ST. CROIX RIVER EDUCATION DISTRICT
RUSH CITY, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2016

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ST. CROIX RIVER EDUCATION DISTRICT

Table of Contents

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INTRODUCTORY SECTION

ST. CROIX RIVER EDUCATION DISTRICT

School Board and Administration
Year Ended June 30, 2016

SCHOOL BOARD

Board of Education	Term Expires	Position
Scott Tryon	December 31, 2019	Chair
Mary Ellen Von Rueden	December 31, 2017	Vice Chair
Julie Domogalla	December 31, 2017	Secretary/Clerk
Shari Breezee	December 31, 2016	Board Member
Wendy Leibel	December 31, 2019	Board Member
Danielle Strenke	December 31, 2018	Board Member

ADMINISTRATION

Jamie Nord	Executive Director
Suzanne Hischer	Finance Manager

FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas M. Montague, CPA
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of the
St. Croix River Education District
Rush City, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities and each major fund of the St. Croix River Education District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

Malloy, Montague, Karnowski, Radosevich, & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Telephone: 952-545-0424 • Telefax: 952-545-0569 • www.mmkr.com

OPINIONS

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

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI 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 introductory section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

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

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

(continued)

Prior Year Comparative Information

We have previously audited the District's 2015 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities and each major fund in our report dated October 23, 2015. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 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, 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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 19, 2016

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This section of the St. Croix River Education District's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2016. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2016 by $2,770,540 (net position deficit). The District's total net position decreased by $110,576 during the fiscal year ended June 30, 2016.

- The General Fund's total fund balance (under the governmental fund presentation) increased $124,064 from the prior year, compared to an $80,018 increase planned in the budget.

- The District is a legally established school district under the laws of Minnesota. The member districts have a signed agreement passed by each School Board. In this sense the entity is owned, operated, and controlled by the member districts.

- By this same agreement, the funding of the operations of the District is shared among the member districts who in this sense are guarantors of its liabilities. The agreement specifies that federal Individuals with Disabilities Education Act funds flow to the District. The School Board also may authorize receiving grants and other funds. There is a set of core services that are funded on a per pupil basis. Other fees-for-services and shared services are optional and at the discretion of each member district.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual statements consists of the following parts:

- Independent Auditor's Report;

- Management's Discussion and Analysis;

- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements; and

- Required supplementary information.

The following explains the two types of statements included in the basic financial statements:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District requires consideration of additional nonfinancial factors such as the condition of school buildings and other facilities.

In the government-wide financial statements the District's activities are all shown in one category titled "governmental activities." These activities, including regular and special education instruction, district support services, and community education, are primarily financed with state aids, federal aids, and charges to member districts.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*, focusing on its most significant or "major" funds, rather than the District as a whole.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund statements that explain the relationship (or differences) between these two types of financial statement presentations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Position:

Table 1
Summary Statement of Net Position
as of June 30, 2016 and 2015

	2016	2015
Assets		
Current and other assets	$ 745,986	$ 606,430
Capital assets, net of depreciation	1,834,867	1,902,101
Total assets	**$ 2,580,853**	**$ 2,508,531**
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	**$ 734,982**	**$ 485,689**
Liabilities		
Current and other liabilities	$ 373,762	$ 337,116
Long-term liabilities, including due within one year	5,338,148	4,467,917
Total liabilities	**$ 5,711,910**	**$ 4,805,033**
Deferred inflows of resources		
Pension plan deferments – PERA and TRA	**$ 374,465**	**$ 849,151**
Net position		
Net investment in capital assets	$ 292,920	$ 243,213
Restricted for community service	30,723	53,300
Unrestricted	(3,094,183)	(2,956,477)
Total net position	**$ (2,770,540)**	**$ (2,659,964)**

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. The other major factor in determining net position as compared to fund balances is the liability for long-term severance, pension, and other post-employment benefits, which impacts the unrestricted portion of net position.

Total net position decreased by $110,576 from current year operating results. The District's increase in net investments in capital assets is due mostly to the District repaying debt at a faster rate than the assets being depreciated.

Table 2 presents a summarized version of the District's Statement of Activities:

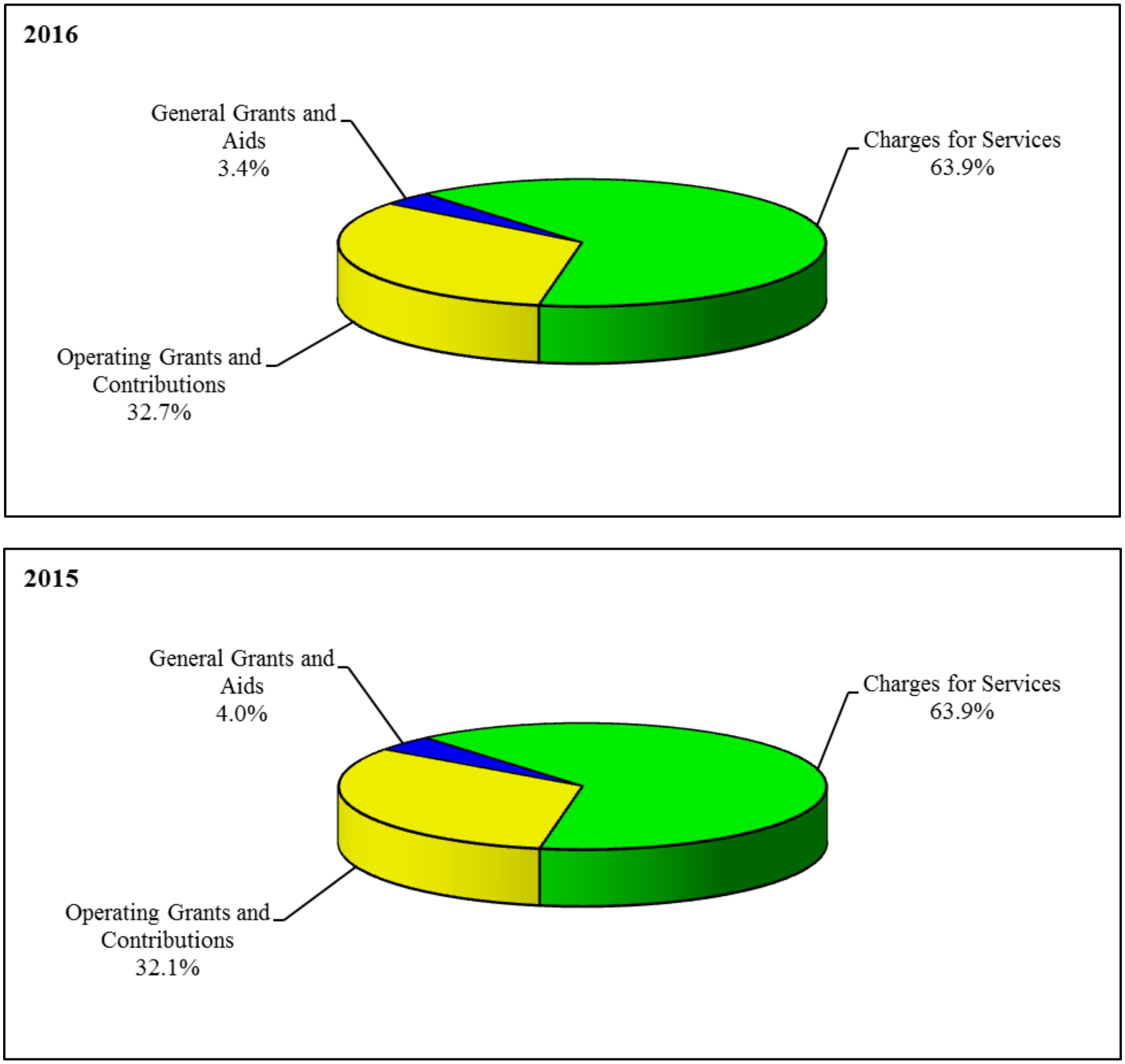
Table 2
Summary Statement of Activities
for the Years Ended June 30, 2016 and 2015

	2016	2015
Revenues		
Program revenues		
Charges for services	$ 4,119,262	$ 3,481,883
Operating grants and contributions	2,103,555	1,746,850
General revenues		
General grants and aids	219,644	218,603
Investment earnings	1,307	237
Total revenues	6,443,768	5,447,573
Expenses		
District support services	167,063	169,256
Elementary and secondary regular instruction	50,848	45,910
Vocational education instruction	68,507	65,734
Special education instruction	5,446,449	4,691,443
Instructional support services	91,984	123,240
Pupil support services	247,526	107,197
Sites and buildings	73,540	81,636
Fiscal and other fixed cost programs	13,107	–
Community service	348,352	279,372
Interest and fiscal charges	46,968	50,407
Total expenses	6,554,344	5,614,195
Change in net position	(110,576)	(166,622)
Net position – beginning	(2,659,964)	(2,493,342)
Net position – ending	**$ (2,770,540)**	**$ (2,659,964)**

This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Figure A shows further analysis of these revenue sources:

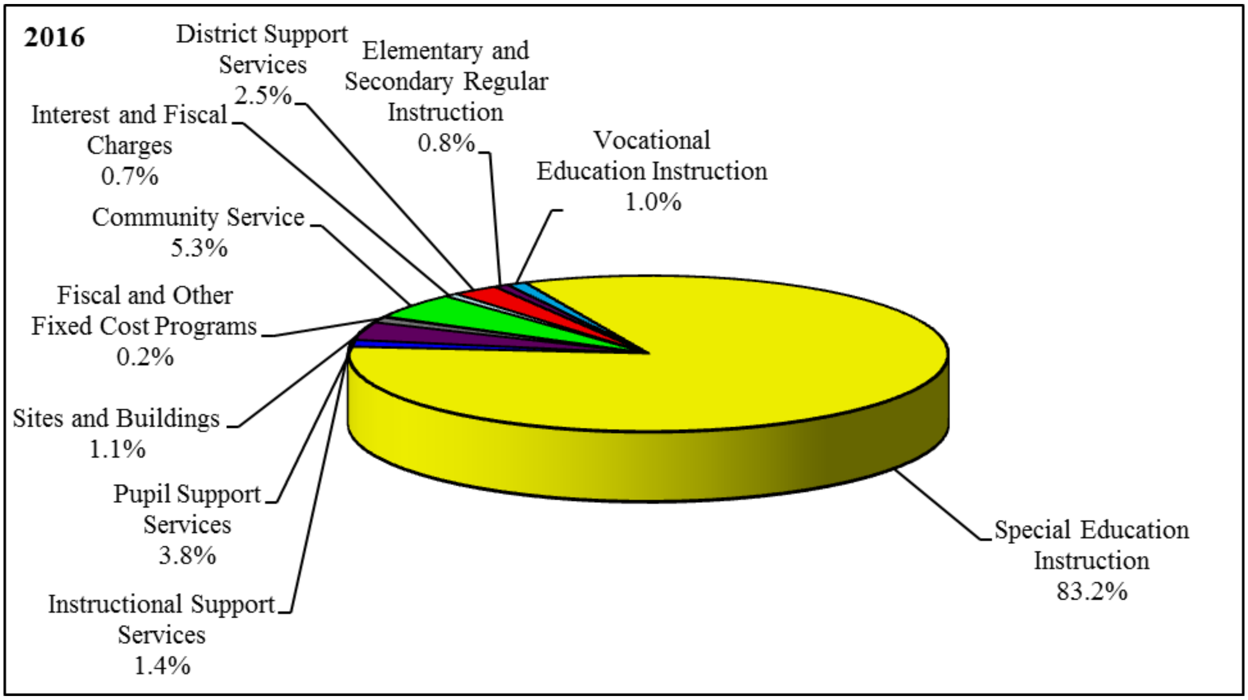
Figure A – Sources of Revenues for Fiscal Years 2016 and 2015

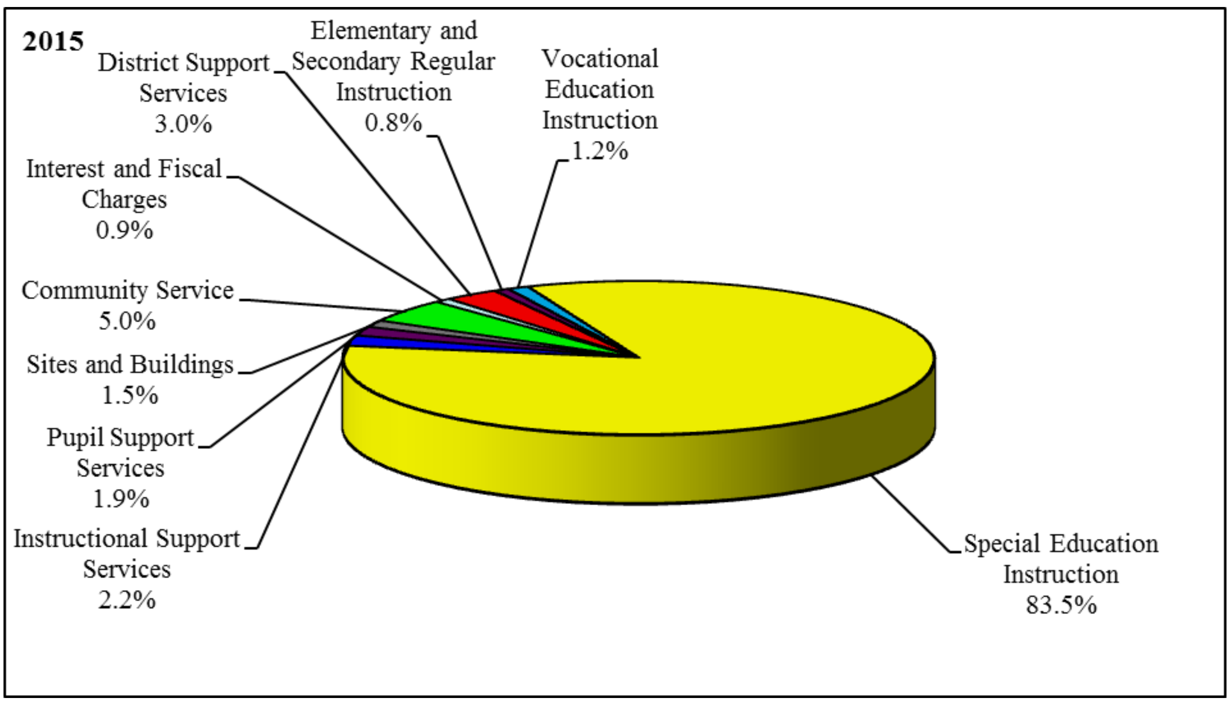


The District's revenue is primarily received from charges to member districts for special education instruction and other services provided. Federal grant entitlements also provide a significant portion of the District's revenue, included in operating grants and contributions above.

Figure B shows further analysis of these expense functions:

Figure B – Expenses for Fiscal Years 2016 and 2015





The District's expenses are predominately related to serving special education instruction needs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

ANALYSIS OF THE GENERAL FUND

The General Fund total fund balance increased from $236,461 at June 30, 2015 to $360,507 at June 30, 2016. The actual fund balance increased $124,046 in the current year compared to a budgeted increase of $80,018.

General Fund Budgetary Points of Interest

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as enrollment levels, legislative funding, grant awards, and employee contract settlements. During the year, budgeted revenues and expenditures increased by $382,463 and $236,254, respectively, in the General Fund. Revenues and expenditure budgets were increased during the year to better reflect the additional services and related costs anticipated to be provided to member districts.

Revenues of the District were $243,752 less than the budget. Other local sources (primarily charges to member districts) were under budget by $147,768 due to reductions to member charges as a result of lower than expected expenditures. Federal sources were under budget by $166,045, primarily due to less spending than anticipated in federal grant entitlements.

Expenditures were under budget by $287,780 overall, due to the District providing fewer services to members than anticipated and spending less federal entitlement than anticipated.

ANALYSIS OF THE COMMUNITY SERVICE SPECIAL REVENUE FUND

The Community Service Special Revenue Fund reported $22,577 less in revenues than expenditures, decreasing the fund balance to $30,723. The actual fund balance decreased $22,577 in the current year compared to a budgeted decrease of $6,661. Revenues were $3,560 less than budget while expenditures were $12,356 more than projected in the budget.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2016 and 2015.

Table 3
Capital Assets

	2016	2015	Change
Land	$ 83,800	$ 83,800	$ –
Buildings	1,753,790	1,753,790	–
Furniture and equipment	525,400	528,602	(3,202)
Less accumulated depreciation	(528,123)	(464,091)	(64,032)
Total	$ 1,834,867	$ 1,902,101	$ (67,234)
Depreciation expense	$ 74,074	$ 74,725	$ (651)

By the end of 2016, the District had invested in a broad range of capital assets, including school building facility and other equipment for various instructional programs (see Table 3). The District defines capital assets as those with an initial, individual cost of $2,500 or more, which benefit more than one fiscal year.

Long-Term Liabilities

Table 4
Outstanding Long-Term Liabilities

	2016	2015	Change
Capital lease payable	$ 1,541,947	$ 1,658,888	$ (116,941)
Net pension liability – PERA	388,612	447,991	(59,379)
Net pension liability – TRA	3,355,504	2,315,926	1,039,578
Severance payable	16,000	11,000	5,000
Net OPEB obligation	36,085	34,112	1,973
Total	$ 5,338,148	$ 4,467,917	$ 870,231

Additional details of the District's capital assets and long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

For 30 years, there has been a federal mandate to provide education services to students with disabilities. It was this mandate that motivated inter-school cooperation and today it remains the main mission of the District. Federal funds that have remained in recent years have never approached the level specified in the 1975 law. Beginning in fiscal year 2013–2014, federal sequestration went into effect. Federal revenue was decreased by 5.1 percent and will continue to be decreased for 10 years unless Congress passes a continuing resolution to eliminate sequestration. As a result, the local costs for special education have increased. Special education continues to use not only the resources assigned to the program by law but also considerable funding drawn from other revenue sources intended for other purposes. Sequestration cuts have been restored to previous funding levels for this fiscal year. However, it is unclear whether the restored amount will continue into future years.

The state of Minnesota, like many other states in the nation, has experienced significant fiscal difficulty leading to budget cuts for services throughout the state. While the District does not receive any significant direct state aid, the state of Minnesota's fiscal picture impacts what may be requested from the member districts and, in turn, could impact the District.

The agreement that authorizes the District also specifies a process whereby member districts may withdraw from the District. Notice to withdraw must be given by June 30 to take effect on the following June 30. This means the very existence of the District is determined on a short-term basis. However, the District's agreement was changed in 2012 to require any district that withdraws to continue making building lease payments for the duration of the lease. This language was added to protect the District and member districts from absorbing the lease payments for the District's building should another district withdraw. Over the last 30 years, there has always been an inter-district entity such as the current District but it has taken various forms and the fiscal host and offices have moved several times. The reorganization of school districts is a constant topic at the Legislature, but no concrete proposals have been suggested in recent years.

The District funds its services on a per pupil basis so that enrollment fluctuations do not have a direct effect on funding since the expenses are shared among the districts. Each year a member district's share will vary depending on their enrollment. However, significant increases or decreases in enrollment do change the demands on the services provided by the District. The particular geographical area encompassed by the District extends in the south from fourth ring suburbs to the highly rural north. The Interstate 35 corridor acts as a catalyst for development. The overall student population in Minnesota is declining, but this effect is not evenly felt among Minnesota's districts. Generally speaking, there is stable to declining enrollment in the south end of the District and declining enrollment in the north. School choice options also complicate projections and enrollments. While the general education enrollment is decreasing, the special education child count has increased in recent years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our 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 Rush City Public School Business Manager and/or the Superintendent, 51001 Fairfield Avenue, P.O. Box 566, Rush City, Minnesota 55069.

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BASIC FINANCIAL STATEMENTS

ST. CROIX RIVER EDUCATION DISTRICT

Statement of Net Position
as of June 30, 2016
(With Partial Comparative Information as of June 30, 2015)

	Governmental Activities	
	2016	2015
Assets		
Cash and temporary investments	$ 122,720	$ 3,621
Receivables		
Accounts and interest	102,717	54,734
Due from other governmental units	520,549	548,075
Capital assets		
Not depreciated	83,800	83,800
Depreciated, net of accumulated depreciation	1,751,067	1,818,301
Total capital assets, net of accumulated depreciation	1,834,867	1,902,101
Total assets	2,580,853	2,508,531
Deferred outflows of resources		
Pension plan deferments – PERA and TRA	734,982	485,689
Total assets and deferred outflows of resources	$ 3,315,835	$ 2,994,220
Liabilities		
Salaries payable	$ –	$ 13,435
Accounts and contracts payable	220,750	179,023
Due to other governmental units	134,006	124,211
Accrued interest payable	19,006	20,447
Long-term liabilities		
Due within one year	120,440	127,940
Due in more than one year	5,217,708	4,339,977
Total long-term liabilities	5,338,148	4,467,917
Total liabilities	5,711,910	4,805,033
Deferred inflows of resources		
Pension plan deferments – PERA and TRA	374,465	849,151
Net position		
Net investment in capital assets	292,920	243,213
Restricted for community service	30,723	53,300
Unrestricted	(3,094,183)	(2,956,477)
Total net position	(2,770,540)	(2,659,964)
Total liabilities, deferred inflows of resources, and net position	$ 3,315,835	$ 2,994,220

See notes to basic financial statements

ST. CROIX RIVER EDUCATION DISTRICT

Statement of Activities
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

		2016			2015
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
District support services	$ 167,063	$ –	$ –	$ (167,063)	$ (168,951)
Elementary and secondary regular instruction	50,848	–	–	(50,848)	(45,819)
Vocational education instruction	68,507	–	–	(68,507)	(65,734)
Special education instruction	5,446,449	3,845,221	2,063,057	461,829	261,165
Instructional support services	91,984	–	–	(91,984)	(123,152)
Pupil support services	247,526	–	–	(247,526)	(106,770)
Sites and buildings	73,540	–	–	(73,540)	(81,636)
Fiscal and other fixed cost programs	13,107	–	–	(13,107)	–
Community service	348,352	274,041	40,498	(33,813)	(4,158)
Interest and fiscal charges	46,968	–	–	(46,968)	(50,407)
Total governmental activities	$ 6,554,344	$ 4,119,262	$ 2,103,555	(331,527)	(385,462)
	General revenues				
	General grants and aids			219,644	218,603
	Investment earnings			1,307	237
	Total general revenues			220,951	218,840
	Change in net position			(110,576)	(166,622)
	Net position – beginning			(2,659,964)	(2,493,342)
	Net position – ending			$ (2,770,540)	$ (2,659,964)

See notes to basic financial statements

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ST. CROIX RIVER EDUCATION DISTRICT

Balance Sheet
Governmental Funds
as of June 30, 2016
(With Partial Comparative Information as of June 30, 2015)

	General Fund	Community Service Special Revenue Fund	Total Governmental Funds 2016	Total Governmental Funds 2015
Assets				
Cash and temporary investments	$ 122,720	$ –	$ 122,720	$ 3,621
Receivables				
Accounts and interest	102,167	550	102,717	54,734
Due from other governmental units	452,403	68,146	520,549	548,075
Due from other funds	17,049	–	17,049	947
Total assets	$ 694,339	$ 68,696	$ 763,035	$ 607,377
Liabilities and Fund Balances				
Liabilities				
Salaries payable	$ –	$ –	$ –	$ 13,435
Accounts and contracts payable	205,096	15,654	220,750	179,023
Due to other governmental units	128,736	5,270	134,006	124,211
Due to other funds	–	17,049	17,049	947
Total liabilities	333,832	37,973	371,805	317,616
Fund balances				
Restricted	–	30,723	30,723	53,300
Assigned	16,000	–	16,000	77,191
Unassigned	344,507	–	344,507	159,270
Total fund balances	360,507	30,723	391,230	289,761
Total liabilities and fund balances	$ 694,339	$ 68,696	$ 763,035	$ 607,377

See notes to basic financial statements

ST. CROIX RIVER EDUCATION DISTRICT

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2016
(With Partial Comparative Information as of June 30, 2015)

	2016	2015
Total fund balances – governmental funds	$ 391,230	$ 289,761
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	2,362,990	2,366,192
Accumulated depreciation	(528,123)	(464,091)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
Capital lease payable	(1,541,947)	(1,658,888)
Net pension liability – PERA	(388,612)	(447,991)
Net pension liability – TRA	(3,355,504)	(2,315,926)
Severance payable	(16,000)	(11,000)
Net OPEB obligation	(36,085)	(34,112)
Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.	(19,006)	(20,447)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	734,982	485,689
Deferred inflows – PERA and TRA pension plans	(374,465)	(849,151)
Total net position – governmental activities	$ (2,770,540)	$ (2,659,964)

See notes to basic financial statements

ST. CROIX RIVER EDUCATION DISTRICT

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	General Fund	Community Service Special Revenue Fund	Total Governmental Funds 2016	Total Governmental Funds 2015
Revenue				
Local sources				
Investment earnings	$ 1,307	$ –	$ 1,307	$ 237
Other	4,064,865	293,576	4,358,441	3,721,790
State sources	68,754	18,048	86,802	14,039
Federal sources	1,994,303	2,915	1,997,218	1,704,402
Total revenue	6,129,229	314,539	6,443,768	5,440,468
Expenditures				
Current				
District support services	170,798	–	170,798	172,424
Elementary and secondary regular instruction	46,736	–	46,736	46,884
Vocational education instruction	68,507	–	68,507	65,734
Special education instruction	5,168,494	–	5,168,494	4,722,561
Instructional support services	91,367	–	91,367	123,876
Pupil support services	240,415	–	240,415	108,363
Sites and buildings	40,409	–	40,409	46,598
Fiscal and other fixed cost programs	13,107	–	13,107	–
Community service	–	335,016	335,016	277,833
Capital outlay	–	2,100	2,100	4,640
Debt service				
Principal	116,941	–	116,941	113,543
Interest and fiscal charges	48,409	–	48,409	51,807
Total expenditures	6,005,183	337,116	6,342,299	5,734,263
Net change in fund balances	124,046	(22,577)	101,469	(293,795)
Fund balances				
Beginning of year	236,461	53,300	289,761	583,556
End of year	$ 360,507	$ 30,723	$ 391,230	$ 289,761

See notes to basic financial statements

ST. CROIX RIVER EDUCATION DISTRICT

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	2016	2015
Total net change in fund balances – governmental funds	$ 101,469	$ (293,795)
Amounts reported for governmental activities in the Statement of Activities are		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	6,840	–
Depreciation expense	(74,074)	(74,725)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
Capital lease payable	116,941	113,543
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	1,441	1,400
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability – PERA	59,379	71,199
Net pension liability – TRA	(1,039,578)	567,278
Severance payable	(5,000)	14,800
Net OPEB obligation	(1,973)	(6,003)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – PERA and TRA pension plans	249,293	288,832
Deferred inflows – PERA and TRA pension plans	474,686	(849,151)
Change in net position – governmental activities	$ (110,576)	$ (166,622)

See notes to basic financial statements

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ST. CROIX RIVER EDUCATION DISTRICT

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	2016				
	Budgeted Amounts			Over (Under)	2015
	Original	Final	Actual	Final Budget	Actual
Revenue					
Local sources					
Investment earnings	$ –	$ –	$ 1,307	$ 1,307	$ 237
Other	3,904,670	4,212,633	4,064,865	(147,768)	3,463,206
State sources	–	–	68,754	68,754	–
Federal sources	2,085,848	2,160,348	1,994,303	(166,045)	1,702,170
Total revenue	5,990,518	6,372,981	6,129,229	(243,752)	5,165,613
Expenditures					
Current					
District support services	288,010	306,433	170,798	(135,635)	172,424
Elementary and secondary regular instruction	53,272	53,772	46,736	(7,036)	46,884
Vocational education instruction	65,734	68,507	68,507	–	65,734
Special education instruction	5,055,044	5,273,061	5,168,494	(104,567)	4,722,561
Instructional support services	123,836	113,136	91,367	(21,769)	123,876
Pupil support	243,280	251,023	240,415	(10,608)	108,363
Sites and buildings	53,071	52,569	40,409	(12,160)	46,598
Fiscal and other fixed cost programs	9,112	9,112	13,107	3,995	–
Debt service					
Principal	116,941	116,941	116,941	–	113,543
Interest and fiscal charges	48,409	48,409	48,409	–	51,807
Total expenditures	6,056,709	6,292,963	6,005,183	(287,780)	5,451,790
Net change in fund balances	$ (66,191)	$ 80,018	124,046	$ 44,028	(286,177)
Fund balances					
Beginning of year			236,461		522,638
End of year			$ 360,507		$ 236,461

See notes to basic financial statements

ST. CROIX RIVER EDUCATION DISTRICT

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Community Service Special Revenue Fund
Year Ended June 30, 2016
(With Partial Comparative Information for the Year Ended June 30, 2015)

	2016				
	Budgeted Amounts			Over (Under)	2015
	Original	Final	Actual	Final Budget	Actual
Revenue					
Local sources					
Other	$ 244,359	$ 301,126	$ 293,576	$ (7,550)	$ 258,584
State sources	14,038	14,038	18,048	4,010	14,039
Federal sources	1,440	2,935	2,915	(20)	2,232
Total revenue	259,837	318,099	314,539	(3,560)	274,855
Expenditures					
Current					
Community service	285,109	314,985	335,016	20,031	277,833
Capital outlay	9,775	9,775	2,100	(7,675)	4,640
Total expenditures	294,884	324,760	337,116	12,356	282,473
Net change in fund balances	$ (35,047)	$ (6,661)	(22,577)	$ (15,916)	(7,618)
Fund balances					
Beginning of year			53,300		60,918
End of year			$ 30,723		$ 53,300

See notes to basic financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The St. Croix River Education District (the District) operates pursuant to applicable Minnesota laws and statutes for the purpose of providing educational services to individuals within the District's areas. The District is operated by six school districts in east central Minnesota: Chisago Lakes, North Branch, Rush City, Pine City, Hinckley-Finlayson, and East Central School Districts. The District manages shared services between its member districts and other governmental service units in Chisago and Pine counties. The governing body consists of a School Board elected by each of the member districts. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, 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 accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate 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 depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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. Other internally directed revenues are reported instead as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar revenues are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education (MDE). Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund – The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education or other similar services.

E. Budgetary Information

Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds. The budget for each fund is prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. During the fiscal year ended June 30, 2016, expenditures exceeded budgeted amounts in the Community Service Special Revenue Fund by $12,356. Available fund balance covered this variance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Temporary Investments

Cash and temporary investments, if any, 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 generally stated at fair value, except for investments in 2a7-like external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of June 30, 2016.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible.

H. Capital Assets

Capital assets that are purchased or constructed by the District are recorded at historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of $2,500 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings, and 5 to 10 years for furniture and equipment. Land is not depreciated.

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

I. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Compensated Absences

The District compensates full-time employees upon termination of employment for unused vacation. The full-time employees of the District earn vacation based upon the number of completed years of service. Since teachers do not receive vacation benefits there is no material vacation liability to accrue as of June 30, 2016.

Substantially all district employees are entitled to sick leave at various rates; however, employees are not compensated for unused sick leave upon termination of employment, except in limited cases as severance benefits.

K. Severance (Post-Employment Separation) Benefits

The District provides a severance payment for certain positions who have completed at least five years of continuous administrative service with the District and upon submission of a written retirement accepted by the School Board. No individual can receive severance benefits in excess of one year's salary. Severance/retirement pay shall be paid by the District over a two-year period with one-half being paid during the same calendar year severance/retirement occurred and the remaining one-half in January of the following calendar year. The District bills its member districts for a portion of the severance liability it will ultimately be liable for.

Severance payable and the District's share of related benefits, if material, are recorded as a liability in the government-wide financial statements as it is earned and it becomes probable that it will vest at some point in the future. Severance pay is accrued in the governmental fund financial statements when the liability matures due to employee termination.

L. State-Wide Pension Plans

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 the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the 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.

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association (DTRFA) in 2015.

M. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District only has one item that qualifies for reporting in this category. It is the deferred inflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

N. Net Position

In the government-wide financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

O. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

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

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District's Executive Director or Independent School District (ISD) No. 139's Business Manager are authorized to establish assignments of fund balance.

- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, 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.

P. 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 amounts reported in the financial statements during the reporting period. Actual results could differ from those estimates.

Q. Risk Management

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

R. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2015, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – CASH AND INVESTMENTS

A. Components of Cash and Investments

Cash balances of the District's funds are combined (pooled) with the funds of ISD No. 139 and invested to the extent available in various investments authorized by Minnesota Statutes. Each fund's portion of this pool (or pools) is displayed on the financial statements as "cash and temporary investments." For purposes of identifying risk of investing public funds, the balances and related restrictions are summarized below.

Cash and investments are presented in the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	$ 122,720

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District's deposit policies do not further limit depository choices.

At June 30, 2016, all deposits were fully covered by federal depository insurance, surety bonds, or collateral held by the District's agent in the District's name.

C. Investments

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The District's investment policies do not further restrict investing in specific financial instruments.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk.

NOTE 3 – CAPITAL ASSETS

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

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	$ 83,800	$ –	$ –	$ 83,800
Capital assets, depreciated				
Buildings	1,753,790	–	–	1,753,790
Furniture and equipment	528,602	6,840	(10,042)	525,400
Total capital assets, depreciated	2,282,392	6,840	(10,042)	2,279,190
Less accumulated depreciation for				
Buildings	(94,653)	(35,075)	–	(129,728)
Furniture and equipment	(369,438)	(38,999)	10,042	(398,395)
Total accumulated depreciation	(464,091)	(74,074)	10,042	(528,123)
Net capital assets, depreciated	1,818,301	(67,234)	–	1,751,067
Total capital assets, net	$ 1,902,101	$ (67,234)	$ –	$ 1,834,867

Depreciation expense for the year was charged to the following governmental functions:

Special education instruction	$ 38,999
Sites and buildings	35,075
Total depreciation expense	$ 74,074

NOTE 4 – LONG-TERM LIABILITIES

A. Description of Long-Term Liabilities

Capital Lease Payable – In June 2012, the District entered into a capital lease agreement with ISD No. 139 to finance the purchase of a building for the District. The lease has a 15-year term, bears an interest rate of 2.97 percent, and has a final maturity of February 2027. The capital lease will be repaid by the General Fund.

The assets acquired through this lease totaled $1,930,000 (the present value of the future minimum lease payments as of the inception dates), which is reported in land, buildings, and furniture and equipment on the Statement of Net Position.

Other Long-Term Liabilities – The District offers a number of benefits to its employees, including pensions, severance, and other post-employment benefits. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are paid primarily from the General Fund.

B. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for the capital lease are as follows:

Year Ending	Capital Lease Payable	
June 30,	Principal	Interest
2017	$ 120,440	$ 44,910
2018	124,043	41,307
2019	127,755	37,595
2020	131,578	33,772
2021	135,515	29,835
2022–2026	740,879	85,871
2027	161,737	3,613
	$ 1,541,947	$ 276,903

C. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year	Due Within One Year
Capital lease payable	$ 1,658,888	$ –	$ 116,941	$ 1,541,947	$ 120,440
Net pension liability – PERA	447,991	85,908	145,287	388,612	–
Net pension liability – TRA	2,315,926	1,246,078	206,500	3,355,504	–
Severance payable	11,000	5,000	–	16,000	–
Net OPEB obligation	34,112	61,137	59,164	36,085	–
	$ 4,467,917	$ 1,398,123	$ 527,892	$ 5,338,148	$ 120,440

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report.

A. Classifications

At June 30, 2016, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Community Service Special Revenue Fund	Total
Restricted for community education programs	$ –	$ 30,723	$ 30,723
Assigned for separation/retirement benefits	16,000	–	16,000
Unassigned	344,507	–	344,507
Total	$ 360,507	$ 30,723	$ 391,230

B. Minimum Fund Balance Policy

The District has formally adopted a fund balance policy regarding maintaining a minimum level of fund balance. The District is to maintain an unassigned general operating fund balance of not less than 15.0 percent of the general operating expenditures for each fiscal year. The plan states that administration shall apprise the School Board if the balance will decrease below the 15.0 percent goal at the time of the preliminary budget adoption. If administration projects the balance will decrease below an 8.0 percent threshold, the School Board will initiate measures as outlined in the policy to ensure that the balance does not fall below the 8.0 percent reserve. As of June 30, 2016, the District has a 5.7 percent unassigned fund balance under this calculation, which is below the goal of the policy.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The 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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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 Colleges and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement (DCR) Plan administered by MnSCU.

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

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

- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0 percent. After the TRA funded ratio exceeds 90.0 percent for two consecutive years, the annual post-retirement benefit will increase to 2.5 percent.

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

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for the 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 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

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

Two methods are used to compute benefits for the 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

Step Rate Formula	Percentage per Year
Basic Plan	
First 10 years of service	2.2%
All years after	2.7%
Coordinated	
First 10 years if service years are up to July 1, 2006	1.2%
First 10 years if service years are July 1, 2006 or after	1.4%
All other years of service if service years are up to July 1, 2006	1.7%
All other years of service if service years are July 1, 2006 or after	1.9%

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) Three percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

Tier II Benefits

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

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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. **GERF Contributions**

   Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for the Coordinated Plan.

   The District's contributions to the GERF for the year ended June 30, 2016 were $32,898. The District's contributions were equal to the required contributions for each year as set by state statute.

2. **TRA Contributions**

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

	Year Ended June 30,			
	2015		2016	
	Employee	Employer	Employee	Employer
Basic Plan	11.0%	11.5%	11.0%	11.5%
Coordinated Plan	7.5%	7.5%	7.5%	7.5%

   The District's contributions to the TRA for the plan's fiscal year ended June 30, 2016, were $227,774 The District's contributions were equal to the required contributions for each year as set by state statutes.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The following is a reconciliation of employer contributions in the TRA's Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Non-Employer Pension Allocations:

Employer contributions reported in the 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 the TRA's contributions not included in allocation	(435,999)
Total employer contributions	339,066,956
Total non-employer contributions	41,587,410
Total contributions reported in Schedule of Employer and Non-Employer Pension Allocations	$ 380,654,366

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. The TRA has rounded percentage amounts to the nearest ten thousandths.

D. Merger of Duluth Teachers Retirement Fund Association (DTRFA)

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

	June 30, 2014 CAFR	Restated
Total pension liability (a)	$ 24,901,612,000	$ 25,299,564,000
Plan fiduciary net position (b)	20,293,684,000	20,519,756,000
Net pension liability (a-b)	$ 4,607,928,000	$ 4,779,808,000

.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

E. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of $388,612 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 the 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 the PERA's participating employers. At June 30, 2015, the District's proportion was 0.0317 percent, which was a decrease of 0.0047 percent 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 the 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 percent. The Legislature has since set the discount rate in statute at 8.0 percent. Beginning with the June 30, 2016, measurement date the discount rate used when calculating liabilities based on GASB Statement No. 68 accounting requirements will be increased to 8.0 percent 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 $26,899 for its proportionate share of the GERF's pension expense.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,604	$ 19,593
Changes in actuarial assumptions	25,017	–
Differences between projected and actual investment earnings	–	34,594
Changes in proportion	–	45,115
District's contributions to the GERF subsequent to the measurement date	32,898	–
Total	$ 61,519	$ 99,302

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

A total of $32,898 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount	
2017	$	(22,263)
2018	$	(22,263)
2019	$	(36,166)
2020	$	10,011

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of $3,355,504 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.1177 percent at the end of the measurement period and 0.1214 percent for the beginning of the period.

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

District's proportionate share of net pension liability	$	3,355,504
State's proportionate share of the net pension liability associated with the District	$	411,502

For the year ended June 30, 2016, the District recognized pension expense of $221,625. It also recognized $72,763 as an increase to pension expense for the support provided by direct aid.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 177,240	$ –
Difference between projected and actual investment earnings	–	275,163
Changes in assumptions	256,721	–
Changes in proportion	11,728	–
District's contributions to the TRA subsequent to the measurement date	227,774	–
Total	$ 673,463	$ 275,163

A total of $227,774 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to the TRA will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2017	$ (5,308)
2018	$ (5,308)
2019	$ (5,308)
2020	$ 186,450

F. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.75% per year	3.00%
Active member payroll growth	3.50% per year	3.50–12.00% based on years of service
Investment rate of return	7.90%	8.00%

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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Actuarial assumptions used in the June 30, 2015, valuation for the GERF were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2014. Experience studies have not been prepared for PERA's other plans, but assumptions are reviewed annually.

The actuarial assumptions used in the June 30, 2015, valuation for the TRA 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 Statement No. 67 valuation.

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

The long-term expected rate of return on pension plan investments is 7.90 percent for the GERF and 8.00 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Asset Class	Target Allocation	Expected Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

G. Discount Rate

The discount rate used to measure the total pension liability was 7.90 percent for the GERF and 8.00 percent for the TRA. This is a decrease from the discount rate at the prior measurement date of 8.25 percent for the TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2016 contribution rates, 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, each of the pension plan's fiduciary net positions were 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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

H. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.90%	7.90%	8.90%
District's proportionate share of the GERF net pension liability	$ 610,917	$ 388,612	$ 204,884
TRA discount rate	7.00%	8.00%	9.00%
District's proportionate share of the TRA net pension liability	$ 5,107,918	$ 3,355,504	$ 1,893,554

I. Pension Plan Fiduciary Net Position

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

Detailed information about the TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at the TRA website at www.MinnesotaTRA.org; by writing to the TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota 55103-2088; or by calling (651) 296-2409 or (800) 657-3669.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District contributes funds to eligible retirees for medical and/or dental insurance premiums. Benefits paid by the District differ by bargaining unit. Retirees not eligible for district-paid benefits must pay the full district premium rate for their coverage.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an “implicit rate subsidy.” This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District’s younger and statistically healthier active employees.

B. Funding Policy

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined periodically by the District.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$ 61,766
Interest on net OPEB obligation	1,194
Adjustment to ARC	(1,823)
Annual OPEB cost (expense)	61,137
Contributions made	59,164
Increase in net OPEB obligation	1,973
Net OPEB obligation – beginning of year	34,112
Net OPEB obligation – end of year	$ 36,085

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	$ 43,504	$ 39,374	90.5%	$ 28,109
June 30, 2015	$ 44,548	$ 38,545	86.5%	$ 34,112
June 30, 2016	$ 61,137	$ 59,164	96.8%	$ 36,085

D. Funded Status and Funding Progress

As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) were both $399,798, as the plan is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $3,496,965, and the ratio of the UAAL to the covered payroll was 11.4 percent.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities 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 included: a 3.50 percent investment rate of return (net of investment expenses) based on the District's own investments; a 3.00 percent rate of projected salary increases; an annual healthcare cost trend rate of 7.25 percent initially, reduced by decrements to an ultimate rate of 5.00 percent after nine years for medical insurance. All rates include a 2.50 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2015 for the various amortization layers ranged from 24 to 30 years.

NOTE 8 – INTERFUND BALANCES

Interfund Balances

As of June 30, 2016, the District's General Fund reported $17,049 due from the Community Service Special Revenue Fund to eliminate a short-term cash deficit. Interfund balances reported on the fund-based financial statements are eliminated on the government-wide financial statements.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Legal Claims

The District had the usual and customary types of miscellaneous legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. Although the outcomes of these lawsuits are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

NOTE 10 – RELATED PARTY TRANSACTIONS

A. Revenue and Receivables

The District charges the member school districts expenses generated in the ordinary course of business. Revenue from charges to the members in 2015, along with any remaining receivable at year-end (when applicable), is as follows:

	Fiscal 2016 Revenue	Receivable at June 30, 2016
Chisago Lakes School District	$ 1,306,293	$ –
East Central School District	236,335	–
Hinckley/Finlayson School District	290,748	–
North Branch School District	1,213,484	–
Pine City School District	569,788	–
Rush City School District	185,110	–
	$ 3,801,758	$ –

B. Fiscal Agent

ISD No. 139 acts as fiscal agent for the District. For that service, the District pays ISD No. 139 an amount equal to 3.5 percent of its annual salary and benefit expenditures and 3.0 percent on all other expenditures. For the year ended June 30, 2016, total fiscal agent fees paid to ISD No. 139 were $182,034.

REQUIRED SUPPLEMENTARY INFORMATION

ST. CROIX RIVER EDUCATION DISTRICT

Schedule of District's Proportionate Share of Net Pension Liability
Public Employees Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.0364%	$ 447,991	$ 547,431	81.84%	78.70%
6/30/2016	6/30/2015	0.0317%	$ 388,612	$ 453,887	85.62%	78.20%

Schedule of District Contributions
Public Employees Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2015	6/30/2015	$ 33,180	$ 33,180	$ –	$ 453,887	7.31%
6/30/2016	6/30/2016	$ 32,898	$ 32,898	$ –	$ 438,696	7.50%

Note 1: **Changes of Benefit Terms**. (1) The Minneapolis Employees Retirement Fund was merged into the General Employees Retirement Fund on January 1, 2015. (2) Revisions to Minnesota Statutes to make changes to contribution rates less prescriptive and more flexible.

Note 2: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

ST. CROIX RIVER EDUCATION DISTRICT

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Teachers Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.1214%	$ 2,315,926	$ 162,872	$ 2,478,798	$ 2,335,994	99.14%	81.50%
6/30/2016	6/30/2015	0.1177%	$ 3,355,504	$ 411,502	$ 3,767,006	$ 2,698,795	124.33%	76.80%

Schedule of District Contributions
Teachers Retirement Association Pension Benefits Plan
Year Ended June 30, 2016

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2015	6/30/2015	$ 201,853	$ 201,853	$ –	$ 2,698,795	7.48%
6/30/2016	6/30/2016	$ 227,774	$ 227,774	$ –	$ 3,046,806	7.48%

Note 1: **Changes of Benefit Terms**. The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

Note 2: **Change of Assumptions.** The annual cost of living adjustment for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent with an increase to 2.50 percent commencing in 2034. The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent. Details, if necessary, can be obtained from

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

ST. CROIX RIVER EDUCATION DISTRICT

Schedule of Funding Progress
Other Post-Employment Benefits Plan
Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Accrued Liability	Actuarial Value of Plan Assets	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Payroll
July 1, 2009	$ 232,270	$ –	$ 232,270	– %	$ 2,169,323	10.7 %
July 1, 2012	$ 306,051	$ –	$ 306,051	– %	$ 2,442,131	12.5 %
July 1, 2015	$ 399,798	$ –	$ 399,798	– %	$ 3,496,965	11.4 %

SINGLE AUDIT AND OTHER REQUIRED REPORTS

ST. CROIX RIVER EDUCATION DISTRICT

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures		Passed Through to Subrecipients
U.S. Department of Education				
Passed through Minnesota Department of Education				
Special education cluster				
Special Education – Grants to States	84.027	$ 1,853,440		
Special Education – Preschool Grants	84.173	43,202		
Total special education cluster			$ 1,896,642	
Special Education – Grants for Infants and Families	84.181		29,156	
Career and Technical Education – Basic Grants to States	84.048		68,507	$ 59,575
Passed through Independent School District No. 622				
Adult Education – Basic Grants to States	84.002		2,915	
Total federal awards			$ 1,997,220	

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with both OMB Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations and the OMB's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, when applicable. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The District did not elect to use the 10 percent de minimis indirect cost rate.

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

To the School Board and Management of the
St. Croix River Education District
Rush City, 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 and each major fund of the St. Croix River Education District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 19, 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. 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 a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a significant deficiency.

(continued)

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COMPLIANCE AND OTHER MATTERS

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

DISTRICT'S RESPONSE TO FINDING

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 19, 2016

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

To the School Board and Management of the
St. Croix River Education District
Rush City, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the St. Croix River Education District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

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OPINION ON EACH MAJOR FEDERAL PROGRAM

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

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-002, that we consider to be a significant deficiency.

DISTRICT'S RESPONSE TO FINDING

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 19, 2016

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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of the
St. Croix River Education District
Rush City, 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 and each major fund of the St. Croix River Education District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 19, 2016.

MINNESOTA LEGAL COMPLIANCE

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statute § 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 THIS 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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
October 19, 2016

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ST. CROIX RIVER EDUCATION DISTRICT

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued?

- **X** Unmodified
- ___ Qualified
- ___ Adverse
- ___ Disclaimer

Internal control over financial reporting:

Material weakness(es) identified?	___ Yes	**X** No
Significant deficiency(ies) identified?	**X** Yes	___ None reported
Noncompliance material to the financial statements noted?	___ Yes	**X** No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified?	___ Yes	**X** No
Significant deficiency(ies) identified?	**X** Yes	___ None reported

Type of auditor's report issued on compliance for major programs?

U.S. Department of Education – Special Education Cluster	Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	**X** Yes	___ No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Education – special education cluster consisting of:	
– Special Education – Grants to States	84.027
– Special Education – Preschool Grants	84.173

Threshold for distinguishing type A and B programs.	$ 750,000

Does the auditee qualify as a low-risk auditee?	**X** Yes	___ No

B. FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2016-001 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – St. Croix River Education District (the District) has limited segregation of duties in several areas, including the processing of general disbursements, payroll transactions, cash activities, and journal entries.

Questioned Costs – Not applicable.

Context – The condition applies to multiple areas as noted above.

Repeat Finding – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the District's business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected and corrected in a timely manner in the normal course of business.

Recommendation – We recommend that the District continue its efforts to segregate duties as best it can within the limits of what the District considers to be cost beneficial.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District intends to review policies, procedures, and transaction cycles, and work with the District's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness. The District has separately issued a Corrective Action Plan related to this finding.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – ALL FEDERAL PROGRAMS AWARDED UNDER UNIFORM GUIDANCE

2016-002 Internal Controls Over Compliance With Cash Management, Allowable Costs, Subrecipient Monitoring, and Standards for Financial Management

Criteria – 2 CFR § 200.302(b)(5), (6), and (7) requires the District to have written cash management procedures, which includes procedures for determining the allowability of costs in accordance with 2 CFR 200 Subpart E – Cost Principles, as well as a required written budget to actual comparison of expenditures for each federal award. In instances where the District grants subawards, 2 CFR § 200.331 requires the District, as a pass-through entity, to have written subrecipient monitoring policies and procedures that include a written risk assessment of each subrecipient and documentation of the District's monitoring of the subrecipient.

Condition – During our audit, we noted that the District did not have documented written controls to ensure compliance with the U.S. Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) cash management, allowable costs, subrecipient monitoring, and financial management standards.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance.

Context – The lack of written controls pertains to all federal grants, except those grants that remained under OMB A-133 guidance, if any. This was not a statistically valid sample.

Repeat Finding – This is a current year finding only.

Cause – This is the first year of implementation of the new Uniform Guidance requirements for federal awards, and some internal control policies, including cash management, allowable costs, subrecipient monitoring, and financial management were not updated to reflect the necessary changes.

Effect – This could be viewed as a violation of the award agreement.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – ALL FEDERAL PROGRAMS AWARDED UNDER UNIFORM GUIDANCE (CONTINUED)

2016-002 Internal Controls Over Compliance With Cash Management, Allowable Costs, Subrecipient Monitoring, and Standards for Financial Management (continued)

Recommendation – We recommend that the District review its internal control procedures relating to cash management, allowable costs, subrecipient monitoring, and financial management for all federal programs. The District should review the new Uniform Guidance to obtain a better understanding of the new requirements and identify any needed policy and procedure changes, in addition to those already referenced above. We also recommend the District adopt written policies pertaining to cash management, allowable costs, subrecipient monitoring, and financial management for all federal programs. The District should also document and perform regular budget to actual comparison of expenditures for each federal award. Finally, we recommend the District identify subrecipients and perform written risk assessments as well as documenting ongoing monitoring of each subrecipient.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District is in the process of reviewing and updating its written policies and procedures relating to cash management, allowable costs, subrecipient monitoring, and financial management standards for its federal programs to ensure compliance with Uniform Guidance in the future. The District has separately issued a Corrective Action Plan related to this finding.

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

None.

ST. CROIX RIVER EDUCATION DISTRICT

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2016

		Audit		UFARS		Audit – UFARS	
General Fund							
Total revenue		$	6,129,229	$	6,129,230	$	(1)
Total expenditures		$	6,005,183	$	6,005,183	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
403	Staff development	$	–	$	–	$	–
405	Deferred maintenance	$	–	$	–	$	–
406	Health and safety	$	–	$	–	$	–
407	Capital projects levy	$	–	$	–	$	–
408	Cooperative revenue	$	–	$	–	$	–
409	Alternative facility program	$	–	$	–	$	–
413	Projects funded by COP	$	–	$	–	$	–
414	Operating debt	$	–	$	–	$	–
416	Levy reduction	$	–	$	–	$	–
417	Taconite building maintenance	$	–	$	–	$	–
423	Certain teacher programs	$	–	$	–	$	–
424	Operating capital	$	–	$	–	$	–
426	$25 taconite	$	–	$	–	$	–
427	Disabled accessibility	$	–	$	–	$	–
428	Learning and development	$	–	$	–	$	–
434	Area learning center	$	–	$	–	$	–
435	Contracted alternative programs	$	–	$	–	$	–
436	State approved alternative program	$	–	$	–	$	–
438	Gifted and talented	$	–	$	–	$	–
440	Teacher Development and Evaluation	$	–	$	–	$	–
441	Basic skills programs	$	–	$	–	$	–
445	Career and technical programs	$	–	$	–	$	–
448	Achievement and integration	$	–	$	–	$	–
449	Safe schools levy	$	–	$	–	$	–
450	Pre-Kindergarten	$	–	$	–	$	–
451	QZAB payments	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
453	Unfunded severance and retirement levy	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
467	Long-term facilities maintenance	$	–	$	–	$	–
Committed							
418	Committed for separation	$	–	$	–	$	–
461	Committed fund balance	$	–	$	–	$	–
Assigned							
462	Assigned fund balance	$	16,000	$	16,000	$	–
Unassigned							
422	Unassigned fund balance	$	344,507	$	344,507	$	–
Food Service							
Total revenue		$	–	$	–	$	–
Total expenditures		$	–	$	–	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–
Community Service							
Total revenue		$	314,539	$	314,539	$	–
Total expenditures		$	337,116	$	337,116	$	–
Nonspendable							
460	Nonspendable fund balance	$	–	$	–	$	–
Restricted							
426	$25 taconite	$	–	$	–	$	–
431	Community education	$	30,723	$	30,723	$	–
432	ECFE	$	–	$	–	$	–
440	Teacher development and evaluation	$	–	$	–	$	–
444	School readiness	$	–	$	–	$	–
447	Adult basic education	$	–	$	–	$	–
452	OPEB liability not in trust	$	–	$	–	$	–
464	Restricted fund balance	$	–	$	–	$	–
Unassigned							
463	Unassigned fund balance	$	–	$	–	$	–

ST. CROIX RIVER EDUCATION DISTRICT

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2016

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
407	Capital projects levy	$ –	$ –	$ –
409	Alternative facility program	$ –	$ –	$ –
413	Project funded by COP	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Internal Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Revocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Debt Service Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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