

**INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA**

**ANNUAL FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
TOGETHER WITH INDEPENDENT AUDITOR'S REPORT**

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

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INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

ORGANIZATION

SCHOOL OFFICIALS  
FOR THE YEAR ENDED JUNE 30, 2015

| <u>Elective</u>   | <u>Office</u>  | <u>Term Expires</u> |
|-------------------|----------------|---------------------|
| Julianne Emerson  | Chair          | 12/31/18            |
| Penny Bennett     | Vice-Chair     | 12/31/16            |
| Tim Hagenah       | Treasurer      | 12/31/16            |
| Stephanie Gibson  | Clerk          | 12/31/18            |
| Michael Gay       | Trustee        | 12/31/16            |
| Susan Karp        | Trustee        | 12/31/18            |
| <u>Appointive</u> |                |                     |
| Peter Haapala     | Superintendent |                     |

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## **Independent Auditor's Report**

To the School Board  
Independent School District No. 93  
Carlton, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 93, Carlton, Minnesota (District), as of and for the year ended June 30, 2015, 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; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States.

### ***Emphasis of Matter***

As discussed in Note 1 to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* during fiscal year 2015. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States require that the management's discussion and analysis, pages 4 – 8, information about the District's other postemployment health care plan, page 46, and information about the District's net pension liability, pages 47 - 48, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining fund financial statements and fiscal compliance table are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining fund financial statements, fiscal compliance table, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining fund financial statements, fiscal compliance table and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

*Wipfli LLP*

Wipfli LLP

November 9, 2015  
Duluth, Minnesota

## **REQUIRED SUPPLEMENTARY INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015

As management of Independent School District No. 93 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2015.

## **FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2014-2015 fiscal year include the following:

- Total net position (deficit) was \$(1,038,125) at June 30, 2015, an increase of 30.02% over the prior year.
- Overall actual revenues in the Statement of Activities were \$6,207,465 and expenses were \$5,762,150.
- General Fund total fund balance increased \$230,009 during fiscal year ended June 30, 2015.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements and supplemental information. The basic financial statements include two kinds of statements that present different views of the District.

### **District-wide Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and deferred outflows of resources, and 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 district-wide statements report the District's net position and how it has changed.

The statement of net position presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

### Fund Financial Statements

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

**Governmental funds** - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year-end that are available for spending. Consequently, the government funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the district-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. A reconciliation is provided to facilitate a comparison between government funds financial statements and district-wide financial statements.

**Fiduciary funds** - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activity funds and the postemployment benefits irrevocable trust. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operation.

### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position may serve over time as a useful indicator of a district's financial position. In the case of the District, liabilities exceeded assets by \$1,038,125 as of June 30, 2015.

Statement of Net Position  
June 30,

|                                  | 2015                  | 2014<br>Restated      |
|----------------------------------|-----------------------|-----------------------|
| Capital assets                   | \$ 1,753,112          | \$ 1,859,702          |
| Current and other assets         | 4,495,005             | 4,271,463             |
| Total assets                     | <u>6,248,117</u>      | <u>6,131,165</u>      |
| Deferred outflows of resources   | <u>548,300</u>        | <u>221,166</u>        |
| Long-term liabilities            | 4,177,299             | 5,388,000             |
| Current liabilities              | 1,562,039             | 1,345,629             |
| Total liabilities                | <u>5,739,338</u>      | <u>6,733,629</u>      |
| Deferred inflows of resources    | <u>2,095,204</u>      | <u>1,102,142</u>      |
| Net position                     |                       |                       |
| Net investment in capital assets | 1,413,112             | 1,464,702             |
| Restricted                       | 203,258               | 229,271               |
| Unrestricted (deficit)           | <u>(2,654,495)</u>    | <u>(3,177,413)</u>    |
| Total net position (deficit)     | <u>\$ (1,038,125)</u> | <u>\$ (1,483,440)</u> |



INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

|  | Change in Net Position<br>For the years ended June 30, |                       |
|--|--|-----------------------|
|  | 2015   | 2014                  |
| <b>Revenues</b>  |  |                       |
| Program revenues   |  |                       |
| Charges for services   | \$ 402,440   | \$ 425,277            |
| Operating grants and contributions                                 | 875,947  | 992,816               |
| General revenues   |  |                       |
| Property taxes   | 1,130,869  | 815,188               |
| State aids   | 3,772,275  | 3,732,413             |
| Other  | 25,934   | 43,229                |
| Total revenues   | <u>6,207,465</u>                                       | <u>6,008,923</u>      |
| <b>Expenses</b>  |  |                       |
| District and school administration                                 | 552,616  | 556,865               |
| District support services  | 302,445  | 431,140               |
| Regular instruction  | 2,269,018  | 2,203,523             |
| Vocational instruction   | 38,974   | 39,736                |
| Exceptional instruction  | 902,897  | 982,490               |
| Instructional support services                                     | 198,513  | 163,976               |
| Pupil support services   | 356,902  | 431,400               |
| Sites, building and equipment                                      | 577,331  | 562,438               |
| Fiscal and other fixed cost programs                               | 29,115   | 46,667                |
| Food service   | 231,718  | 223,184               |
| Community service  | 151,989  | 160,286               |
| Interest and fiscal charges on long-term debt                      | 63,910   | 71,782                |
| Unallocated depreciation   | 86,722   | 89,425                |
| Total expenses   | <u>5,762,150</u>                                       | <u>5,962,912</u>      |
| Change in net position   | 445,315  | 46,011                |
| Net position, beginning of year, (deficit)                         | (1,483,440)  | 1,929,219             |
| Adjustment for valuation of net pension liability at June 30, 2014 |  | (3,458,670)           |
| Net position (deficit), beginning of year, restated                |  | <u>(1,529,451)</u>    |
| Net position (deficit), end of year                                | <u>\$ (1,038,125)</u>                                  | <u>\$ (1,483,440)</u> |

The revenue and expense activity for the fiscal year 2014 has not been restated because the actuarial valuation used June 30, 2014 as the measurement date. Information related to the pension liability prior to that date is not available.

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

The District has previously reported all financial information on a fund accounting basis. While the government-wide presentations are designed to present users with a more complete picture of the District's financial position and results of operation, the traditional fund accounting basis provides users with cash flow and available resources information.

The General Fund balance increased \$230,009 as a result of revenues exceeding expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The board of each school district must approve and adopt its revenue and expenditure budgets for the next school year prior to July 1 of each year. The budget document adopted is an expenditure-authorizing or appropriations document. No funds shall be expended by any board or district for any purpose in any school year prior to the adoption of the budget document which authorizes the expenditure or prior to an amendment to the budget document by the board to authorize the expenditure.

Carlton Independent School District No. 93's School Board approved an original budget that contained General Fund revenue (general, transportation, and capital funds) of \$5,249,511, which was revised to \$5,319,371 mostly due to updated student estimates.

Carlton Independent School District No. 93's School Board approved an original budget that contained General Fund expenditures and other financing uses (general, transportation, and capital funds) of \$5,254,823 which was revised to \$5,352,381, mostly due to additional purchased services for technology upgrades and the implementation of one to one digital devices grades 3-12.

While the District's final FY2015 General Fund budget anticipated that expenditures and other financing uses would exceed revenues by \$33,010, the actual results for the year had revenues exceeding expenditures and other financing uses by \$230,009.

Actual FY2015 revenues were \$220,210 more than anticipated. The main difference was due to estimated pupil units being higher than budgeted.

Actual FY2015 expenditures and other financing uses were \$42,809 less than anticipated. The main difference was due to personnel costs being less than budgeted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Asset**

By the end of fiscal year 2015, the District had invested \$5,919,468 in a broad range of capital assets, including land, school buildings, athletic facilities, buses and computer equipment. Total depreciation expense for the year was \$168,843. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

**Debt Administration**

At June 30, 2015, the District had \$1,320,000 in general obligation bonds payable. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt.

The District also had \$64,087 in capital lease obligations, \$3,044,158 in net pension liability and \$95,369 in severance benefits payable at June 30, 2015.

More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

Careful attention to expenditures during Fiscal Year 2015 has allowed the District to maintain and build its positive fund balance.

The School Board will need to provide continued support to administration and finance personnel for strict accountability of future expenditures in all areas along with necessary adjustments to staffing levels as student enrollments fluctuate. The School Board will also need to provide support for continued close scrutiny and improvement of all programs, processes and procedures.

The District's declining enrollment trend appears to have stabilized but efforts will be needed to maintain and increase enrollment. The District will need to provide educational programming that will attract students in order to maintain its fund balance.

Future needs for capital expenditures in the areas of curriculum, technology, transportation, and facilities will have a major bearing on the District's future.

Carlton has joined with other local school districts in forming the Northeast Area School Consortium to provide improved educational networking and communication, shared and expanded resources, enhanced professional development, and robust curriculum.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is 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 Business Office, Independent School District No. 93, PO Box 310, 405 School Avenue, Carlton, MN 55817-0310 or call Renee Eiffler, Business Manager, (218) 384-4225.

## **BASIC FINANCIAL STATEMENTS**

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

STATEMENT OF NET POSITION  
JUNE 30, 2015

|  | Governmental<br>Activities |
|--|----------------------------|
| <b>Assets and Deferred Outflows of Resources</b>                             |                            |
| Current assets   |                            |
| Cash and temporary cash investments  | \$ 2,047,294               |
| Current property taxes receivable  | 516,406                    |
| Delinquent property taxes receivable   | 51,915                     |
| Accounts receivable  | 19,087                     |
| Due from other Minnesota school districts                                    | 101,230                    |
| Due from Minnesota Department of Education                                   | 511,552                    |
| Due from federal government through<br>the Minnesota Department of Education | 171,053                    |
| Due from federal government  | 14,671                     |
| Due from other governmental units  | 11,903                     |
| Inventory  | 9,743                      |
| Prepaid expenses   | 14,093                     |
| Total current assets   | <u>3,468,947</u>           |
| Noncurrent assets  |                            |
| Prefunded OPEB obligation  | <u>1,026,058</u>           |
| Capital assets, net of depreciation  |                            |
| Assets not being depreciated   | 1,975                      |
| Assets being depreciated, net  | 1,751,137                  |
| Total capital assets, net of depreciation                                    | <u>1,753,112</u>           |
| Total noncurrent assets  | <u>2,779,170</u>           |
| Deferred outflows of resources   |                            |
| Items related to pension plans   | <u>548,300</u>             |
| Total assets and deferred outflow of resources                               | <u>\$ 6,796,417</u>        |
| <b>Liabilities, Deferred Inflows of Resources, and Net Position</b>          |                            |
| Current liabilities  |                            |
| Short-term debt  | \$ 555,434                 |
| Salaries payable   | 379,159                    |
| Accounts payable   | 43,344                     |
| Accrued payroll taxes  | 133,758                    |
| Interest payable   | 32,087                     |
| Severance payable  | 14,586                     |
| Due to other Minnesota school districts                                      | 54,431                     |
| Due to other governmental units  | 29                         |
| Unearned revenue   | 5,196                      |
| Current portion of long-term liabilities                                     | 344,015                    |
| Total current liabilities  | <u>1,562,039</u>           |
| Long-term liabilities  | <u>4,177,299</u>           |
| Total liabilities  | <u>5,739,338</u>           |
| Deferred inflows of resources  |                            |
| Property taxes levied for subsequent year's expenditures                     | 1,176,970                  |
| Items related to pension plans   | 918,234                    |
| Total deferred inflows of resources  | <u>2,095,204</u>           |
| Net position   |                            |
| Net investment in capital assets   | 1,413,112                  |
| Restricted   | 203,258                    |
| Unrestricted   | (2,654,495)                |
| Total net position   | <u>(1,038,125)</u>         |
| Total liabilities, deferred inflows of resources, and net position           | <u>\$ 6,796,417</u>        |

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

| Functions/Programs                                      | Expenses            | Program Revenues        |  |  | Net (Expenses)<br>Revenue and<br>Changes in<br>Net Position |
|---|---------------------|-------------------------|--|--|---|
|   |                     | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                                  |
| Governmental activities                                 |                     |                         |  |  |   |
| District and school administration                      | \$ 552,616          | \$                      | \$                                       | \$                                     | \$ (552,616)  |
| District support services                               | 302,445             |                         |  |  | (302,445)   |
| Regular instruction                                     | 2,269,018           | 186,353                 | 528,408                                  |  | (1,554,257)   |
| Vocational instruction                                  | 38,974              |                         |  |  | (38,974)  |
| Exceptional instruction                                 | 902,897             | 28,847                  | 180,115                                  |  | (693,935)   |
| Instructional support services                          | 198,513             |                         |  |  | (198,513)   |
| Pupil support services                                  | 356,902             | 4,750                   | 41,235                                   |  | (310,917)   |
| Sites, buildings and equipment                          | 577,331             |                         |  |  | (577,331)   |
| Fiscal and other fixed program costs                    | 29,115              |                         |  |  | (29,115)  |
| Food service  | 231,718             | 97,359                  | 116,601                                  |  | (17,758)  |
| Community service                                       | 151,989             | 85,131                  | 9,588                                    |  | (57,270)  |
| Interest and fiscal charges on long-term debt           | 63,910              |                         |  |  | (63,910)  |
| Unallocated depreciation                                | 86,722              |                         |  |  | (86,722)  |
| Total governmental activities                           | <u>\$ 5,762,150</u> | <u>\$ 402,440</u>       | <u>\$ 875,947</u>                        | <u>\$</u>                              | <u>(4,483,763)</u>  |
| General revenues  |                     |                         |  |  |   |
| Taxes   |                     |                         |  |  |   |
| Property taxes, levied for general purposes             |                     |                         |  |  | 811,093   |
| Property taxes, levied for community service            |                     |                         |  |  | 49,874  |
| Property taxes, levied for debt service                 |                     |                         |  |  | 60,595  |
| Property taxes, levied for post-employment debt service |                     |                         |  |  | 209,307   |
| State aid-formula grants                                |                     |                         |  |  | 3,772,275   |
| Other general revenues                                  |                     |                         |  |  | 25,474  |
| Investment earnings                                     |                     |                         |  |  | 460   |
| Total general revenues                                  |                     |                         |  |  | <u>4,929,078</u>  |
| Change in net position                                  |                     |                         |  |  | 445,315   |
| Net position, beginning of the year, restated           |                     |                         |  |  | <u>(1,483,440)</u>  |
| Net position, end of the year                           |                     |                         |  |  | <u>\$ (1,038,125)</u>                                       |

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2015

|  | General<br>Fund     | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-----------------------------------|--------------------------------|
| <b>Assets</b>  |                     |                                   |                                |
| Cash and temporary cash investments  | \$ 1,772,447        | \$ 274,847                        | \$ 2,047,294                   |
| Current property taxes receivable  | 377,894             | 138,512                           | 516,406                        |
| Delinquent property taxes receivable   | 37,427              | 14,488                            | 51,915                         |
| Accounts receivable  | 13,799              | 5,288                             | 19,087                         |
| Due from other Minnesota school districts  | 101,230             |                                   | 101,230                        |
| Due from the Minnesota Department of Education                                   | 504,809             | 6,743                             | 511,552                        |
| Due from the federal government through<br>the Minnesota Department of Education | 155,876             | 15,177                            | 171,053                        |
| Due from federal government  | 14,671              |                                   | 14,671                         |
| Due from other governmental units  | 11,903              |                                   | 11,903                         |
| Inventory  | 6,990               | 2,753                             | 9,743                          |
| Prepaid expenses   | 14,093              |                                   | 14,093                         |
| <b>Total assets</b>  | <b>3,011,139</b>    | <b>457,808</b>                    | <b>3,468,947</b>               |
| <b>Deferred outflows of resources</b>  |                     |                                   |                                |
| Total assets and deferred outflows of resources                                  | <b>\$ 3,011,139</b> | <b>\$ 457,808</b>                 | <b>\$ 3,468,947</b>            |
| <b>Liabilities</b>   |                     |                                   |                                |
| Short-term debt  | \$ 555,434          | \$                                | \$ 555,434                     |
| Salaries payable   | 363,563             | 15,596                            | 379,159                        |
| Accounts payable   | 42,392              | 952                               | 43,344                         |
| Accrued payroll taxes  | 129,891             | 3,867                             | 133,758                        |
| Interest payable   | 8,887               |                                   | 8,887                          |
| Severance payable  | 14,586              |                                   | 14,586                         |
| Due to other Minnesota school districts  | 54,431              |                                   | 54,431                         |
| Due to other governmental units  | 29                  |                                   | 29                             |
| Unearned revenue   |                     | 5,196                             | 5,196                          |
| <b>Total liabilities</b>   | <b>1,169,213</b>    | <b>25,611</b>                     | <b>1,194,824</b>               |
| <b>Deferred inflows of resources</b>   |                     |                                   |                                |
| Delinquent property taxes  | 37,427              | 14,488                            | 51,915                         |
| Property taxes levied for subsequent year's<br>expenditures                      | 832,122             | 344,848                           | 1,176,970                      |
| <b>Total deferred inflows of resources</b>                                       | <b>869,549</b>      | <b>359,336</b>                    | <b>1,228,885</b>               |
| <b>Fund balances</b>   |                     |                                   |                                |
| Nonspendable   | 21,083              | 2,753                             | 23,836                         |
| Restricted   | 141,636             | 70,108                            | 211,744                        |
| Assigned   | 183,972             |                                   | 183,972                        |
| Unassigned   | 625,686             |                                   | 625,686                        |
| <b>Total fund balances</b>   | <b>972,377</b>      | <b>72,861</b>                     | <b>1,045,238</b>               |
| <b>Total liabilities, deferred inflows of resources,<br/>and fund balances</b>   | <b>\$ 3,011,139</b> | <b>\$ 457,808</b>                 | <b>\$ 3,468,947</b>            |

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2015

|   |                              |
|---|------------------------------|
| Total fund balances - governmental funds  | \$ 1,045,238                 |
| Amounts reported for governmental activities in the statement of activities<br>are different because:   |                              |
| Capital assets used in governmental activities are not financial resources<br>and therefore are not reported as assets in governmental funds.   |                              |
| Cost of capital assets  | 5,919,468                    |
| Less accumulated depreciation   | (4,166,356)                  |
| Long-term liabilities, including bonds payable, capital leases payable, OPEB obligation,<br>and compensated absences payable are not due and payable in the current period<br>and therefore are not reported as liabilities in the funds. |                              |
| General obligation bonds  | (1,317,700)                  |
| Capital leases  | (64,087)                     |
| OPEB obligation (asset)   | 1,026,058                    |
| Compensated absences  | (95,369)                     |
| The net pension liability and the deferred outflows of resources and deferred inflow<br>of resources related to pensions are only reported in the statement of net position.  |                              |
| Net pension liability   | (3,044,158)                  |
| Deferred inflows of resources related to pensions   | (918,234)                    |
| Deferred outflows of resources related to pensions  | 548,300                      |
| Delinquent property taxes receivable will be collected this year, but are not<br>available soon enough to pay for the current period's expenditures, and<br>therefore are deferred in the funds.  | 51,915                       |
| Governmental funds do not report a liability for accrued interest until due and payable.  | <u>(23,200)</u>              |
| Total net position - governmental activities  | <u><u>\$ (1,038,125)</u></u> |

See accompanying notes to financial statements.



INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

|   | General<br>Fund   | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|-------------------|-----------------------------------|--------------------------------|
| Revenues  |                   |                                   |                                |
| Local property tax levies                         | \$ 812,698        | \$ 319,392                        | \$ 1,132,090                   |
| Other local and county revenues                   | 243,651           | 95,544                            | 339,195                        |
| Revenue from state sources                        | 4,142,600         | 54,810                            | 4,197,410                      |
| Revenue from federal sources                      | 339,244           | 101,979                           | 441,223                        |
| Interest income                                   | 439               | 21                                | 460                            |
| Sales and other conversion of assets              |                   | 97,359                            | 97,359                         |
| Insurance recovery and other                      | 949               |                                   | 949                            |
| Total revenues                                    | <u>5,539,581</u>  | <u>669,105</u>                    | <u>6,208,686</u>               |
| Expenditures                                      |                   |                                   |                                |
| Current   |                   |                                   |                                |
| District and school administration                | 551,649           |                                   | 551,649                        |
| District support services                         | 221,071           |                                   | 221,071                        |
| Regular instruction                               | 2,253,899         |                                   | 2,253,899                      |
| Vocational instruction                            | 38,974            |                                   | 38,974                         |
| Exceptional instruction                           | 902,505           |                                   | 902,505                        |
| Community education and services                  |                   | 151,890                           | 151,890                        |
| Instructional support services                    | 196,824           |                                   | 196,824                        |
| Pupil support services                            | 368,755           | 231,718                           | 600,473                        |
| Site, buildings, and equipment                    | 530,865           |                                   | 530,865                        |
| Fiscal and other fixed cost programs              | 29,115            |                                   | 29,115                         |
| Debt service                                      |                   |                                   |                                |
| Principal   | 62,770            | 225,000                           | 287,770                        |
| Interest and other fiscal costs                   | 3,816             | 62,980                            | 66,796                         |
| Capital outlay                                    | 33,294            | 99                                | 33,393                         |
| Total expenditures                                | <u>5,193,537</u>  | <u>671,687</u>                    | <u>5,865,224</u>               |
| Excess (deficiency) of revenues over expenditures | 346,044           | (2,582)                           | 343,462                        |
| Other financing sources (uses)                    |                   |                                   |                                |
| Transfers in                                      |                   | 116,035                           | 116,035                        |
| Transfers out                                     | (116,035)         |                                   | (116,035)                      |
| Total other financing sources (uses)              | <u>(116,035)</u>  | <u>116,035</u>                    | <u></u>                        |
| Net change in fund balance                        | 230,009           | 113,453                           | 343,462                        |
| Fund balance (deficit), beginning                 | <u>742,368</u>    | <u>(40,592)</u>                   | <u>701,776</u>                 |
| Fund balance, ending                              | <u>\$ 972,377</u> | <u>\$ 72,861</u>                  | <u>\$ 1,045,238</u>            |

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND  
BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2015

|   |                   |
|---|-------------------|
| Total net changes in fund balances - governmental funds   | \$ 343,462        |
| Amounts reported for governmental activities in the statement of activities are different because:  |                   |
| Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciated expense.  |                   |
| Capital outlays   | 62,253            |
| Depreciation expense  | (168,843)         |
| Repayment of bond principal and other long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.   |                   |
|   | 287,358           |
| Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due. However, interest expense is recognized as the interest accrues, regardless of when it is due. |                   |
|   | 3,298             |
| Vested employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.  |                   |
| Change in net OPEB obligation (asset)   | (69,220)          |
| Change in compensated absences  | (56,350)          |
| Change in deferred outflows of resources related to pensions  | 327,134           |
| Change in deferred inflows of resources related to pensions   | (918,234)         |
| Change in pension liability   | 635,678           |
| Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.   |                   |
|   | <u>(1,221)</u>    |
| Change in net position - governmental activities  | <u>\$ 445,315</u> |

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2015

|   | Budget            |                    |                   | Variance<br>Over<br>(Under) |
|---|-------------------|--------------------|-------------------|-----------------------------|
|   | Original          | Final              | Actual            |                             |
| <b>Revenues</b>                         |                   |                    |                   |                             |
| Local property tax levies               | \$ 842,382        | \$ 854,963         | \$ 812,698        | \$ (42,265)                 |
| Other local and county revenues         | 228,478           | 184,239            | 243,651           | 59,412                      |
| Revenue from state sources              | 3,811,241         | 3,932,036          | 4,142,600         | 210,564                     |
| Revenue from federal sources            | 365,510           | 346,033            | 339,244           | (6,789)                     |
| Interest income                         | 500               | 500                | 439               | (61)                        |
| Insurance recovery and other            | 1,400             | 1,600              | 949               | (651)                       |
| Total revenues                          | <u>5,249,511</u>  | <u>5,319,371</u>   | <u>5,539,581</u>  | <u>220,210</u>              |
| <b>Expenditures</b>                     |                   |                    |                   |                             |
| Current                                 |                   |                    |                   |                             |
| District and school administration      | 541,471           | 551,533            | 551,649           | 116                         |
| District support services               | 167,039           | 164,509            | 221,071           | 56,562                      |
| Regular instruction                     | 2,242,487         | 2,326,811          | 2,253,899         | (72,912)                    |
| Vocational instruction                  | 39,560            | 39,163             | 38,974            | (189)                       |
| Exceptional instruction                 | 930,597           | 932,558            | 902,505           | (30,053)                    |
| Instructional support services          | 162,802           | 219,714            | 196,824           | (22,890)                    |
| Pupil support services                  | 378,041           | 387,600            | 368,755           | (18,845)                    |
| Site, buildings, and equipment          | 519,020           | 506,529            | 530,865           | 24,336                      |
| Fiscal and other fixed cost<br>programs | 36,000            | 40,000             | 29,115            | (10,885)                    |
| Debt service                            |                   |                    |                   |                             |
| Principal                               | 62,770            | 62,770             | 62,770            |                             |
| Interest and other fiscal costs         | 16,164            | 7,664              | 3,816             | (3,848)                     |
| Capital outlay                          | 92,733            | 72,800             | 33,294            | (39,506)                    |
| Total expenditures                      | <u>5,188,684</u>  | <u>5,311,651</u>   | <u>5,193,537</u>  | <u>(118,114)</u>            |
| Excess of revenues over expenditures    | 60,827            | 7,720              | 346,044           | 338,324                     |
| Other financing uses                    |                   |                    |                   |                             |
| Transfers out                           | (66,139)          | (40,730)           | (116,035)         | 75,305                      |
| Net change in fund balance              | <u>\$ (5,312)</u> | <u>\$ (33,010)</u> | 230,009           | <u>\$ 263,019</u>           |
| Fund balance, beginning                 |                   |                    | <u>742,368</u>    |                             |
| Fund balance, ending                    |                   |                    | <u>\$ 972,377</u> |                             |

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2015

|  | Postemployment<br>Benefits<br>Irrevocable<br>Trust<br>Fund | Agency<br>Funds             |
|--|--|-----------------------------|
|  | <u>                    </u>                                | <u>                    </u> |
| <b>Assets</b>                          |  |                             |
| Cash and temporary cash investments    | \$   | \$ 42,793                   |
| Investments                            | 1,050,986  |                             |
| Interest receivable                    | 14,678   |                             |
| Prepaid expenses                       | <u>4,631</u>   |                             |
| Total assets                           | <u><u>\$ 1,070,295</u></u>                                 | <u><u>\$ 42,793</u></u>     |
| <br><b>Liabilities</b>                 |  |                             |
| Due to student groups                  | <u>\$</u>  | <u>\$ 42,793</u>            |
| <br><b>Net Position</b>                |  |                             |
| Restricted for postemployment benefits | <u>1,070,295</u>   |                             |
| Total liabilities and net position     | <u><u>\$ 1,070,295</u></u>                                 | <u><u>\$ 42,793</u></u>     |

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

|                                     | Postemployment<br>Benefits<br>Irrevocable<br>Trust<br>Fund |
|-------------------------------------|--|
| Additions                           |  |
| Retiree contributions               | \$ 38,482  |
| Investment earnings                 | 9,655  |
| Total additions                     | <u>48,137</u>  |
| Deductions                          |  |
| Benefit payments                    | <u>164,870</u>   |
| Change in net position              | (116,733)  |
| Net position, beginning of the year | <u>1,187,028</u>   |
| Net position, end of the year       | <u><u>\$ 1,070,295</u></u>                                 |

See accompanying notes to financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Independent School District No. 93 (District) was formed and operates pursuant to applicable Minnesota laws and statutes. The Governing Body consists of a six-member Board elected by voters of the District. Members are elected for three-year terms. The accounting policies of the District conform to accounting principles generally accepted in the United States as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting board for establishing governmental accounting and financial reporting principles.

**Reporting Entity**

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable or for which the exclusion would render the financial statements misleading. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Based on this criteria established by the Governmental Accounting Standards Board, there are no organizations considered to be component units of the District.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities.

**Basic Financial Statement Presentation**

The government-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in separate financial statements at the fund financial statement level.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as a separate column in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

The fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (employees and student groups) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

**Measurement Focus and Basis of Accounting**

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

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

1. **Revenue Recognition** - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year in which it applies according to Minnesota Statutes. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.
2. **Recording of Expenditures** - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

A general summary of the nature and purpose of each of the funds maintained by the District follows:

**Major Governmental Funds**

**General Fund** - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for: administration, kindergarten through 12<sup>th</sup> grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Nonmajor Governmental Funds**

**Special Revenue Funds** - These funds are used to account for proceeds of specific revenue sources that are restricted by law or administrative action to expense for specified purposes. The District has two special revenue funds:

Food Service Fund - is used to account for food service revenues and expenditures. Revenues consist of state and federal aids and sales to students and employees.

Community Service Fund - is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids and grants and fees from program participants.

**Debt Service Funds** - These funds are used to account for the accumulation of resources for, and the payment of, general long-term obligation principal and interest. The District has two debt service funds:

Debt Service Fund - The Debt Service Fund accounts for the accumulation of resources for the retirement of principal and interest on all general obligation bond indebtedness. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Postemployment Benefits Debt Service Fund - is used to record levy proceeds and the repayment of the OPEB bonds.

**Fiduciary Funds**

**Postemployment Benefits Irrevocable Trust Fund** - This fund is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits. District contributions to this fund must be expensed to an operating fund.

**Agency Fund** - This fund is used to account for assets that the District holds on behalf of others as their agent, which includes the Student Activity Fund. The Student Activity Fund is not under Board control.

**Budgeting**

Formal budgetary accounting is employed as a management control for all funds of the District. For each fund for which a formal budget is adopted, the budget is prepared on the same basis of accounting as the financial statements. The budget is adopted through passage of a resolution. The School Board must approve revisions. Legal budgetary control is at the fund account level.



INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Cash and Investments**

Cash and investments of the individual funds are combined to form a pool and are 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 average cash balance participation by each fund.

Investments are stated at fair value.

**Receivables**

All receivables are shown net of any allowance for uncollectible amounts. No allowances for uncollectibles have been recorded. The only receivables not expected to be collected within one year are current property taxes receivable.

**Inventory**

The District maintains no central stores and, therefore, expenses supply items as purchased. However, inventories for food items have been recorded in the proper funds. The District values its inventories at cost, on a first-in, first-out basis.

**Prepaid Expenses**

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

**Property Taxes**

Property taxes are set by the school board and certified to the county auditor who acts as collecting agent, in December, of the year prior to collection. Taxes become a lien on property on the following January 1. Minnesota school districts operate under a levy limitation law that generally limits annual increases in taxes per capita. This law does not cover levies for bonded indebtedness.

Taxpayers, in two equal installments on May 15 and October 15, may pay real property taxes. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to school districts and other taxing districts in January, March, June, and November or December. Portions of the tax levy paid by the state in the form of credits are included in revenue from state sources.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year). General fund revenue is determined annually by statutory funding formulas. These formulas allocate revenue between property taxes and state aids based on education funding priorities set by the Minnesota State Legislature. Changes in this allocation result in an annual change in property tax revenue recognition referred to as the "tax shift". In prior years, the amount of shift has varied between 0 and 50 percent.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The following is a summary of tax shift transactions by fund:

|              | (0.0%)<br>Total Shift<br>June 30, 2014 | State Aid<br>Adjustment | Revenue<br>Adjustment | (0.0%)<br>Total Shift<br>June 30, 2015 |
|--------------|--|-------------------------|-----------------------|--|
| General Fund | \$ 60,899                              |                         | \$ (32,234)           | \$ 28,665                              |

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

**Capital Assets**

Capital assets are capitalized at historical cost based at cost if purchased; donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives, ranging from five to fifty years.

Capital assets not being depreciated include land.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

**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, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has reported deferred outflows related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the District's contributions to pension plans subsequent to the measurement date of the collective net pension liability.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has also reported property taxes levied for subsequent years expenditures as a deferred inflow of resources in both the governmental funds balance sheet and the statement of net position. The District has also reported deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions.

**Long-term Obligations**

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

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

**Compensated Absences**

Vacation granted and sick pay earned is based on length of service and various bargaining unit contracts. In the fund financial statements, vacation pay is recorded when paid. In the District-wide financial statements, a liability is recorded for vacation pay when it is earned. Unused sick leave enters into the calculation of early retirement incentive payments for some employees upon termination.

**Severance Benefits**

Upon retirement, most District employees are entitled to a severance amount based on accumulated unused sick leave, age, years of service and wage rate at the date of retirement, as established by contracts with bargaining units or other employment contracts. These contracts establish the terms and amounts each retiree is eligible to receive and establish when this severance benefit vests, all of which may differ between each bargaining unit and employee group. The severance amount is paid directly to the Minnesota State Retirement System Post Retirement Health Care Savings Plan (HCSP). These funds will be disbursed in accordance with the HCSP account agreement, which is a separate agreement between the HCSP and the retiree. In the fund financial statements and the district-wide financial statements, a liability is recorded for severance pay when the employee retirees.

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CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Pensions**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in Note 7.

**Other Postemployment Benefits (OPEB)**

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years, age and retiring dates needed to qualify for these postemployment benefits. The contracts also establish the amount the District will contribute towards the purchase of health insurance.

**Fund Balance**

In the fund financial statements, governmental funds report fund balance amounts within one of the following categories: nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance is either (a) not in spendable form, or (b) legally or contractually required to remain intact. Restricted fund balance includes amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Committed fund balance includes amounts that can be used only for specific purposes determined by a formal action of the School Board. Assigned fund balance includes amounts intended to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed. In accordance with the District's fund balance policy, a majority vote of the School Board is required to commit a fund balance to a specific purpose and subsequently remove or change any commitment and the District's superintendent is authorized to assign fund balance to a specific purpose. At June 30, 2015, the District had no committed fund balances. The portion of the fund balance not nonspendable, restricted, committed, or assigned, is reported as unassigned. If resources from one fund balance classification could be spent, the District will strive to spend resources in the following order: restricted, committed, assigned, and unassigned. The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted fund balance is available.

The District strives to maintain a minimum unassigned General Fund balance of eight percent of the General Fund operating budget. At June 30, 2015, the District had maintained the required minimum General Fund balance goal.

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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 1      SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Net Position**

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

**Use of Estimates**

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

**Implementation of New Standards**

During fiscal year 2015, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. The statements establish standards of accounting and financial reporting for defined benefit pensions provided to employees of local governmental employers. Implementation resulted in recognition of pension expense as well as the reporting of deferred outflows and inflows of resources and a net position liability based on the District's proportional share of those of the plan. The adoption resulted in the restatement of Net Position at June 30, 2014 as follows:

|  |                                   |
|--|-----------------------------------|
| Net Position, as previously reported, at June 30, 2014 | \$      1,975,230                 |
| TRA Net pension liability at June 30, 2014             | (2,661,794)                       |
| TRA deferred outflows of resources at June 30, 2014    | 150,179                           |
| PERA Net pension liability at June 30, 2014            | (1,018,042)                       |
| PERA deferred outflows of resources at June 30, 2014   | 70,987                            |
| Net Position (deficit), as restated, at June 30, 2014  | <u><u>\$      (1,483,440)</u></u> |

**Subsequent Events**

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through November 9, 2015, the date the financial statements were available to be issued.

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CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 2      DEPOSITS AND INVESTMENTS**

**Deposits**

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

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, 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.

**Custodial Credit Risk - Deposits** - Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2015, the District's deposits were not exposed to custodial credit risk.

**Investments**

The District may also invest idle funds as authorized by Minnesota statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' bank eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, 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, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MN Trust Investment Shares Portfolio are regulated by the Minnesota Statutes and are external investment pools not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The District's investment in MSDLA and MN Trust Investment Shares Portfolio are measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

**Custodial credit risk** - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2015, none of the District's investments were subject to custodial credit risk.

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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 2 DEPOSITS AND INVESTMENTS (Continued)**

Concentration of credit risk - The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District has no policy that would limit its investment in a single issuer.

Interest rate risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

At June 30, 2015, the District had the following investments:

| <u>Investment</u>                  | <u>Fair Value</u>   | <u>Maturities</u>             |                        |                         |
|------------------------------------|---------------------|-------------------------------|------------------------|-------------------------|
|                                    |                     | <u>Less Than<br/>One Year</u> | <u>1 - 3<br/>Years</u> | <u>Over 3<br/>Years</u> |
| Negotiable certificates of deposit | \$ 1,293,295        | \$ 789,059                    | \$ 504,236             | \$                      |
| External investment pools          | 1,324,043           | 1,324,043                     |                        |                         |
| Total                              | <u>\$ 2,617,338</u> | <u>\$ 2,113,102</u>           | <u>\$ 504,236</u>      | <u>\$</u>               |

Credit risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the District's policy to invest only in securities that meet the ratings requirements set by state statute.

| <u>S &amp; P or Moody's</u> | <u>Fair Value</u>   |
|-----------------------------|---------------------|
| AAAm                        | \$ 1,324,043        |
| Not rated                   | 1,293,295           |
| Total                       | <u>\$ 2,617,338</u> |

The District's total cash and investments are as follows:

|             |                     |
|-------------|---------------------|
| Petty cash  | \$ 1,271            |
| Deposits    | 522,464             |
| Investments | 2,617,338           |
| Total       | <u>\$ 3,141,073</u> |

Presented in the basic financial statements as follows:

|   |                     |
|---|---------------------|
| Statement of Net Position                     |                     |
| Cash and temporary cash investments           | \$ 2,047,294        |
| Statement of Fiduciary Net Position           |                     |
| Postemployment Benefit Irrevocable Trust Fund |                     |
| Investments                                   | 1,050,986           |
| Agency Funds                                  |                     |
| Cash and temporary cash investments           | 42,793              |
| Total cash and investments                    | <u>\$ 3,141,073</u> |

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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 3 CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2015 is as follows:

|   | Balance<br>July 1, 2014 | Additions    | Deletions | Balance<br>June 30, 2015 |
|---|-------------------------|--------------|-----------|--------------------------|
| Capital assets not being depreciated        |                         |              |           |                          |
| Land  | \$ 1,975                | \$           | \$        | \$ 1,975                 |
| Capital assets being depreciated            |                         |              |           |                          |
| Land improvements                           | 278,709                 | 21,809       |           | 300,518                  |
| Buildings                                   | 4,314,832               | 22,780       |           | 4,337,612                |
| Equipment                                   | 1,270,863               | 17,664       | (9,164)   | 1,279,363                |
| Total capital assets being depreciated      | 5,864,404               | 62,253       | (9,164)   | 5,917,493                |
| Less accumulated depreciation               |                         |              |           |                          |
| Land improvements                           | 265,974                 | 3,875        |           | 269,849                  |
| Buildings                                   | 2,774,860               | 101,950      |           | 2,876,810                |
| Equipment                                   | 965,843                 | 63,018       | (9,164)   | 1,019,697                |
| Total accumulated depreciation              | 4,006,677               | 168,843      | (9,164)   | 4,166,356                |
| Total capital assets being depreciated, net | 1,857,727               | (106,590)    |           | 1,751,137                |
| Capital assets, net                         | \$ 1,859,702            | \$ (106,590) | \$        | \$ 1,753,112             |

Depreciation is charged to governmental functions as follows:

|                                    |            |
|------------------------------------|------------|
| District and school administration | \$ 967     |
| Regular instruction                | 3,355      |
| Instructional support services     | 1,689      |
| Pupil support services             | 50,400     |
| Sites, building and equipment      | 25,710     |
| Unallocated                        | 86,722     |
| Total                              | \$ 168,843 |



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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 4      SHORT-TERM DEBT**

On September 9, 2014, the District issued \$555,434 of General Obligation Aid Anticipation Certificates of Participation, Series 2014A at an interest rate of 2.00 percent. The debt was issued to finance current operations of the General Fund. Principal and interest of \$11,109 are due on September 15, 2015.

The following is a summary of changes in short-term debt:

| Balance<br>July 1, 2014 | Additions  | Reductions | Balance<br>June 30, 2015 |
|-------------------------|------------|------------|--------------------------|
| \$ 640,392              | \$ 555,434 | \$ 640,392 | \$ 555,434               |

**NOTE 5      LONG-TERM OBLIGATIONS**

The following is a summary of change in long-term obligations:

|   | Balance<br>July 1, 2014<br>Restated | Additions         | Reductions          | Balance<br>June 30, 2015 | Due Within<br>One Year |
|---|-------------------------------------|-------------------|---------------------|--------------------------|------------------------|
| <b>General Obligation Bonds</b>   |                                     |                   |                     |                          |                        |
| \$1,485,000 General Obligation Taxable OPEB Bonds, Series 2008A due in annual installments of \$150,000 to \$215,000 plus interest from 3.85% to 5.80% starting August 2009 through February 2018.    | \$ 1,150,000                        | \$                | \$ 170,000          | \$ 980,000               | \$ 180,000             |
| \$545,000 General Obligation Capital Facilities Bonds, Series 2010 due in annual installments of \$50,000 to \$60,000 plus interest from 1.20% to 3.30% starting February 2011 through February 2021. | 395,000                             |                   | 55,000              | 340,000                  | 55,000                 |
| Less amounts for unamortized discounts  | (2,712)                             |                   | (412)               | (2,300)                  | (412)                  |
| <b>Total general obligation bonds</b>   | <u>1,542,288</u>                    |                   | <u>224,588</u>      | <u>1,317,700</u>         | <u>234,588</u>         |
| <b>Capital lease</b>  | 126,857                             |                   | 62,770              | 64,087                   | 64,087                 |
| <b>Net pension liability</b>  | 3,679,836                           | 124,951           | 760,629             | 3,044,158                |                        |
| <b>Severance</b>  | <u>39,019</u>                       | <u>58,600</u>     | <u>2,250</u>        | <u>95,369</u>            | <u>45,340</u>          |
| <b>Total</b>  | <u>\$ 5,388,000</u>                 | <u>\$ 183,551</u> | <u>\$ 1,050,237</u> | <u>\$ 4,521,314</u>      | <u>\$ 344,015</u>      |

The District entered into a capital lease purchase agreement for the purchase of busses. The lease qualifies as a capital lease for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments. The value of the assets are included in capital assets at a cost of \$192,290, less accumulated depreciation of \$36,054, for a book value of \$156,236 at June 30, 2015.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 5      LONG-TERM OBLIGATIONS (Continued)**

The General Obligation Taxable OPEB Bonds are paid from the Postemployment Benefits Debt Service Fund. The General Obligation Capital Facilities Bonds are paid from the Debt Service Fund. Net pension liability is paid from the governmental funds. Severance is paid from either governmental funds or the Postemployment Benefit Trust Fund.

Annual amounts required service outstanding long-term debt:

|       | General Obligation Bonds |                   |                     | Capital Lease    |                 |                  |
|-------|--------------------------|-------------------|---------------------|------------------|-----------------|------------------|
|       | Principal                | Interest          | Total               | Principal        | Interest        | Total            |
| 2016  | \$ 235,000               | \$ 55,138         | \$ 290,138          | \$ 64,087        | \$ 1,355        | \$ 65,442        |
| 2017  | 240,000                  | 46,480            | 286,480             |                  |                 |                  |
| 2018  | 250,000                  | 37,067            | 287,067             |                  |                 |                  |
| 2019  | 265,000                  | 26,420            | 291,420             |                  |                 |                  |
| 2020  | 275,000                  | 14,545            | 289,545             |                  |                 |                  |
| 2021  | 55,000                   | 1,815             | 56,815              |                  |                 |                  |
| Total | <u>\$ 1,320,000</u>      | <u>\$ 181,465</u> | <u>\$ 1,501,465</u> | <u>\$ 64,087</u> | <u>\$ 1,355</u> | <u>\$ 65,442</u> |

**NOTE 6      NET POSITION/FUND BALANCES**

Fund balances were nonspendable for the following purposes at June 30, 2015:

|                    |                  |
|--------------------|------------------|
| Nonspendable       |                  |
| General Fund       |                  |
| Inventory          | \$ 6,990         |
| Prepaid expenses   | 14,093           |
| Total              | <u>21,083</u>    |
| Food Service Fund  |                  |
| Inventory          | <u>2,753</u>     |
| Total nonspendable | <u>\$ 23,836</u> |

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 6      NET POSITION/FUND BALANCES (Continued)**

Net position and fund balances were restricted for the following purposes at June 30, 2015:

| Restricted                        | <u>Net Position</u>    | <u>Fund Balance</u>    |
|-----------------------------------|------------------------|------------------------|
| General Fund                      |                        |                        |
| Deferred maintenance              | \$      12,070         | \$      12,070         |
| Operating capital                 | 123,735                | 123,735                |
| Gifted and talented               | 5,831                  | 5,831                  |
| Total General Fund                |                        | <u>141,636</u>         |
| Other nonmajor governmental funds |                        |                        |
| E.C.F.E.                          | 11,369                 | 11,369                 |
| Community service                 | 3,108                  | 1,059                  |
| Debt service                      | 47,145                 | 57,680                 |
| Total restricted                  | <u>\$      203,258</u> | <u>\$      211,744</u> |

Fund balances were assigned for the following purposes at June 30, 2015:

|                                 |                        |
|---------------------------------|------------------------|
| Assigned                        |                        |
| General Fund                    |                        |
| Indian education program        | \$      66,314         |
| Art, music and theater programs | 83,858                 |
| The HOOPS Club                  | 22,381                 |
| Elementary principal            | 533                    |
| High school principal           | 5,772                  |
| Jay Athletics                   | 3,188                  |
| Bulldogs                        | 1,926                  |
| Total assigned                  | <u>\$      183,972</u> |

The following fund had fund balance deficit at June 30, 2015:

|                   |                  |
|-------------------|------------------|
| General Fund      |                  |
| Restricted        |                  |
| Health and safety | \$      (69,407) |

The deficit in the health and safety is allowable by the Minnesota Department of Education and will be eliminated through future tax levies.

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CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 7 INTERFUND TRANSACTIONS**

Transfers

| <u>Transfers Out</u> | <u>Transfers In</u>    | <u>Total</u>      |
|----------------------|------------------------|-------------------|
| General Fund         | Food Service Fund      | \$ 16,992         |
|                      | Community Service Fund | 99,043            |
|                      | Total                  | <u>\$ 116,035</u> |

These transfers were made to cover the deficit operation and fund balance in the food service fund and to cover the deficit in school readiness program in the community service fund.

**NOTE 8 EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2015, the following fund had expenditures that exceeded appropriations:

|              | <u>Final<br/>Budget</u> | <u>Expenditures</u> | <u>Excess</u> |
|--------------|-------------------------|---------------------|---------------|
| Food Service | \$ 231,284              | \$ 231,817          | \$ 533        |

**NOTE 9 DEFINED BENEFIT PENSION PLANS**

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

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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

**A. Teachers Retirement Fund (TRA)**

**1. Plan Description**

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

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

**2. Benefits Provided**

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

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

***Tier I Benefits***

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

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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

With these provisions:

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

***Tier II Benefits***

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

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

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

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

**3. Contribution Rate**

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

|             | <u>Ending June 30, 2014</u> |                 | <u>Ending June 30, 2015</u> |                 |
|-------------|-----------------------------|-----------------|-----------------------------|-----------------|
|             | <u>Employee</u>             | <u>Employer</u> | <u>Employee</u>             | <u>Employer</u> |
| Basic       | 10.50%                      | 11.00%          | 11.00%                      | 11.50%          |
| Coordinated | 7.00%                       | 7.00%           | 7.50%                       | 7.50%           |

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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

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

|  |                       |
|--|-----------------------|
| Employer contributions reported in TRA's CAFR  |                       |
| Statement of Changes in Fiduciary Net Position   | \$ 299,299,837        |
| Deduct employer contributions not related to future contribution efforts                     | (398,798)             |
| Deduct TRA's contributions not included in allocation  | (370,701)             |
| Employer contributions reported in Schedule of Employer and Non-Employer pension allocations | <u>\$ 298,530,338</u> |

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

**4. Actuarial Assumptions**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

**Actuarial Information:**

|                           |                                       |
|---------------------------|---------------------------------------|
| Measurement Date          | June 30, 2014                         |
| Valuation Date            | July 1, 2014                          |
| Experience Study          | October 30, 2009                      |
| Actuarial Cost Method     | Entry Age Normal                      |
| Actuarial Assumptions:    |                                       |
| Investment Rate of Return | 8.25%                                 |
| Wage Inflation            | 3.0%                                  |
| Projected Salary Increase | 3.5 - 12%, based on years of service  |
| Cost of living adjustment | 2.0% until year 2034, 2.5% thereafter |

**Mortality Assumption:**

|                 |   |
|-----------------|---|
| Pre-retirement  | RP2000 non-annuitant generational mortality, white collar adjustment, male rates set back 5 years and female rates set back 7 years |
| Post-retirement | RP2000 annuitant generational mortality, white collar adjustment, male rates set back 2 years and female rate set back 3 years      |
| Post-disability | RP2000 disables retiree mortality, without adjustment   |

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

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

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

| Asset Class          | Target Allocation | Long-Term Expected<br>Real 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%              |   |

**5. Discount Rate**

The discount rate used to measure the total pension liability was 8.25%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2015 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on these assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**6. Net Pension Liability**

At June 30, 2015, the District reported a liability of \$2,165,726 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0470% at the end of the measurement period and 0.0464% for the beginning of the period.

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



INDEPENDENT SCHOOL DISTRICT NO. 93  
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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

|  |                   |
|--|-------------------|
| District's proportional share of net pension liability                           | \$      2,165,726 |
| State's proportional share of net pension liability associated with the District | \$      152,337   |

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

There was a change in actuarial assumptions that affected the measurement of the total liability for TRA since the prior measurement date. Post-retirement benefit adjustments are now assumed to increase from 2.0% annually to 2.5% annually once the legally specified criteria are met. This is measured to occur July 1, 2034.

For the year ended June 30, 2015, the District recognized pension expense of \$121,725. It also recognized \$6,645 as an increase to pension expense for the support provided by direct aid.

At June 30, 2015, the District had deferred resources related to pensions from the following sources:

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Differences between expected and actual economic experience              | \$      184,795                           | \$                                       |
| Net difference between projected and actual earnings on plan investments |   | 680,882                                  |
| Changes in proportion  | 28,475                                    |  |
| Contributions made to TRA subsequent to the measurement date             | 163,005                                   |  |
| Total  | <u>\$      376,275</u>                    | <u>\$      680,882</u>                   |

Deferred outflows and inflows of resources will be recognized in pension expense as follows:

| <u>Year ended June 30</u> | <u>Pension Expense<br/>Amount</u> |
|---------------------------|-----------------------------------|
| 2016                      | \$      37,310                    |
| 2017                      | (125,697)                         |
| 2018                      | (125,697)                         |
| 2019                      | (125,697)                         |
| 2020                      | 35,174                            |

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

**7. Pension Liability Sensitivity**

The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.25%, as well as what the liability measured using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

| Discount Rate  | 1% Decrease in<br>Discount Rate<br>7.25% | Discount Rate<br>8.25% | 1% Increase in<br>Discount Rate<br>9.25% |
|--|--|------------------------|--|
| District's proportionate share of<br>the TRA net pension liability | \$ 3,579,204                             | \$ 2,165,726           | \$ 987,375                               |

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

**8. Pension Plan Fiduciary Net Position**

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org); by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-4000; or by calling (651)296-2409 or 1-800-657-3669.

**B. Public Employee Retirement Association (PERA)**

**1. Plan Description**

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

**2. Benefits Provided**

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

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

The benefit provisions described in the following paragraph 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.

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CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped by 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**3. Contributions**

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These statutes are established and amended by the state legislature.

GERF Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the year ended June 30, 2015 were \$68,013. The District's contribution was equal to the contractually required contribution for the year as set by state statute.

**4. Pension Costs**

At June 30, 2015, the District reported a liability of \$878,432 for its proportionate share of GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.0187%.

For the year ended June 30, 2015, the District recognized pension expense of \$65,211 for its proportionate share of GERF's pension expense.

At June 30, 2015, the District reported is proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources from the following sources:

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NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Differences between expected and actual economic experience              | \$ 13,481                                 | \$                                       |
| Changes in actuarial assumptions   | 90,531                                    |  |
| Net difference between projected and actual earnings on plan investments |   | 237,352                                  |
| Contributions made to PERA subsequent to the measurement date            | 68,013                                    |  |
| Total  | <u>\$ 172,025</u>                         | <u>\$ 237,352</u>                        |

Amounts reported as deferred outflows and inflows of resources related to GERP will be recognized in pension expense as follows:

| <u>Year ended June 30</u> | <u>Pension Expense<br/>Amount</u> |
|---------------------------|-----------------------------------|
| 2016                      | \$ 43,346                         |
| 2017                      | (24,667)                          |
| 2018                      | (24,668)                          |
| 2019                      | (59,338)                          |
| 2020                      | 0                                 |

**5. Actuarial Assumptions**

The total pension liability in the June 30, 2014, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

The following changes in actuarial assumptions occurred in 2014:

As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

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

| Asset Class          | Target Allocation | Long-Term Expected<br>Real 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%              |   |

**6. Discount Rate**

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

**7. Pension Liability Sensitivity**

The following 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:

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 9      DEFINED BENEFIT PENSION PLANS (Continued)**

|   | 1% Decrease in<br>Discount Rate | Discount Rate | 1% Increase in<br>Discount Rate |
|---|---------------------------------|---------------|---------------------------------|
| Discount Rate   | 6.90%                           | 7.90%         | 8.90%                           |
| District's proportionate share of<br>the PERA net pension liability | \$ 1,416,068                    | \$ 878,432    | \$ 436,084                      |

**8. Pension Plan Fiduciary Net Position**

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

**NOTE 10      POSTEMPLOYMENT HEALTHCARE PLAN**

*Plan Description* - Independent School District No. 93 administers a single-employer defined benefit OPEB plan which provides medical and dental benefits to eligible retired employees and their dependents in accordance with the terms of the plan. The District has established an irrevocable trust fund to account for accumulated plan assets available to pay for current and future postemployment health care costs. The Trust does not issue a stand alone financial report, but is included in this report of the District.

*Funding* - Employer contribution requirements are established and may be amended as set forth in the applicable employment and bargaining unit agreements. As of July 1, 2014, the date of the latest actuarial valuation, approximately 10 retirees and their dependents were receiving postemployment health and dental benefits and an estimated 68 active employees are eligible to receive future benefits under the plan.

*Annual OPEB Cost and Net OPEB Obligation* - Independent School District No. 93's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 10 POSTEMPLOYMENT HEALTHCARE PLAN (Continued)**

The following table shows the components of Independent School District No. 93's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in Independent School District No. 93's net OPEB obligation (asset) as of June 30, 2015:

|  |                              |
|--|------------------------------|
| Annual required contribution (ARC)         | \$ 39,227                    |
| Interest on net OPEB asset                 | (14,458)                     |
| Adjustment to the ARC                      | 44,451                       |
| Annual OPEB cost                           | <u>69,220</u>                |
| Contributions made                         | <u>                    </u>  |
| Increase in OPEB obligation (asset)        | 69,220                       |
| Net OPEB obligation (asset), June 30, 2014 | <u>(1,095,278)</u>           |
| Net OPEB obligation (asset), June 30, 2015 | <u><u>\$ (1,026,058)</u></u> |

The net OPEB asset has been shown in the Statement of Net Position.

Independent School District No. 93's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB (asset) were as follows:

| Fiscal Year<br>Ended | Annual<br>OPEB Cost | Percentage of<br>Annual OPEB<br>Cost Contributed | Net<br>OPEB<br>(Asset) |
|----------------------|---------------------|--|------------------------|
| June 30, 2013        | \$ 53,723           | 0%   | \$ (1,277,670)         |
| June 30, 2014        | 96,716              | 0%   | (1,095,278)            |
| June 30, 2015        | 69,220              | 0%   | (1,026,058)            |

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 10 POSTEMPLOYMENT HEALTHCARE PLAN (Continued)**

*Funded Status and Funding Progress* - As of July, 1, 2014, the actuarial accrued liability (AAL) was \$956,325, and unfunded actuarial accrued liability (UAAL) for benefits was (\$230,703). The covered payroll (annual payroll of active employees covered by the plan) was \$3,249,738.

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

*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, 2014, actuarial valuation, the projected unit credit actuarial cost method was used. Plan assets are valued at fair value. The actuarial assumptions included a discount rate and investment return of 1.32 percent, inflation rate of 3 percent, health care trend rates ranging from 7.5 percent initially, reduced by decrements to an ultimate rate of 5 percent after eight years. The UAAL is being amortized as a level dollar amount over thirty years.

**NOTE 11 CONTINGENCIES**

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

**NOTE 12 RISK MANAGEMENT**

The District's property and liability premiums and reemployment claims are paid by the General Fund. The General, Food Service and Community Service Funds pay workers' compensation premiums based on salaries. There were no significant reductions in insurance coverage from coverage in prior years and insurance settlements have not exceeded insurance coverage in any of the past three years.



INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**NOTE 12      RISK MANAGEMENT (Continued)**

The District purchases commercial insurance for property and liability, transferring the risk of loss to the insurance carrier.

The District participates in a risk pool for workers' compensation insurance. The pool in turn contracts with an insurance carrier, thereby transferring the risk from the pool members to the insurance carrier. The workers' compensation policy is retrospectively rated in that the initial premium is adjusted based on the actual experience during coverage period of the group of entities that participate in the pool.

The District handles reemployment costs through a self-insurance plan. The District retains the risks associated with reemployment claims.

**NOTE 13      FUTURE ACCOUNTING STANDARDS**

Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, is effective for the District for the year ended June 30, 2018. This statement replaces the requirements of GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures, and identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. This District has not completed the process of evaluating GASB Statement No. 75, but implementation is expected to impact the District's recognition of OPEB liabilities and expense/expenditures.

## REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT  
HEALTH CARE PLAN  
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Funding Progress by Valuation Date

| Actuarial<br>Valuation<br>Date | Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>Projected<br>Unit Credit<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b-a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>(b-a/c) |
|--------------------------------|---------------------------|---|------------------------------------|--------------------------|---------------------------|---|
| July 1, 2008                   | \$ 0                      | \$ 1,670,685  | \$ 1,670,685                       | 0.00%                    | \$ 2,831,797              | 59.00%  |
| July 1, 2011                   | 1,511,193                 | 1,504,856   | (6,337)                            | 100.42%                  | 3,153,900                 | N/A   |
| July 1, 2014                   | 1,187,028                 | 956,325   | (230,703)                          | 124.12%                  | 3,249,738                 | N/A   |

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT  
HEALTH CARE PLAN  
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Employer's Share of Net Pension Liability

**TEACHER'S RETIREMENT ASSOCIATION (TRA)**

| Source  | 2015         |
|---|--------------|
| District's proportion of the net pension liability  | 0.0470%      |
| District's proportionate share of the net pension liability   | \$ 2,165,726 |
| State's proportionate share of the net pension liability associated with the district                               | 152,337      |
| Total   | \$ 2,318,063 |
| District's covered-employee payroll   | \$ 2,145,410 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 100.9%       |
| Plan fiduciary net position as a percentage of the total pension liability  | 81.5%        |

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)**

| Source  | 2015       |
|---|------------|
| District's proportion of the net pension liability  | 0.0187%    |
| District's proportionate share of the net pension liability   | \$ 878,432 |
| District's covered-employee payroll   | \$ 979,130 |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 89.7%      |
| Plan fiduciary net position as a percentage of the total pension liability  | 78.7%      |

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

INFORMATION ABOUT THE DISTRICT'S OTHER POSTEMPLOYMENT  
HEALTH CARE PLAN  
FOR THE YEAR ENDED JUNE 30, 2015

Schedule of Employer's Contributions

**TEACHER'S RETIREMENT ASSOCIATION (TRA)**

| <b>Source</b>  | <b>2015</b>  |
|--|--------------|
| Statutorily required contribution                                  | \$ 150,179   |
| Contributions in relation to the statutorily required contribution | \$ 150,179   |
| Contribution deficiency (excess)                                   | \$ 0         |
| District's covered-employee payroll                                | \$ 2,145,410 |
| Contributions as a percentage of covered-employee payroll          | 7.00%        |

**PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)**

| <b>Source</b>  | <b>2015</b> |
|--|-------------|
| Statutorily required contribution                                  | \$ 70,987   |
| Contributions in relation to the statutorily required contribution | \$ 70,987   |
| Contribution deficiency (excess)                                   | \$ 0        |
| District's covered-employee payroll                                | \$ 979,130  |
| Contributions as a percentage of covered-employee payroll          | 7.25%       |

## **SUPPLEMENTARY INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2015

|  | Food<br>Service<br>Fund | Community<br>Service<br>Fund | Debt<br>Service<br>Fund | Postemployment<br>Benefits<br>Debt Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--|-------------------------|------------------------------|-------------------------|--|--|
| <b>Assets</b>  |                         |                              |                         |  |  |
| Cash and temporary cash investments                                    | \$ 2,663                | \$ 44,037                    | \$ 50,152               | \$ 177,995   | \$ 274,847                                 |
| Current property taxes receivable                                      |                         | 22,785                       | 26,249                  | 89,478   | 138,512                                    |
| Delinquent property taxes receivable                                   |                         | 2,049                        | 2,654                   | 9,785  | 14,488                                     |
| Accounts receivable  | 871                     | 4,417                        |                         |  | 5,288                                      |
| Due from the Minnesota Department of Education                         | 2,634                   | 2,163                        | 437                     | 1,509  | 6,743                                      |
| Due from federal government through MDE                                | 15,177                  |                              |                         |  | 15,177                                     |
| Inventory  | 2,753                   |                              |                         |  | 2,753                                      |
| Total assets   | <u>24,098</u>           | <u>75,451</u>                | <u>79,492</u>           | <u>278,767</u>                                     | <u>457,808</u>                             |
| <b>Deferred Outflows of Resources</b>                                  |                         |                              |                         |  |  |
| Total assets and deferred outflows of resources                        | <u>\$ 24,098</u>        | <u>\$ 75,451</u>             | <u>\$ 79,492</u>        | <u>\$ 278,767</u>                                  | <u>\$ 457,808</u>                          |
| <b>Liabilities</b>   |                         |                              |                         |  |  |
| Salaries payable   | \$ 12,849               | \$ 2,747                     | \$                      | \$   | \$ 15,596                                  |
| Accounts payable   | 708                     | 244                          |                         |  | 952  |
| Accrued payroll taxes  | 3,867                   |                              |                         |  | 3,867                                      |
| Unearned revenue   | 3,921                   | 1,275                        |                         |  | 5,196                                      |
| Total liabilities  | <u>21,345</u>           | <u>4,266</u>                 |                         |  | <u>25,611</u>                              |
| <b>Deferred Inflows of Resources</b>                                   |                         |                              |                         |  |  |
| Delinquent property taxes  |                         | 2,049                        | 2,654                   | 9,785  | 14,488                                     |
| Property taxes levied for subsequent<br>year's expenditures            |                         | 56,708                       | 65,344                  | 222,796  | 344,848                                    |
| Total deferred inflows of resources                                    |                         | <u>58,757</u>                | <u>67,998</u>           | <u>232,581</u>                                     | <u>359,336</u>                             |
| <b>Fund balances</b>   |                         |                              |                         |  |  |
| Nonspendable   | 2,753                   |                              |                         |  | 2,753                                      |
| Restricted   |                         | 12,428                       | 11,494                  | 46,186   | 70,108                                     |
| Total fund balances  | <u>2,753</u>            | <u>12,428</u>                | <u>11,494</u>           | <u>46,186</u>                                      | <u>72,861</u>                              |
| Total liabilities, deferred inflows of resources,<br>and fund balances | <u>\$ 24,098</u>        | <u>\$ 75,451</u>             | <u>\$ 79,492</u>        | <u>\$ 278,767</u>                                  | <u>\$ 457,808</u>                          |

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2015

|   | Food<br>Service<br>Fund | Community<br>Service<br>Fund | Debt<br>Service<br>Fund | Postemployment<br>Benefits<br>Debt Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|---|-------------------------|------------------------------|-------------------------|--|--|
| <b>Revenues</b>                                   |                         |                              |                         |  |  |
| Local property tax levies                         | \$                      | \$ 49,575                    | \$ 60,532               | \$ 209,285   | \$ 319,392                                 |
| Other local and county revenues                   | 826                     | 94,718                       |                         |  | 95,544                                     |
| Revenue from state sources                        | 14,622                  | 20,725                       | 4,371                   | 15,092   | 54,810                                     |
| Revenue from federal sources                      | 101,979                 |                              |                         |  | 101,979                                    |
| Interest income                                   |                         |                              | 5                       | 16   | 21   |
| Sales and other conversion of assets              | 97,359                  |                              |                         |  | 97,359                                     |
| Total revenues                                    | <u>214,786</u>          | <u>165,018</u>               | <u>64,908</u>           | <u>224,393</u>                                     | <u>669,105</u>                             |
| <b>Expenditures</b>                               |                         |                              |                         |  |  |
| Current   |                         |                              |                         |  |  |
| Community education and services                  |                         | 151,890                      |                         |  | 151,890                                    |
| Pupil support services                            | 231,718                 |                              |                         |  | 231,718                                    |
| Debt service                                      |                         |                              |                         |  |  |
| Principal   |                         |                              | 55,000                  | 170,000  | 225,000                                    |
| Interest and other fiscal costs                   |                         |                              | 11,685                  | 51,295   | 62,980                                     |
| Capital outlay                                    | 99                      |                              |                         |  | 99   |
| Total expenditures                                | <u>231,817</u>          | <u>151,890</u>               | <u>66,685</u>           | <u>221,295</u>                                     | <u>671,687</u>                             |
| Excess (deficiency) of revenues over expenditures | (17,031)                | 13,128                       | (1,777)                 | 3,098  | (2,582)                                    |
| <b>Other financing sources</b>                    |                         |                              |                         |  |  |
| Transfers in                                      | 16,992                  | 99,043                       |                         |  | 116,035                                    |
| Net change in fund balance                        | (39)                    | 112,171                      | (1,777)                 | 3,098  | 113,453                                    |
| Fund balance (deficit), beginning                 | 2,792                   | (99,743)                     | 13,271                  | 43,088   | (40,592)                                   |
| Fund balance, ending                              | <u>\$ 2,753</u>         | <u>\$ 12,428</u>             | <u>\$ 11,494</u>        | <u>\$ 46,186</u>                                   | <u>\$ 72,861</u>                           |



INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

FISCAL COMPLIANCE TABLE  
FOR THE YEAR ENDED JUNE 30, 2015

|                                    | Audit        | UFARS        | Audit - UFARS |                                       | Audit     | UFARS     | Audit - UFARS |
|------------------------------------|--------------|--------------|---------------|---------------------------------------|-----------|-----------|---------------|
| <b>01 GENERAL FUND</b>             |              |              |               | <b>06 BUILDING CONSTRUCTION</b>       |           |           |               |
| Total revenues                     | \$ 5,539,581 | \$ 5,539,581 | \$            | Total revenues                        | \$        | \$        | \$            |
| Total expenditures                 | 5,193,537    | 5,193,536    | 1             | Total expenditures                    |           |           |               |
| <i>Non spendable</i>               |              |              |               | <i>Non spendable</i>                  |           |           |               |
| 460 Non spendable fund balance     | 21,083       | 21,083       |               | 460 Non spendable fund balance        |           |           |               |
| <i>Restricted/Reserve</i>          |              |              |               | <i>Restricted/Reserve</i>             |           |           |               |
| 403 Staff development              |              |              |               | 407 Down payment levy                 |           |           |               |
| 405 Deferred maintenance           | 12,070       | 12,070       |               | 409 Alternative facility program      |           |           |               |
| 406 Health and safety              | (69,407)     | (69,407)     |               | 413 Projects funded by COP            |           |           |               |
| 407 Capital Projects Levy          |              |              |               | <i>Restricted</i>                     |           |           |               |
| 408 Cooperative revenue            |              |              |               | 464 Restricted fund balance           |           |           |               |
| 411 Severance pay                  |              |              |               | <i>Unassigned</i>                     |           |           |               |
| 413 Project funded by COP          |              |              |               | 463 Unassigned fund balance           |           |           |               |
| 414 Operating debt                 |              |              |               |                                       |           |           |               |
| 416 Levy reduction                 |              |              |               | <b>07 DEBT SERVICE</b>                |           |           |               |
| 417 Taconite building maintenance  |              |              |               | Total revenues                        | 64,908    | 64,908    |               |
| 423 Certain teacher programs       |              |              |               | Total expenditures                    | 66,685    | 66,685    |               |
| 424 Operating capital              | 123,735      | 123,735      |               | <i>Non spendable</i>                  |           |           |               |
| 426 \$25 Taconite                  |              |              |               | 460 Non spendable fund balance        |           |           |               |
| 427 Disabled accessibility         |              |              |               | <i>Restricted/Reserve</i>             |           |           |               |
| 428 Learning and development       |              |              |               | 425 Bond refundings                   |           |           |               |
| 434 Area learning center           |              |              |               | 451 QZAB payments                     |           |           |               |
| 435 Contracted alt. Programs       |              |              |               | <i>Restricted</i>                     |           |           |               |
| 436 St. approved alt. Program      |              |              |               | 464 Restricted fund balance           | 11,494    | 11,493    | 1             |
| 438 Gifted & talented              | 5,831        | 5,831        |               | <i>Unassigned</i>                     |           |           |               |
| 441 Basic skills program           |              |              |               | 463 Unassigned fund balance           |           |           |               |
| 445 Career and technical Programs  |              |              |               |                                       |           |           |               |
| 446 First Grade Preparedness       |              |              |               | <b>08 TRUST</b>                       |           |           |               |
| 449 Safe schools levy              |              |              |               | Total revenues                        |           |           |               |
| 450 Prekindergarten                |              |              |               | Total expenditures                    |           |           |               |
| 451 QZAB payments                  |              |              |               | 422 Net position                      |           |           |               |
| 452 OPEB liability not in trust    |              |              |               |                                       |           |           |               |
| 453 Unfunded sev & retirement levy |              |              |               | <b>20 INTERNAL SERVICE</b>            |           |           |               |
| <i>Restricted</i>                  |              |              |               | Total revenues                        |           |           |               |
| 464 Restricted fund balance        |              |              |               | Total expenditures                    |           |           |               |
| <i>Committed</i>                   |              |              |               | 422 Net position                      |           |           |               |
| 418 Committed for separation       |              |              |               |                                       |           |           |               |
| 461 Committed fund balance         |              |              |               | <b>25 OPEB REVOCABLE TRUST FUND</b>   |           |           |               |
| <i>Assigned</i>                    |              |              |               | Total revenues                        |           |           |               |
| 462 Assigned fund balance          | 183,972      | 183,972      |               | Total expenditures                    |           |           |               |
| <i>Unassigned</i>                  |              |              |               | 422 Net position                      |           |           |               |
| 422 Unassigned fund balance        | 695,093      | 695,096      | (3)           |                                       |           |           |               |
| <b>02 FOOD SERVICE</b>             |              |              |               | <b>45 OPEB IRREVOCABLE TRUST FUND</b> |           |           |               |
| Total revenues                     | 214,786      | 214,787      | (1)           | Total revenues                        | 48,137    | 48,137    |               |
| Total expenditures                 | 231,817      | 231,819      | (2)           | Total expenditures                    | 164,870   | 164,870   |               |
| <i>Non spendable</i>               |              |              |               | 422 Net position                      | 1,070,295 | 1,070,293 | 2             |
| 460 Non spendable fund balance     | 2,753        | 2,753        |               |                                       |           |           |               |
| <i>Restricted</i>                  |              |              |               | <b>47 OPEB DEBT SERVICE FUND</b>      |           |           |               |
| 452 OPEB liability not in trust    |              |              |               | Total revenues                        | 224,393   | 224,392   | 1             |
| 464 Restricted fund balance        |              |              |               | Total expenditures                    | 221,295   | 221,295   |               |
| <i>Unassigned</i>                  |              |              |               | <i>Non spendable</i>                  |           |           |               |
| 463 Unassigned fund balance        |              |              |               | 460 Non spendable fund balance        |           |           |               |
|                                    |              |              |               | <i>Restricted</i>                     |           |           |               |
| <b>04 COMMUNITY SERVICE</b>        |              |              |               | 425 Bond refundings                   |           |           |               |
| Total revenues                     | 165,018      | 165,018      |               | 464 Restricted fund balance           | 46,186    | 46,185    | 1             |
| Total expenditures                 | 151,890      | 151,890      |               | <i>Unassigned</i>                     |           |           |               |
| <i>Non spendable</i>               |              |              |               | 463 Unassigned fund balance           |           |           |               |
| 460 Non spendable fund balance     |              |              |               |                                       |           |           |               |
| <i>Restricted/Reserve</i>          |              |              |               |                                       |           |           |               |
| 426 \$25 taconite                  |              |              |               |                                       |           |           |               |
| 431 Community education            |              |              |               |                                       |           |           |               |
| 432 ECFE                           | 11,369       | 11,369       |               |                                       |           |           |               |
| 444 School readiness               |              |              |               |                                       |           |           |               |
| 447 Adult Basic Education          |              |              |               |                                       |           |           |               |
| 452 OPEB liability not in trust    |              |              |               |                                       |           |           |               |
| <i>Restricted</i>                  |              |              |               |                                       |           |           |               |
| 464 Restricted fund balance        | 1,059        | 1,059        |               |                                       |           |           |               |
| <i>Unassigned</i>                  |              |              |               |                                       |           |           |               |
| 463 Unassigned fund balance        |              |              |               |                                       |           |           |               |

**REPORTS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*,  
THE OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133  
AND THE STATE OF MINNESOTA**

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u>            | <u>Federal<br/>CFDA<br/>Number</u> | <u>Pass-through<br/>Entity Identifying<br/>Number</u> | <u>Expenditures</u> |
|--|------------------------------------|---|---------------------|
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                                |                                    |   |                     |
| Passed-through Minnesota Department of Education                     |                                    |   |                     |
| National School Breakfast Program                                    | 10.553                             | None provided   | \$ 20,154           |
| Non cash assistance - commodities                                    | 10.555                             | None provided   | 8,470               |
| Commodities Cash Rebate Program                                      | 10.555                             | None provided   | 1,496               |
| National School Lunch Program  | 10.555                             | None provided   | 71,859              |
| Total U.S. Department of Agriculture - Total Child Nutrition Cluster |                                    |   | <u>101,979</u>      |
| <b>U.S. DEPARTMENT OF EDUCATION</b>                                  |                                    |   |                     |
| Direct   |                                    |   |                     |
| Title VII - Indian Education   | 84.060                             |   | <u>23,212</u>       |
| Title VIII - Impact Aid  | 84.041                             |   | <u>24,378</u>       |
| Rural School Achievement Program                                     | 84.358A                            |   | <u>33,135</u>       |
| Passed-through Minnesota Department of Education                     |                                    |   |                     |
| Title I, Part A  | 84.010                             | None provided   | <u>73,383</u>       |
| Title II, Part A   | 84.367                             | None provided   | <u>26,348</u>       |
| IDEA, Part B   | 84.027                             | None provided   | 111,539             |
| IDEA, Part B - Preschool Incentive, Ages 3 through 5                 | 84.173A                            | None provided   | 2,866               |
| Passed-through the Northern Joint Powers Alliance                    |                                    |   |                     |
| IDEA, Part B - Discretionary Low Incidence                           | 84.027                             | None provided   | 1,494               |
| Passed-through the Northeast Service Cooperative                     |                                    |   |                     |
| IDEA, Part B - Discretionary Low Incidence                           | 84.027                             | None provided   | <u>39,341</u>       |
| Total Special Education Cluster                                      |                                    |   | <u>155,240</u>      |
| Infants and Toddlers - Ages Birth through Two                        | 84.181A                            | None provided   | <u>1,663</u>        |
| Passed-through Independent School District 97 - Moose Lake           |                                    |   |                     |
| Carl Perkins Vocational and Applied Technology                       | 84.048A                            | None provided   | <u>1,885</u>        |
| Total U.S. Department of Education                                   |                                    |   | <u>339,244</u>      |
| <b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>                  |                                    |   |                     |
| Passed-through Minnesota Department of Education                     |                                    |   |                     |
| Medical assistance   | 93.778                             | None provided   | <u>71,376</u>       |
| Total expenditures of federal awards                                 |                                    |   | <u>\$ 512,599</u>   |

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2015

**NOTE 1      BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Independent School District No. 93 under programs of the federal government for the year ended June 30, 2015. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Independent School District No. 93, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Independent School District No. 93.

**NOTE 2      SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.



## **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters**

To the School Board  
Independent School District No. 93  
Carlton, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 93, Carlton, Minnesota (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's financial statements and have issued our report thereon dated November 9, 2015.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency, which is described in the accompanying schedule of findings and responses as item 2015-001.

**Compliance and Other Matters**

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

**District's Response to Finding**

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

**Purpose of this Report**

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

A handwritten signature in dark ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

November 9, 2015  
Duluth, Minnesota



## **Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance**

To the School Board  
Independent School District No. 93  
Carlton, Minnesota

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

We have audited Independent School District No. 93's (District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the its major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and responses.

#### ***Management's Responsibility for Compliance***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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.

#### ***Opinion***

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

## Other Matters

### *Report on Internal Control over Compliance*

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a 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 OMB Circular A-133, 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 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 or state 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 or state 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 or state 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 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, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Wipfli LLP

November 9, 2015  
Duluth, Minnesota





## **Independent Auditor's Report on Legal Compliance for the State of Minnesota**

To the School Board  
Independent School District No. 93  
Carlton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 93, (District), as of and for the year ended June 30, 2015, and the related notes to the financial statements, and have issued our report thereon dated November 9, 2015.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

A handwritten signature in cursive script that reads "Wipfli LLP".

Wipfli LLP

November 9, 2015  
Duluth, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015

**Section I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued

**Unmodified**

Internal control over financial reporting:

Material weakness identified?

|             |     |             |               |
|-------------|-----|-------------|---------------|
| _____       | Yes | _____X_____ | No            |
| _____X_____ | Yes | _____       | None reported |

Significant deficiency(s) identified?

Noncompliance material to the financial statements?

|       |     |             |    |
|-------|-----|-------------|----|
| _____ | Yes | _____X_____ | No |
|-------|-----|-------------|----|

Federal Awards

Internal control over major programs:

Material weakness identified?

|       |     |             |               |
|-------|-----|-------------|---------------|
| _____ | Yes | _____X_____ | No            |
| _____ | Yes | _____X_____ | None reported |

Significant deficiency(s) identified?

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

**Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(1)?

|       |     |             |    |
|-------|-----|-------------|----|
| _____ | Yes | _____X_____ | No |
|-------|-----|-------------|----|

Identification of major federal program:

CFDA Number

Name of Federal Program or Cluster

10.553, 10.555  
84.027, 84.173A

Child Nutrition Cluster  
Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B Programs

\$300,000

Auditee qualified as a low-risk auditee?

|       |     |             |    |
|-------|-----|-------------|----|
| _____ | Yes | _____X_____ | No |
|-------|-----|-------------|----|

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**Section II - Financial Statement Findings**

**Item 2015-001 - Financial Statement Presentation and Disclosures - Significant Deficiency**

**Condition** - The District's internal control over financial reporting does not end at the general ledger, but extends to the financial statements and related notes. As part of our professional services for the year ended June 30, 2015, Wipfli assisted in drafting the financial statements and related notes. While the District does have an internal control process to review the financial statements prepared by the auditors, the District does not have sufficient expertise to completely prepare its own financial statements and related notes, and relies on the auditors to provide necessary understanding or current accounting disclosure principles in the preparation of the financial statements and related notes.

**Effect** - The completeness of the related note disclosures and the accuracy of the overall financial presentation is negatively impacted as outside auditors do not have the same comprehensive understanding of the District and its staff. The potential exists that a misstatement of the financial statements and related notes could occur and not be prevented or detected by the District.

**Criteria** - Controls should be in place to prepare financial statements in accordance with generally accepted accounting principles.

**Cause** - The District does not have control policies and procedures over the preparation of the financial statements.

**DISTRICT'S CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement

The District does not disagree with the audit finding.

2. Action Planned

The District will continue to rely on the outside auditors to assist the District in drafting the financial statements. The District will continue to review the financial statements and related notes.

3. Official Responsible

The Superintendent and Business Manager.

4. Planned Completion Date

Immediately.

5. Plan to Monitor

The School Board will monitor compliance with the corrective action plan

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2015  
(Continued)

**Section III - Federal Program Findings**

None.

**Section IV - Minnesota Legal Compliance Findings**

None.

INDEPENDENT SCHOOL DISTRICT NO. 93  
CARLTON, MINNESOTA

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2015

**Financial Statement Findings**

**Item 2014-001 - Financial Statement Presentation and Disclosures - Significant Deficiency**

This finding was repeated for fiscal year 2015 as item 2015-001.

**Federal Program Findings**

**Item 2014-002 – US. Department of Agriculture  
CFDA#10.553/10.555  
Child Nutrition Cluster  
Reporting - Significant Deficiency**

**Criteria** - Student meal counts should be reported using the CLICS. The monthly counts should be reported within 60 days of the month end.

**Condition** - During the year ended June 30, 2014 meal counts at the elementary school were underreported.

**Effect** - Reimbursement for state and federal school breakfast and lunch aid totaling \$14,541.03 was not requested timely.

**Cause** - Meals served to kindergartners, latch-key and ECFE students were inadvertently excluded from meal counts reported each month.

**Status** - The District correctly submitted meal counts during the year ended June 30, 2015. This finding was not repeated for the fiscal year 2015.