations	<u>\$ 380,654,366</u>

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

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:

	<u>June 30, 2014 CAFR</u>	<u>Restated</u>
Total Pension Liability	\$ 24,901,612,000	\$ 25,299,564,000
Plan Fiduciary Net Position	20,293,684,000	20,519,756,000
Net Pension Liability	<u>\$ 4,607,928,000</u>	<u>\$ 4,779,808,000</u>

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%

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.

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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:

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

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

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.

Net Pension Liability - On June 30, 2016, the District reported a liability of \$2,573,371 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 0.0416% at the end of the measurement period and 0.0459% 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:

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District's proportionate share of net pension liability	\$ 2,573,371
State's proportionate share of the net pension liability associated with the district	\$ 315,631

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 increase from 2.0 percent annually with no increase to 2.5 percent projected. The prior year valuation assumed a 2.5 percent increase commencing July 1, 2034.

For the year ended June 30, 2016, the District recognized pension expense of \$130,032. It also recognized \$55,799 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 experience	\$ 145,238	\$
Net difference between projected and actual earnings on plan inv.		243,538
Changes in actuarial assumptions	197,824	
Changes in proportion		116,331
Contributions paid to TRA subsequent to the measurement date	155,310	
Total	<u>\$ 498,372</u>	<u>\$ 359,869</u>

\$155,310 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 ending 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 Ending June 30	Pension Expense Amount
2017	\$ (51,720)
2018	(51,720)
2019	(51,720)
2020	107,441
2021	30,912

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% Decrease (7.0%)	Current (8.0%)	1% Increase (9.0%)
\$ 3,917,004	\$ 2,573,371	\$ 1,452,071

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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.

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](http://www.MinnesotaTRA.org), by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling (651)-296-2409 or (800)-657-3669.

**NOTE 5 OTHER POSTEMPLOYMENT BENEFITS**

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

The District may contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with parameters of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. For the year ended June 30, 2016, the District made no contributions and instead elected to continue funding on a pay-as-you-go basis, which amounted to \$97,390 {\$65,014 District paid premiums and \$32,376 implicit subsidy}. These costs are recognized as an expense when claims or premiums are paid.

Annual OPEB Cost and Net OPEB Obligation - The components of the District's annual OPEB (other postemployment benefit) cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan were as follows:

	2016	2015	2014
Annual Required Contribution	\$ 83,848	\$ 75,104	\$ 75,104
Interest on Net OPEB Obligation	3,593	5,013	5,774
Adjustment to Annual Required Contribution	(5,487)	(7,839)	(7,839)
Annual OPEB Cost	81,954	72,278	73,039
Contributions or Payments Made	(97,390)	(81,011)	(88,136)
Increase in Net OPEB Obligation	(15,436)	(8,733)	(15,097)
Net OPEB Obligation, Beginning of Year	102,671	111,404	126,501
Net OPEB Obligation, End of Year	\$ 87,235	\$ 102,671	\$ 111,404
Percentage of Annual OPEB Cost Contributed	118.83%	112.08%	120.67%

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Funded Status and Funding Progress - The funded status of the Plan as of July 1, 2015, the date of the most recent actuarial valuation, is as follows:

Actuarial Accrued Liability (AAL)	\$	678,758
Actuarial Value of Assets		
Unfunded AAL (UAAL)	\$	<u>678,758</u>
Funded Ratio		0.0 %
Covered Payroll	\$	2,902,296
UAAL as a Percentage of Covered Payroll		23.4 %

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of potential occurrences of certain events in the future. Examples include assumption about future employment, mortality, healthcare costs trends, inflation, etc. Amounts determined regarding the funded status of the plan and the annual required contributions of the District are subject to constant changes and modifications as actual results are compared with past expectations and new estimates and assumptions are formed regarding the future. Projections of retiree benefits for financial reporting purposes are based on current plan activities as it is handled by the District and the benefits are received by the eligible plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit cost between the District and plan members. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.5% a year rate of investment return, compounded annually net after investment expense, which is the expected long-term investment return on plan assets. There was also an inflationary rate assumption factored into the calculation. Per the actuarial study, the assumed rate ranges from 7.25% to 5% for health care related costs. The UAAL is being amortized as a level percentage of active member payroll over a period of 30 years.

**NOTE 6 LONG-TERM LIABILITIES**

Changes in the District's long-term liabilities for the year ended June 30, 2016 are as follows:

**Summary of Long-Term Liabilities**

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Bonds	\$ 1,435,000	\$	\$ 170,000	\$ 1,265,000	\$ 170,000
Premium on Bonds	17,071		2,135	14,936	2,135
Other Postemployment Benefits	102,671	81,954	97,390	87,235	
Net Pension Liability	<u>2,979,379</u>	<u>495,750</u>		<u>3,475,129</u>	
Total Long-Term Liabilities	\$ <u>4,534,121</u>	\$ <u>577,704</u>	\$ <u>269,525</u>	\$ <u>4,842,300</u>	\$ <u>172,135</u>

The District's interest expense for the year ended June 30, 2016 was \$28,398.

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Other postemployment benefits and net pension liability are generally liquidated by the general fund.

**A. G.O. School Building Refunding Bond**

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/16	Amounts Due in 2016-2017	
						Principal	Interest
2012	2.0-2.5%	2017/23	\$ 2,090,000	\$ 170,000	\$ 1,265,000	\$ 170,000	\$ 28,550

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2017	\$ 170,000	\$ 28,550
2018	175,000	25,150
2019	180,000	21,650
2020	180,000	18,050
2021	190,000	14,000
2022-2023	370,000	13,750
	<u>\$ 1,265,000</u>	<u>\$ 121,150</u>

**NOTE 7 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances as of June 30, 2016, is as follows:

Due to / from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$7,660

The purpose of the interfund loan is to cover the cash shortage in the food service fund.

Interfund Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental	General	\$115,670

The purpose of the transfers is to cover the operating deficits in the food service and community service funds.

**NOTE 8 CONTINGENCIES**

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2016.



**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2016**

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**NOTE 9 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.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$300,000. The pool and its members purchase reinsurance, currently with a \$300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

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.

**NOTE 10 NEW PRONOUNCEMENTS**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement is effective for fiscal years beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 77, *Tax Abatement Disclosures*, Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government's current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government's financial resources come from and how it uses them, and (4) a government's financial position and economic condition and how they have changed over time. This statement is effective for financial statements for periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 78, *Pensions provided through Certain Multiple-Employer Defined Benefit Pension Plans*, is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement is effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016**

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GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the District’s financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**For the Year Ended June 30, 2016**

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
<b>REVENUES</b>				
Local Property Tax Levies	\$ 713,827	\$ 713,827	\$ 904,475	\$ 190,648
Other Local & County Revenues	94,072	94,072	79,598	(14,474)
Revenue From State Sources	4,773,457	4,773,457	4,132,938	(640,519)
Revenue From Federal Sources	121,113	121,113	146,011	24,898
Sale/Other Conversion of Asset	1,000	1,000	387	(613)
<b>TOTAL REVENUES</b>	<u>5,703,469</u>	<u>5,703,469</u>	<u>5,263,409</u>	<u>(440,060)</u>
<b>EXPENDITURES</b>				
Current				
Administration	302,583	302,583	284,372	(18,211)
District Support Services	89,441	89,441	133,523	44,082
Elementary & Secondary				
Regular Instruction	2,595,411	2,591,594	2,586,570	(5,024)
Vocational Education Instruction	7,165	7,165	77,759	70,594
Special Education Instruction	811,500	811,500	610,456	(201,044)
Instructional Support Services	108,112	108,112	85,536	(22,576)
Pupil Support Services	991,359	991,359	894,569	(96,790)
Sites and Buildings	538,381	538,381	553,132	14,751
Fixed Costs	112,290	112,290	30,853	(81,437)
Capital Outlay	98,594	99,094	59,551	(39,543)
<b>TOTAL EXPENDITURES</b>	<u>5,654,836</u>	<u>5,651,519</u>	<u>5,316,321</u>	<u>(335,198)</u>
Revenues Over (Under) Expenditures	48,633	51,950	(52,912)	(104,862)
<b>OTHER FINANCING SOURCES (USES)</b>				
Sale of Capital Assets	1,000	1,000	5,156	4,156
Transfer Out	(155,191)	(155,191)	(115,670)	39,521
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(154,191)</u>	<u>(154,191)</u>	<u>(110,514)</u>	<u>43,677</u>
Net Change in Fund Balances	(105,558)	(102,241)	(163,426)	(61,185)
Fund Balances - Beginning	<u>5,323,806</u>	<u>5,323,806</u>	<u>5,323,806</u>	
Fund Balances - Ending	<u>\$ 5,218,248</u>	<u>\$ 5,221,565</u>	<u>\$ 5,160,380</u>	<u>\$ (61,185)</u>

The notes to the required supplementary information are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
 NORTHOME, MINNESOTA  
 SCHEDULE OF FUNDING PROGRESS FOR OTHER POSTEMPLOYMENT BENEFITS  
 June 30, 2016**

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<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
7/1/2015	\$	\$ 678,758	\$ 678,758	%	\$ 2,902,296	23.4 %
7/1/2012		648,874	648,874		3,078,541	21.1
7/1/2009		646,019	646,019		2,992,317	21.6

The District implemented GASB No. 45 for fiscal year ended June 30, 2010. Information for prior years is not available.

The notes to the required supplementary information are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
LAST 10 YEARS**

	<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
<b>PERA</b>						
	2015	\$ 76,698	\$ 76,698	\$	1,022,100	7.50 %
	2016	74,280	74,280		990,396	7.50
<b>TRA</b>						
	2015	\$ 157,926	\$ 157,926	\$	2,105,689	7.50 %
	2016	155,310	155,310		2,070,810	7.50

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

The notes to the required supplementary information are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY  
LAST 10 YEARS**

<u>Fiscal Year Ended June 30</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)</u>	<u>Total</u>	<u>District's Covered- Employee Payroll</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
<b>PERA</b>							
2014	0.0184 %	\$ 864,340	\$	\$ 864,340	\$ 964,681	89.60 %	78.70 %
2015	0.0174	901,758		901,758	1,022,100	88.23	78.19
<b>TRA</b>							
2014	0.0459 %	\$ 2,115,039	\$ 148,702	\$ 2,263,741	\$ 2,094,512	100.98 %	81.50 %
2015	0.0416	2,573,371	315,631	2,889,002	2,105,689	122.21	76.80

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

The notes to the required supplementary information are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2016**

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**NOTE 1 BUDGETARY DATA**

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

**NOTE 2 DEFINED BENEFIT PLANS**

**TRA**

Changes 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 of 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.

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2016**

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Building Fund	Permanent Fund	
<b>ASSETS</b>					
Cash and Investments	\$	\$ 9,345	\$ 29,319	\$ 286,152	\$ 324,816
Current Property Taxes Receivable		6,622			6,622
Delinquent Property Taxes Receivable		953			953
Accounts Receivable		55			55
Due From Department of Education		969			969
Due From Federal Govt. - DOE	777				777
Inventory	6,903				6,903
<b>TOTAL ASSETS</b>	<b>\$ 7,680</b>	<b>\$ 17,944</b>	<b>\$ 29,319</b>	<b>\$ 286,152</b>	<b>\$ 341,095</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 20	\$ 327	\$	\$	\$ 347
Due To Other Funds	7,660				7,660
<b>TOTAL LIABILITIES</b>	<b>7,680</b>	<b>327</b>			<b>8,007</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Delinquent Taxes		953			953
Property Taxes Levied - Subs. Years		15,268			15,268
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		<b>16,221</b>			<b>16,221</b>
<b>FUND BALANCES</b>					
Fund Balance:					
Nonspendable: Inventory	6,903				6,903
Nonspendable: Scholarships				100,000	100,000
Restricted for Community Service		1,396			1,396
Restricted for Scholarships				186,152	186,152
Restricted for Building Fund			29,319		29,319
Unassigned	(6,903)				(6,903)
<b>TOTAL FUND BALANCES</b>		<b>1,396</b>	<b>29,319</b>	<b>286,152</b>	<b>316,867</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 7,680</b>	<b>\$ 17,944</b>	<b>\$ 29,319</b>	<b>\$ 286,152</b>	<b>\$ 341,095</b>



**INDEPENDENT SCHOOL DISTRICT NO. 363**

**NORTHOME, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
NONMAJOR GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2016**

	<u>Special Revenue Funds</u>			Permanent Fund	Total Nonmajor Governmental Funds
	<u>Food Service Fund</u>	<u>Community Service Fund</u>	<u>Building Fund</u>		
<b>REVENUES</b>					
Local Property Tax Levies	\$	\$ 6,948	\$	\$	\$ 6,948
Other Local & County Revenues		11,801		22,091	33,892
Revenue From State Sources	15,570	10,408			25,978
Revenue From Federal Sources	123,116				123,116
Sale/Other Conversion of Asset	51,148				51,148
<b>TOTAL REVENUES</b>	<u>189,834</u>	<u>29,157</u>	<u></u>	<u>22,091</u>	<u>241,082</u>
<b>EXPENDITURES</b>					
Current					
Community Education and Services		84,175			84,175
Pupil Support Services	249,090				249,090
Fixed Costs				22,975	22,975
Capital Outlay			9,807		9,807
<b>TOTAL EXPENDITURES</b>	<u>249,090</u>	<u>84,175</u>	<u>9,807</u>	<u>22,975</u>	<u>366,047</u>
Revenues Under Expenditures	(59,256)	(55,018)	(9,807)	(884)	(124,965)
<b>OTHER FINANCING SOURCES</b>					
Transfers In	59,256	56,414			115,670
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>59,256</u>	<u>56,414</u>	<u></u>	<u></u>	<u>115,670</u>
Net Change in Fund Balances		1,396	(9,807)	(884)	(9,295)
Fund Balances - Beginning			39,126	287,036	326,162
Fund Balances - Ending	\$ <u><u></u></u>	\$ <u><u>1,396</u></u>	\$ <u><u>29,319</u></u>	\$ <u><u>286,152</u></u>	\$ <u><u>316,867</u></u>

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2016**

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Sale of Capital Asset	UFARS Balance End of Year	Reclassify	Balance End of Year
General Fund								
Nonspendable	\$ 11,520	\$	\$	\$ (2,613)	\$	\$ 8,907	\$	\$ 8,907
Restricted for:								
Deferred Maintenance	2,489	22,684				25,173		25,173
Health and Safety	(29,882)		23,177			(53,059)	53,059	
Operating Capital	127,564	66,754	42,060			152,258		152,258
Career and Tech				6,896		6,896		6,896
Safe Schools	12,422	102	12,524					
Committed for Severance	255,000					255,000		255,000
Unassigned	4,944,693	5,173,869	5,238,560	(119,953)	5,156	4,765,205	(53,059)	4,712,146
Food Service Fund								
Nonspendable	8,163			(1,260)		6,903		6,903
Restricted: Food Service		189,834	249,090	59,256				
Unassigned	(8,163)			1,260		(6,903)		(6,903)
Community Service Fund								
Restricted for:								
Community Education		19,222	28,036	8,814				
ECFE			38,007	38,007				
School Readiness		8,539	18,132	9,593				
Community Service		1,396				1,396		1,396
Building Fund								
Restricted: Building Fund	39,126		9,807			29,319		29,319
Debt Service Fund								
Restricted: Debt Service	58,528	193,701	203,150			49,079		49,079
Permanent Fund								
Nonspendable	100,000					100,000		100,000
Restricted: Scholarships	187,036	22,091	22,975			186,152		186,152



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the Board of Education  
Independent School District No. 363  
Northome, 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. 363 as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated October 26, 2016.

### **Legal Compliance**

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

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

### **Purpose of the Report**

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

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

October 26, 2016

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the Board of Education  
Independent School District No. 363  
Northome, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 26, 2016.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2016-001 and 2016-002 that we consider to be significant deficiencies.

## **Compliance and Other Matters**

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

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

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

October 26, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2016**

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**2016-001 FINDING**

Criteria

Generally, a system of internal control contemplates separation of duties that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition

Lack of sufficient segregation of duties.

Cause

Size and budget constraints limiting the number of personnel within the accounting department.

Effect

The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation

The areas should be reviewed periodically and consideration given to improving the segregation of duties.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review on an annual basis.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF FINDINGS  
For the Year Ended June 30, 2016**

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**2016-002 FINDING**

Criteria

The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. For the year ended June 30, 2016, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause

The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The Superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Recommendation

For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review on an annual basis.



**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
CORRECTIVE ACTION PLAN  
For the Year Ended June 30, 2016**

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**2016-001 FINDING**

Contact Person – Superintendent

Corrective Action Plan – The following steps are being taken to mitigate the risk: the Superintendent will review and approve all journal entries, the board will approve checks, and the Superintendent will review all bank statements before turning the statements over to the business office for reconciliation.

Completion Date – Ongoing

**2016-002 FINDING**

Contact Person – Superintendent

Corrective Action Plan – School district personnel will receive additional training to better prepare personnel to understand the financial statements and to work more closely with an accounting firm in the preparation of the financial statements. The District staff will review the prior year journal entries to determine training needs. The District staff has worked with their auditors and the ESV Accounting Office and is in the process of identifying required year end journal entries.

Completion Date – Ongoing

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CERTIFIED PUBLIC ACCOUNTANTS  
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## **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. 363  
Northome, Minnesota

We have audited the accompanying statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 363, for the year ended June 30, 2016, and the related note to the financial statement.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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 statement.

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

### **Basis for Qualified 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. The financial statement impact cannot be reasonably determined.

### **Qualified Opinion**

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, in accordance with the cash basis of accounting as described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 to the Student Activity Accounts Financial Statement, which describes the basis of accounting; this financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

October 26, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY**  
**ACCOUNTS**  
**For the Year Ended June 30, 2016**

	Fund Balance 6-30-15	Receipts	Disbursements	Transfer In (Out)	Fund Balance 6-30-16
<u>Indus School</u>					
Elementary Field Trip	\$ 406	\$ 46	\$ 89	\$	\$ 363
Student Council	606	2,581	2,628	(80)	479
After School Rec.	474	623	783		314
Annual	15,035	5,505	4,281		16,259
Nat'l Honor Society	2,025	63	310		1,778
Athletics	2,725	1,140			3,865
Music	2,769				2,769
After School	2,041	3,308	3,027		2,322
F.A.C.S.	612	292	187		717
Super Mile	771				771
Technology Club	87				87
Speech Activity	318		33		285
Spanish Activity	65		62		3
Science Club	356				356
Sixth Grade	2,243	2,085	2,663	(600)	1,065
Pre-School	29	75			104
Post Prom Party	1				1
5K Race		1,044	962		82
Art Club	281				281
Research	165		155		10
Wrestling	324				324
Calendars	1,651	1,831	722		2,760
Boise Safety	347	975	1,175		147
Pro-Start	110	400	8		502
Drama	134	203	115		222
After School Blue Grass	75	30			105
School Store	8,157	10,882	9,261	80	9,858
Class of 2015	99				99
Class of 2016	269	3,239	2,536		972
Class of 2017	1,004	1,499	885		1,618
Class of 2018	476	366	265		577
Class of 2019	305	380	29		656
Class of 2020	178	20		300	498
Class of 2021		73		300	373
<b>Total Indus School</b>	<b>44,138</b>	<b>36,660</b>	<b>30,176</b>		<b>50,622</b>

cont.

The note to student activity accounts financial statement is an integral part of this statement.

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY**  
**ACCOUNTS (Continued)**  
**For the Year Ended June 30, 2016**

	Fund Balance 6-30-15	Receipts	Disbursements	Transfer In (Out)	Fund Balance 6-30-16
<u>Northome School</u>					
Art Club	\$ 1,782	\$	\$ 154	\$	\$ 1,628
Band/Choir	1,866	20,222	20,225	1,750	3,613
Boys Basketball	376	3,445	2,916		905
Cheerleaders	856				856
Drama	1,456				1,456
Exercise Science	104		100		4
FFA	1,602				1,602
Field Trips	752	6	186		572
Football Camp	124				124
Golf	115				115
Nat'l Honor Society	832	510	497		845
Kids Plus	2,275		682		1,593
Kindergarten	612	555	429	(12)	726
Mustang Gear	1,404	5,103	5,079		1,428
Outdoor Arts and Crafts	1,378	1,200	1,441	300	1,437
Post Prom	251	1,650	1,816		85
Robotics	2,352	2,544	994	(42)	3,860
Russian Club	45				45
Science Club	1,613	523	798	200	1,538
Sew 4 You	89	2,900	1,302	12	1,699
Spanish/German Club	8,972	5,148	2,748		11,372
Student Council	794	2,751	3,150	400	795
Student Equipment Account	87				87
Track	6,461	5,468	5,060		6,869
Trap Shooting Club		1,500	2,500	1,000	
Volleyball	1,341	5,854	4,035		3,160
Yearbook	6,112	1,660	2,749		5,023
Class of 2015	1,330	44			1,374
Class of 2016	3,700	599	3,899		400
Class of 2017	157	17,257	11,456	(3,608)	2,350
Class of 2018	188	30			218
Class of 2019	231	86			317
Class of 2020		89			89
Class of 2021	50				50
Class of 2022	1,349		151		1,198
Class of 2023		6,165	6,037		128
<b>Total Northome School</b>	<b>50,656</b>	<b>85,309</b>	<b>78,404</b>		<b>57,561</b>
<b>Total All Funds</b>	<b>\$ 94,794</b>	<b>\$ 121,969</b>	<b>\$ 108,580</b>	<b>\$</b>	<b>\$ 108,183</b>

The note to student activity accounts financial statement is an integral part of this statement.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
NOTE TO STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENT  
June 30, 2016**

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**NOTE 1      STUDENT ACTIVITY ACCOUNTS**

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the student activity funds are maintained, and the accompanying financial statements have been prepared on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned and disbursements are recognized when paid rather than when the obligations are incurred.

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

To the School Board, Advisors, and Students  
Independent School District No. 363  
Northome, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the student activity accounts of Independent School District 363, for the year ended June 30, 2016, and the related note to the financial statement, and have issued our report thereon dated October 26, 2016, which was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records, therefore, we were unable to audit the cash collections beyond the amounts recorded.

### **Compliance**

The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, pursuant to Minnesota Statutes, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, except for items 2016-001(a) and 2016-002(a) in the schedule of findings – student activity accounts. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

### **Purpose of the Report**

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

A handwritten signature in black ink that reads "Brady Martz".

**BRADY, MARTZ & ASSOCIATES, P.C.**  
Thief River Falls, Minnesota

October 26, 2016

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS  
For the Year Ended June 30, 2016**

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**2016-001(a) FINDING**

Criteria

The *Manual for Activity Fund Accounting* states that “at no time and under no circumstances are labor payments made by cash or check from a student activity account.”

Condition

A student activity account paid for a personal payment contract.

Cause

Oversight by the District staff.

Effect

The student activity account is not in compliance with the Minnesota *Manual for Activity Fund Accounting*.

Recommendation

All labor payments should be paid by the school district.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and all labor payments will be paid by the District.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
SCHEDULE OF FINDINGS – STUDENT ACTIVITY ACCOUNTS  
For the Year Ended June 30, 2016**

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**2016-002(a) FINDING**

Criteria

The *Manual for Activity Fund Accounting* states that “for student activity accounts related to a graduated class, any funds remaining in the account after graduation must be disposed of in the manner indicated on the activity purpose form no later than September 1 after graduation.”

Condition

There are two student activity accounts, the Class of 2015 and Class of 2016, which have not been disposed of.

Cause

Oversight by the District staff.

Effect

The student activity account is not in compliance with the Minnesota *Manual for Activity Fund Accounting*.

Recommendation

Staff overseeing student activity funds should review student activity accounts that are to be disposed of each year and dispose of the accounts in the manner indicated on the student activity purpose form.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will dispose of student activity accounts related to classes who have graduated.

**INDEPENDENT SCHOOL DISTRICT NO. 363  
NORTHOME, MINNESOTA  
CORRECTIVE ACTION PLAN – STUDENT ACTIVITY ACCOUNTS  
For the Year Ended June 30, 2016**

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**2016-001(a) FINDING**

Contact Person – Superintendent

Corrective Action Plan – All labor payments will be paid by the District.

Completion Date – Immediately

**2016-002(a) FINDING**

Contact Person – Superintendent

Corrective Action Plan – The District will dispose of student activity accounts related to classes that have graduated at the end of the school year.

Completion Date – Immediately

**INDEPENDENT SCHOOL DISTRICT NO. 363**  
**NORTHOME, MINNESOTA**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE**  
**June 30, 2016**

District Name: INDEPENDENT SCHOOL DISTRICT NO. 363

District Number: 363

	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	5,263,409	5,263,408	1	Total Revenue			
Total Expenditures	5,316,321	5,316,320	1	Total Expenditures	9,807	9,807	
<i>Non Spendable</i>				<i>Non Spendable</i>			
460 Non Spendable Fund Balance	8,907	8,906	1	460 Non Spendable Fund Balance			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development				407 Capital Projects Levy			
405 Deferred Maintenance	25,173	25,171	2	409 Alternative Facility Program			
406 Health & Safety		(53,061)	53,061	413 Projects Funded By COP			
407 Capital Projects Levy				<i>Restricted</i>			
408 Cooperative Revenue				464 Restricted Fund Balance	29,319	29,320	(1)
409 Alternative Fac Program				<i>Unassigned:</i>			
413 Project Funded by COP				463 Unassigned Fund Balance			
414 Operating Debt				Reconciliation of Building Construction	<u>39,126</u>	<u>39,127</u>	<u>(1)</u>
416 Levy Reduction							
417 Taconite Building Maintenance				<b>07 DEBT SERVICE</b>			
423 Certain Teacher Programs				Total Revenue	193,701	193,700	1
424 Operating Capital	152,258	152,257	1	Total Expenditures	203,150	203,150	
426 \$25 Taconite				<i>Non Spendable</i>			
427 Disabled Accessibility				460 Non Spendable Fund Balance			
428 Learning & Development				<i>Restricted/Reserved:</i>			
434 Area Learning Center				425 Bond Refundings			
435 Contracted Alt Programs				451 QZAB Payments			
436 State Approved Alt Program				<i>Restricted</i>			
438 Gifted & Talented				464 Restricted Fund Balance	49,079	49,077	2
440 Teacher Development and Eval				<i>Unassigned:</i>			
441 Basic Skills Programs				463 Unassigned Fund Balance			
445 Career and Technical Programs	6,896	6,896		Reconciliation of Building Construction	<u>445,930</u>	<u>445,927</u>	<u>3</u>
448 Achievement and Integration							
449 Safe Schools Levy				<b>08 TRUST</b>			
450 Prekindergarten				Total Revenue	22,091	22,091	
451 QZAB Payments				Total Expenditures	22,975	22,975	
452 OPEB Liab Not In Trust				<i>Unassigned:</i>			
453 Unfunded Sev & Retiremt Levy				422 Unassigned Fund Balance	286,152	286,151	1
<i>Restricted</i>				Reconciliation of Trust	<u>331,218</u>	<u>331,217</u>	<u>1</u>
464 Restricted Fund Balance							
<i>Committed</i>				<b>20 INTERNAL SERVICE</b>			
418 Committed for Separation	255,000	255,000		Total Revenue			
461 Committed				Total Expenditures			
<i>Assigned</i>				<i>Unassigned:</i>			
462 Assigned Fund Balance				422 Unassigned Fund Balance			
<i>Unassigned:</i>				Reconciliation of Internal Service			
422 Unassigned Fund Balance	4,712,146	4,765,216	(53,070)				
Reconciliation of General	<u>15,740,110</u>	<u>15,740,113</u>	<u>(3)</u>	<b>25 OPEB REVOCABLE TRUST FUND</b>			
				Total Revenue			
<b>02 FOOD SERVICE</b>				Total Expenditures			
Total Revenue	189,834	189,835	(1)	<i>Unassigned:</i>			
Total Expenditures	249,090	249,090		422 Unassigned Fund Balance			
<i>Non Spendable</i>				Reconciliation of OPEB Revocable Trust			
460 Non Spendable Fund Balance	6,903	6,903					
<i>Restricted/Reserved:</i>				<b>45 OPEB IRREVOCABLE TRUST FUND</b>			
452 OPEB Liab Not In Trust				Total Revenue			
<i>Restricted</i>				Total Expenditures			
464 Restricted Fund Balance				<i>Unassigned:</i>			
<i>Unassigned</i>				422 Unassigned Fund Balance			
463 Unassigned Fund Balance	(6,903)	(6,903)		Reconciliation of OPEB Irrevocable Trust			
Reconciliation of Food Service	<u>438,924</u>	<u>438,925</u>	<u>(1)</u>				
				<b>47 OPEB DEBT SERVICE FUND</b>			
<b>04 COMMUNITY SERVICE</b>				Total Revenue			
Total Revenue	29,157	29,157		Total Expenditures			
Total Expenditures	84,175	84,175		<i>Non Spendable</i>			
<i>Non Spendable</i>				460 Non Spendable Fund Balance			
460 Non Spendable Fund Balance				<i>Restricted</i>			
<i>Restricted/Reserved:</i>				425 Bond Refunding			
426 \$25 Taconite				464 Restricted Fund Balance			
431 Community Education				<i>Unassigned</i>			
432 E.C.F.E.				463 Unassigned Fund Balance			
440 Teacher Development and Eval				Reconciliation of OPEB Debt Service			
444 School Readiness							
447 Adult Basic Education							
452 OPEB Liab Not In Trust							
<i>Restricted</i>							
464 Restricted Fund Balance	1,396	1,396					
<i>Unassigned</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	<u>114,728</u>	<u>114,728</u>					