

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659**

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
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INTRODUCTORY SECTION

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2016**

BOARD OF EDUCATION

Julie Pritchard	Chair
Ellen Iverson	Vice Chair
Noel Stratmoen	Clerk
Rob Hardy	Treasurer
Fritz Bogott	Director
Margaret Colangelo	Director
Jeff Quinnell	Director

* * * * *

ADMINISTRATION

Dr. L. Chris Richardson	Superintendent
Val Mertesdorf	Director of Finance
Dr. Matthew Hillmann	Director of Administrative Services

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 659
Northfield, 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. 659, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 659 as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows, and the respective budgetary comparisons for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 659 as of and for the year ended June 30, 2015, and we expressed unmodified opinions on those audited financial statements in our report dated November 30, 2015. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

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


Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 659's basic financial statements. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Debt Service Fund, the Schedule of Changes in Fund Equities, and the Uniform Financial Accounting and Reporting Standards Compliance Table, as required by Minnesota Department of Education are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – Debt Service Fund, the Schedule of Changes in Fund Equities, the Uniform Financial Accounting and Reporting Standards Compliance Table, and 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of Independent School District No. 659's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 659's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Austin, Minnesota
November 21, 2016

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REQUIRED SUPPLEMENTARY INFORMATION

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

This section of Independent School District No. 659's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

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

- The net position of governmental activities increased by \$4,113,663 or 60% to \$10,960,558.
- The District's governmental funds reported a combined fund balance of \$20,380,316, a net increase of \$1,914,617 in comparison with the prior year. Approximately 58.6% of this total is unassigned.
- Total General Fund revenues and other financing sources were \$48,133,894 and total General Fund expenditures were \$46,433,449 for the fiscal year ended June 30, 2016. Total revenues and other financing sources and expenditures for all governmental funds combined were \$58,301,552 and \$56,386,935 respectively.
- The General Fund Unassigned fund balance increased by \$1,500,442 to \$11,946,991 or 25.7% of general fund expenditures. The District's long range financial plan calls for a continued build up of the fund balance over the next several years with the increased operating referendum that passed in 2011. This will enable the District to weather the uncertainties of school district funding in future years. The District is in a great financial position to be able to serve the Northfield Community.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of the following:

- Independent Auditors' Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to the financial statements;
- Required supplementary information; and
- Supplementary information

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

- **Government-Wide Financial Statements** – The government-wide financial statements, including the Statement of Net Position and Statement of Activities, are designed to provide short-term and long-term information about the District's overall financial status, using accounting methods similar to those used by private sector companies.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- **Fund Financial Statements** – The fund financial statements focus on individual parts of the District, reporting the District's operation in more detail than the government-wide financial statements. The District maintains three groups of fund financial statements:

Governmental Funds Statements – Governmental funds statements review how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

Proprietary Funds Statements – Proprietary funds statements offer short-term and long-term financial information about the activities the District operates like a business.

Fiduciary Funds Statements – Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

GOVERNMENT-WIDE STATEMENTS

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

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

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

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GOVERNMENT-WIDE STATEMENTS (Continued)

The District maintains three kinds of funds:

- **Governmental funds** - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
 - The District uses proprietary funds to report activities that provide supplies and services for the District's other programs and activities. The District currently has one proprietary fund; an internal service fund for health and dental insurance benefits.
- **Fiduciary Funds** – *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds. 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 operations.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position from Governmental activities was \$10,960,558 on June 30, 2016. (See Table A-1) This represents an increase in net position of 60%.

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

	Governmental Activities		Percentage Change
	2016	2015	
Current and Other Assets	\$ 41,997,278	\$ 39,476,859	6.38%
Capital and Non-Current Assets	60,077,707	62,518,438	-3.90%
Total Assets	<u>102,074,985</u>	<u>101,995,297</u>	0.08%
Deferred Inflows of Resources	5,730,896	4,366,714	
Current Liabilities	6,967,864	7,189,136	-3.08%
Long Term Liabilities	71,426,142	69,607,069	2.61%
Total Liabilities	<u>78,394,006</u>	<u>76,796,205</u>	2.08%
Deferred Inflows of Resources	18,451,317	22,718,911	-18.78%
Net Position			
Net Investment in Capital Assets	22,138,097	19,861,351	11.46%
Restricted	3,542,033	3,297,327	7.42%
Unrestricted	(14,719,572)	(16,311,783)	-9.76%
Total Net Position	<u>\$ 10,960,558</u>	<u>\$ 6,846,895</u>	60.08%

The largest portion of the District's net position reflect its investment in capital assets (e.g. land, buildings and furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The restricted category of the District's net position represents those resources that are restricted as to how they may be used, such as state mandated reserves, capital assets acquisition and debt service payments.

You will note that our unrestricted net position increased from a negative \$16,311,783 in 2014-15 to a negative \$14,719,572 in 2015-16. While this was a positive for the District, the negative nature of the unrestricted net position is due to the adoption of GASB 68 – Accounting and Financial Reporting for Pensions beginning with the 2014-15 school year. The District had to record a proportionate share of the state pension plan's unfunded net pension liability. This standard does not change how we budget or fund the state pension plans. It is transferring the unfunded net pension liability from the Minnesota Teacher's Retirement Association and the Minnesota Public Employee's Retirement Association financial statements to all members of the pension plan.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Total revenues surpassed expenses, increasing net position \$4,113,663 over the prior year.

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

	Governmental Activities for the		Total % Change
	fiscal year ended June 30,		
	2016	2015	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 3,895,242	\$ 3,463,088	12.48%
Operating Grants and Contributions	10,676,349	9,488,763	12.52%
Capital Grants and Contributions	572,972	611,653	-6.32%
<u>General Revenues</u>			
Property Taxes	15,399,682	15,717,834	-2.02%
Unrestricted State Aid	27,342,958	26,428,743	3.46%
Investment Earnings	63,735	23,598	170.09%
Other	259,610	215,128	20.68%
Total Revenues	<u>58,210,548</u>	<u>55,948,807</u>	
Expenses			
Administration	1,730,307	1,630,194	6.14%
District Support Services	1,208,765	1,221,162	-1.02%
Regular Instruction	26,149,580	25,326,730	3.25%
Vocational Education Instruction	287,828	273,941	5.07%
Special Education Instruction	9,620,471	8,830,364	8.95%
Instructional Support Services	1,467,610	1,373,565	6.85%
Pupil Support Services	3,485,194	3,423,547	1.80%
Sites and Buildings	4,648,628	3,895,453	19.33%
Fiscal and Other Fixed Cost Programs	139,490	141,031	-1.09%
Food Service	1,979,087	2,064,091	-4.12%
Community Service	2,459,065	2,125,252	15.71%
Interest and Fiscal Charges on Long-Term Liabilities	920,860	1,071,916	-14.09%
Total Expenses	<u>54,096,885</u>	<u>51,377,246</u>	5.29%
Change in Net Position	4,113,663	4,571,561	
Net Position - Beginning	6,846,895	2,275,334	
Net Position - Ending	<u>\$ 10,960,558</u>	<u>\$ 6,846,895</u>	

Changes in net position. The District's total revenues were \$58,210,548 for the year ended June 30, 2016. Property taxes and state formula aid accounted for 73.4% of total revenue for the year. (See Figure A-1). Another 26% came from program revenues. Investment earnings and other general revenues amounted to less than 1%.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$54,096,885. The District's total expenses are predominantly related to educating and caring for students (75.8%). (See Figure A-2.) The administrative activities of the District accounted for 5% of total expenses.

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

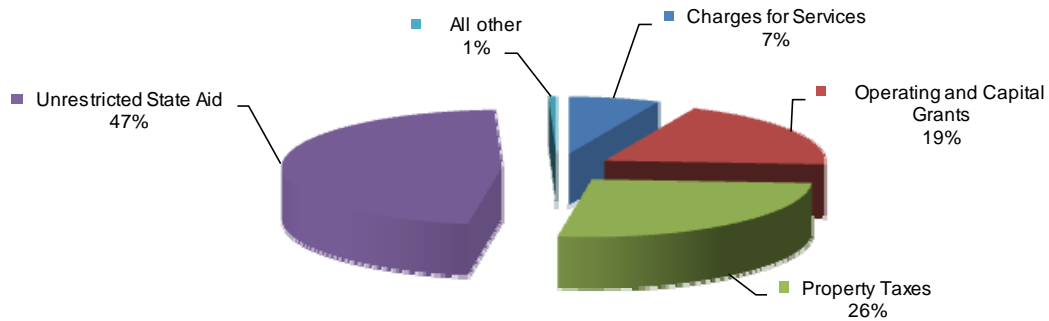
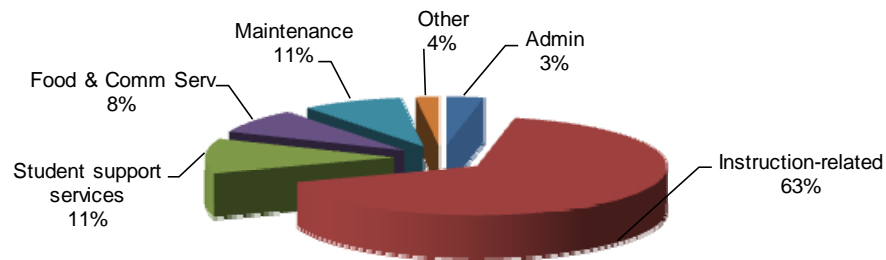


Figure A-2 District Expenses for Fiscal Year 2016



**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- The cost of all governmental activities this year was \$54,096,885, which is \$2,719,639 or 5.29% more than the prior year.
- Some of the expense was paid by the patrons of the District's programs (\$3,895,242).
- The federal and state governments subsidized certain programs with grants and contributions (\$11,249,321).
- Local property taxes financed \$15,399,682, state aid based on the statewide education aid formula funded \$27,342,958, and investment earnings and other general revenues provided \$323,345 in revenue.

**Table A-3
Change in Net Position**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
Administration	\$ 1,730,307	\$ 1,630,194	6.14%	\$ 1,726,552	\$ 1,625,119	6.24%
District Support Services	1,208,765	1,221,162	-1.02%	1,178,463	1,214,842	-2.99%
Regular Instruction	26,149,580	25,326,730	3.25%	22,051,507	21,826,200	1.03%
Vocational Education Instruction	287,828	273,941	5.07%	283,175	266,260	6.35%
Special Education Instruction	9,620,471	8,830,364	8.95%	3,610,163	3,426,479	5.36%
Instructional Support Services	1,467,610	1,373,565	6.85%	1,460,189	1,365,593	6.93%
Pupil Support Services	3,485,194	3,423,547	1.80%	3,250,745	3,202,898	1.49%
Sites and Buildings	4,648,628	3,895,453	19.33%	4,206,375	3,447,058	22.03%
Fiscal and Other Fixed Cost Programs	139,490	141,031	-1.09%	139,490	141,031	-1.09%
Food Service	1,979,087	2,064,091	-4.12%	(175,326)	5,820	-3112.47%
Community Service	2,459,065	2,125,252	15.71%	300,129	220,526	36.10%
Interest and Fiscal Charges on Long-Term Liabilities	920,860	1,071,916	-14.09%	920,860	1,071,916	-14.09%
Total	<u>\$ 54,096,885</u>	<u>\$ 51,377,246</u>	5.29%	<u>\$ 38,952,322</u>	<u>\$ 37,813,742</u>	3.01%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds, reported a combined fund balance of \$20,380,316, which is an increase of \$1,914,617 from the prior year ending fund balance of \$18,465,699.

Revenues and other financing sources for the District's governmental funds were \$58,301,552 while total expenditures were \$56,386,935, resulting in revenues exceeding expenditures by \$1,914,617.

GENERAL FUND

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

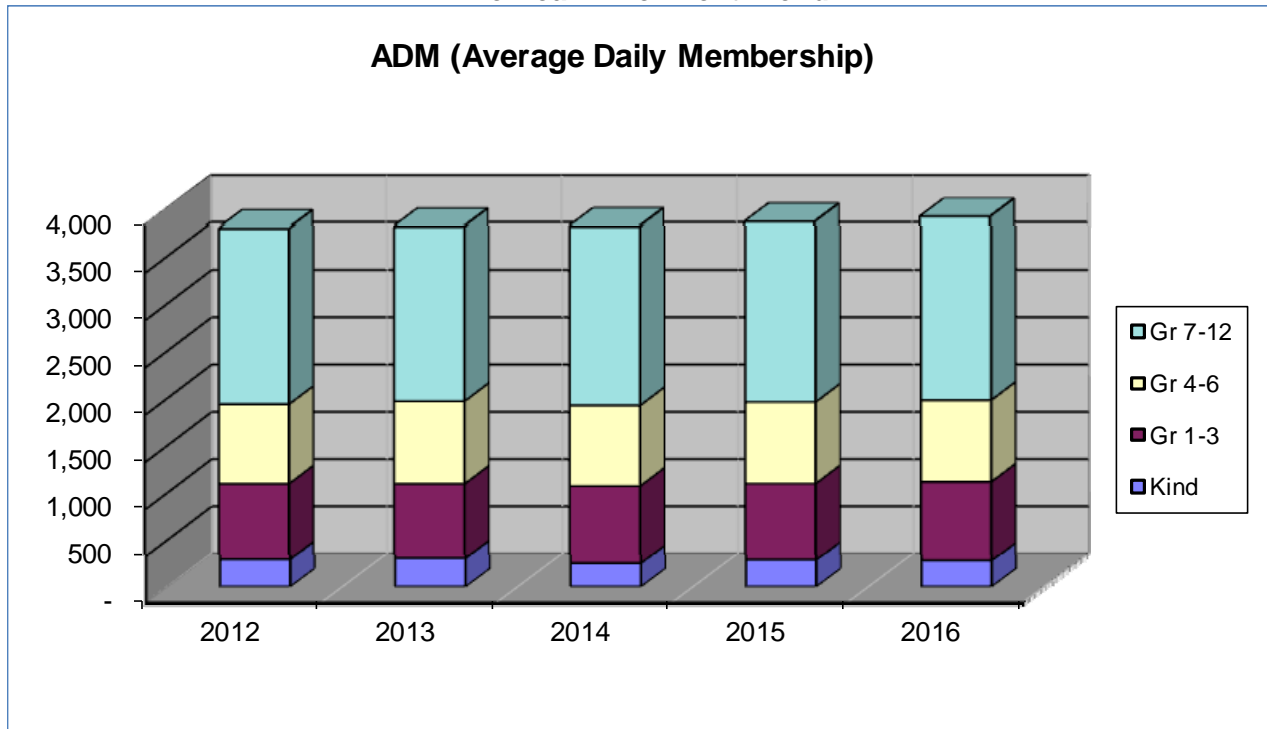
Funding for Minnesota school districts is largely driven by enrollment. Over the last five years, the District's enrollment has remained fairly stable in the number of students. In 2015-16, the District has seen increased enrollment. Based on past historical trends and using a traditional cohort survival technique, the District anticipates that the total number of students will increase or over the next few years.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

The following graph shows that the number of students has been stable over the last few years.

**Table A-4
Five-Year Enrollment Trend**



The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	<u>Year Ended</u>		<u>Change</u>	
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Local Sources				
Property Taxes	\$ 9,743,437	\$ 9,763,250	\$ (19,813)	-0.2%
Earnings on Investments	22,772	4,210	18,562	440.9%
Other	1,558,501	1,321,931	236,570	17.9%
State Sources	35,469,498	33,762,653	1,706,845	5.1%
Federal Sources	1,290,511	1,120,740	169,771	15.1%
Total General Fund Revenue	<u>\$ 48,084,719</u>	<u>\$ 45,972,784</u>	<u>\$ 2,111,935</u>	4.6%

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

Total General Fund Revenue increased by \$2,111,935 or 4.6% from the previous year. This increase was primarily from the increase in state sources. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue.

The following schedule presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2016	June 30, 2015	Increase (Decrease)	Percent
Salaries	\$ 26,883,222	\$ 26,087,057	\$ 796,165	3.1%
Employee Benefits	10,318,375	9,507,844	810,531	8.5%
Purchased Services	6,761,624	6,437,273	324,351	5.0%
Supplies and Materials	1,581,595	1,601,629	(20,034)	-1.3%
Capital Expenditures	576,831	1,165,556	(588,725)	-50.5%
Other Expenditures	311,802	255,833	55,969	21.9%
Total Expenditures	<u>\$ 46,433,449</u>	<u>\$ 45,055,192</u>	<u>\$ 1,378,257</u>	3.1%

Total General Fund expenditures, capital expenditures included increased \$1,378,257 or 3.1% due to normal cost inflationary measures, specific Board approved programs and District contract negotiation. The District has been diligent in controlling expenditures in anticipation of little or no funding increases from the State. The District continues to look for cost reductions and other containment measures in all contracted services arrangements currently in place.

In 2015-2016, General Fund revenues and other financing sources were more than expenditures by \$1,700,445 or 3.7% of total expenditures. After deducting statutory restrictions, the unassigned fund balance increased from \$10,446,549 at June 30, 2015 to \$11,946,991 at June 30, 2016, an increase of \$1,500,442. The unassigned fund balance represents 25.7% of general fund expenditures which is higher than the Board designated goal of 16%, but in line with our goal to increase fund balance during the first several years of our increased referendum.

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1), referred to as the preliminary budget. Over the course of the year, the District chose to revise the preliminary budget to account for changes in estimates that were used in planning the preliminary budget.

The District's final budget for the General Fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$154,528. The actual results show revenues being larger than expenditures by \$1,700,445.

- Actual revenues and other financing sources were \$1,060,729 more than expected. This was primarily due to a conservative special education revenue estimate and additional general education revenue due to increased enrollment.
- Actual expenditures and other financing uses were \$794,244 less than expected. This was primarily due to salaries and benefits costing less than anticipated.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

GENERAL FUND (CONTINUED)

**Table A-7
General Fund Budget to Actual**

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>	<u>Percent Change</u>
Revenue and Other Financing Sources	\$ 47,073,165	\$ 48,133,894	\$ 1,060,729	2.2%
Expenditures and Other Financing Uses	<u>47,227,693</u>	<u>46,433,449</u>	<u>(794,244)</u>	-1.7%
Net Change	<u>\$ (154,528)</u>	<u>\$ 1,700,445</u>	<u>\$ 1,854,973</u>	

FOOD SERVICE FUND

The Food Service Fund accounts for the activities related to providing nutrition services to the K-12 academic program. The fund operates on the principle of revenues exceeding expenditures on day-to-day operations so that the excess can be used to systematically replace and upgrade kitchen equipment around the district. By operating in this manner, the Student Nutrition Services program is self-contained and does not pull resources away from direct K-12 instruction. The District served 408,409 lunches and 103,930 breakfasts to students, in addition to a la carte sales during the 2015-16 school year.

The fund balance increased by \$201,643 to \$652,781 during 2015-2016. This was primarily due to an increase in lunch prices and increased participation.

Food Service Fund Revenues for 2015-2016 totaled \$2,162,249. This was an increase of \$95,360 or approximately 4.6% from 2014-15.

Food Service Fund Expenditures for 2015-2016 totaled \$1,960,606. This was a decrease of \$237,537 or 10.8% from 2014-2015.

COMMUNITY SERVICE FUND

The Community Service Fund accounts for the activities related to providing lifelong learning, recreation and community involvement. They provide programming for all ages. The fund is self-sustaining and helps support many District programs and initiatives.

Community Service Fund Revenues and other financing sources for 2015-2016 totaled \$2,558,297. This was an increase of \$277,764 or 12.2% from 2014-2015.

Community Service Fund Expenditures for 2015-2016 totaled \$2,462,491. This was an increase of \$282,772 or 13.0% over 2014-2015.

The fund balance has increased from \$435,118 on June 30, 2015 to \$530,924 on June 30, 2016. The majority of the fund balance is reserved for specific purposes based on state requirements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

DEBT SERVICE FUND

The Debt Service Fund exists to service the principal and interest payments on long-term debt issued by the district to construct school facilities or acquire school equipment. Annual levies will provide revenue at a rate of 105% of pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payments can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

The Debt Service Fund Balance decreased by \$83,277 in 2015-2016.

The Minnesota Department of Education monitors fund balances in the Debt Service Fund and limits the amount of funds that can be carried forward. If the fund balance gets too high, future levy authority will be reduced in order to reduce the debt service fund balance to a reasonable level. The June 30, 2016, fund balance of \$1,627,000 plus future levies that include an additional 5% levy to cover late or delinquent property tax payments will provide adequate cash flow for timely payment of principal and interest.

The District's current general obligation bond rating from Standard and Poor's is AA+.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At the end of fiscal year 2016, the District had invested \$98,444,294 in a broad range of capital assets, including school buildings, land, computer and audio-visual equipment, and other equipment for various instructional programs (see Table A-8). Total accumulated depreciation as of June 30, 2016 was \$38,366,587. The current year depreciation expense for Governmental Activities totaled \$2,722,193. More detailed information about capital assets can be found in Note 4 to the financial statements.

**Table A-8
The District's Capital Assets**

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
Land	\$ 968,609	\$ 968,609	0.0%
Land Improvements	3,759,659	3,721,583	1.0%
Buildings and Improvements	89,296,146	89,168,660	0.1%
Equipment	4,419,880	4,324,483	2.2%
Less: Accumulated Depreciation	(38,366,587)	(35,664,897)	7.6%
Total	<u><u>\$ 60,077,707</u></u>	<u><u>\$ 62,518,438</u></u>	<u><u>-3.9%</u></u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2016**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Long-Term Liabilities:

For the fiscal year ended June 30, 2016, the District had \$76,155,394 in long-term liabilities outstanding, including \$7,828,282 for health benefits, severance and compensated absences. This is an increase of 2.3% from the prior year (see Table A-9). More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements.

**Table A-9
The District's Long-Term Liabilities**

	<u>2016</u>	<u>2015</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 35,940,000	\$ 40,355,000	-10.94%
Net Bond Premium and Discount	952,537	1,155,464	-17.56%
Certificates of Participation Payable	979,177	1,069,675	-8.46%
Other Postemployment Benefits Payable	7,455,011	6,648,506	12.13%
Severance Benefits Payable	208,852	258,146	-19.10%
Compensated Absences Payable	164,419	149,046	10.31%
Net Pension Liability	30,455,398	24,791,497	22.85%
Total	<u><u>\$ 76,155,394</u></u>	<u><u>\$ 74,427,334</u></u>	<u>2.32%</u>
Long-Term Liabilities:			
Due Within One Year	\$ 4,729,252	\$ 4,820,265	
Due in More Than One Year	71,426,142	69,607,069	
	<u><u>\$ 76,155,394</u></u>	<u><u>\$ 74,427,334</u></u>	

OTHER SELECTED INFORMATION

The government-wide financial statements now recognize liabilities for severance pay, compensated absences and retiree health benefits for retired employees totaling \$7,828,282. This liability does include an amount for future health benefit costs to employees who have not retired as of June 30, 2016. The District continues to assign funds as available to meet future obligations. A total of \$4,000,000 has been segregated from the Unassigned Fund Balance over the last several years to begin to address this long term liability.

Under the pay-as-you-go method, the recent annual cost of severance, compensated absences and retiree health benefits for retired employees remains consistently at approximately 2.0% of the General Fund expenditures. The costs are budgeted and funded out of current revenues of the General Fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information please visit our website at www.northfieldschools.org or contact the Finance Department, Independent School District No. 659, 1400 Division Street South, Northfield, Minnesota 55057.

BASIC FINANCIAL STATEMENTS

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF NET POSITION
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Governmental Activities	
	2016	2015
ASSETS		
Cash and Investments	\$ 28,309,869	\$ 26,150,421
Receivables		
Property Taxes	7,668,032	7,842,157
Other Governments	5,469,600	5,347,187
Other	48,465	58,506
Prepaid Items	452,876	33,815
Inventories	48,436	44,773
Capital Assets		
Land and Construction in Progress	968,609	968,609
Other Capital Assets, Net of Depreciation	59,109,098	61,549,829
Total Assets	102,074,985	101,995,297
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	5,730,896	4,366,714
Total Deferred Outflows of Resources	5,730,896	4,366,714
LIABILITIES		
Salaries and Payroll Deductions Payable	911,351	791,931
Accounts and Contracts Payable	540,718	677,601
Accrued Interest	418,258	462,122
Due to Other Governmental Units	174,298	219,325
Unearned Revenue	193,987	217,892
Long-Term Liabilities		
Portion Due Within One Year	4,729,252	4,820,265
Portion Due in More Than One Year	71,426,142	69,607,069
Total Liabilities	78,394,006	76,796,205
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	15,169,046	15,173,458
Pension Related	3,282,271	7,545,453
Total Deferred Inflows of Resources	18,451,317	22,718,911
NET POSITION		
Net Investment in Capital Assets	22,138,097	19,861,351
Restricted for:		
Operating Capital Purposes	569,700	629,961
State-Mandated Reserves	437,514	326,105
Food Service	652,781	451,138
Community Service	544,354	457,277
Debt Service	1,337,684	1,432,846
Unrestricted	(14,719,572)	(16,311,783)
Total Net Position	\$ 10,960,558	\$ 6,846,895

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

Functions	2016		
	Expenses	Charges for Services	Program Operating Grants and Contributions
Governmental Activities			
Administration	\$ 1,730,307	\$ 3,755	\$ -
District Support Services	1,208,765	7,781	-
Regular Instruction	26,149,580	632,659	3,315,131
Vocational Education Instruction	287,828	-	4,653
Special Education Instruction	9,620,471	465,520	5,544,788
Instructional Support Services	1,467,610	-	-
Pupil Support Services	3,485,194	2,970	231,479
Sites and Buildings	4,648,628	38,390	11,116
Fiscal and Other Fixed Cost Programs	139,490	-	-
Food Service	1,979,087	1,198,349	956,064
Community Service	2,459,065	1,545,818	613,118
Interest and Fiscal Charges on Long-Term Liabilities	920,860	-	-
Total School District	<u>\$ 54,096,885</u>	<u>\$ 3,895,242</u>	<u>\$ 10,676,349</u>

General Revenues

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

See accompanying Notes to Financial Statements.

	2016	2015
Revenues	Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Capital	Total	Total
Grants and Contributions	Governmental Activities	Governmental Activities
\$ -	\$ (1,726,552)	\$ (1,625,119)
22,521	(1,178,463)	(1,214,842)
150,283	(22,051,507)	(21,826,200)
-	(283,175)	(266,260)
-	(3,610,163)	(3,426,479)
7,421	(1,460,189)	(1,365,593)
-	(3,250,745)	(3,202,898)
392,747	(4,206,375)	(3,447,058)
-	(139,490)	(141,031)
-	175,326	(5,820)
-	(300,129)	(220,526)
-	(920,860)	(1,071,916)
<u>\$ 572,972</u>	<u>(38,952,322)</u>	<u>(37,813,742)</u>
	9,685,043	9,781,333
	403,900	394,717
	5,310,739	5,541,784
	27,342,958	26,428,743
	63,735	23,598
	259,610	215,128
	<u>43,065,985</u>	<u>42,385,303</u>
	4,113,663	4,571,561
	6,846,895	2,275,334
	<u>\$ 10,960,558</u>	<u>\$ 6,846,895</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	General	Food Service	Major Community Service
ASSETS			
Cash and Investments	\$ 18,057,694	\$ 683,293	\$ 760,994
Receivables			
Current Property Taxes	4,987,036	-	197,884
Delinquent Property Taxes	103,447	-	4,508
Due from Other Minnesota School Districts	557,683	-	4,211
Due from Minnesota Department of Education	4,192,529	-	32,510
Due from Federal through Minnesota Department of Education	608,125	9,396	-
Due from Federal Government Received Directly	7,877	-	-
Due from Other Governmental Units	25,825	-	24,070
Other Receivables	35,872	657	11,514
Prepaid Items	450,271	1,450	1,155
Inventory	31,676	16,760	-
Total Assets	<u>\$ 29,058,035</u>	<u>\$ 711,556</u>	<u>\$ 1,036,846</u>
LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Liabilities			
Salaries and Payroll Deductions Payable	\$ 863,668	\$ 1,878	\$ 45,805
Accounts and Contracts Payable	249,597	3,212	22,522
Due to Other Governmental Units	171,707	-	2,591
Unearned Revenue	117,309	53,685	22,993
Total Liabilities	<u>1,402,281</u>	<u>58,775</u>	<u>93,911</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	9,995,628	-	407,503
Unavailable Revenue - Delinquent Property Taxes	90,515	-	4,508
Total Deferred Inflows of Resources	<u>10,086,143</u>	<u>-</u>	<u>412,011</u>
Fund Balance			
Nonspendable			
Prepaid Items	450,271	1,450	1,155
Inventory	31,676	16,760	-
Restricted for			
Deferred Maintenance	346,798	-	-
Health and Safety	(110,827)	-	-
Operating Capital	569,700	-	-
Teacher Development and Evaluation	90,716	-	-
Community Education Programs	-	-	403,843
Early Childhood and Family Education Programs	-	-	63,625
School Readiness	-	-	71,225
Other Purposes	-	634,571	-
Assigned For			
Severance - Insurance Premiums	4,000,000	-	-
Special Education	200,000	-	-
Tobacco Settlement	19,734	-	-
Carry-Over Funds	24,552	-	-
Self-Insurance	-	-	-
Unassigned	11,946,991	-	(8,924)
Total Fund Balance	<u>17,569,611</u>	<u>652,781</u>	<u>530,924</u>
Total Liabilities Deferred Inflows of Resources and Fund Balance	<u>\$ 29,058,035</u>	<u>\$ 711,556</u>	<u>\$ 1,036,846</u>

See accompanying Notes to Financial Statements.

Funds	Total Governmental	
	Funds	
Debt Service	2016	2015
\$ 4,071,430	\$ 23,573,411	\$ 22,140,568
2,314,111	7,499,031	7,554,579
61,046	169,001	287,578
-	561,894	99,668
7,374	4,232,413	4,166,961
-	617,521	1,023,431
-	7,877	32,923
-	49,895	24,204
-	48,043	58,059
-	452,876	33,815
-	48,436	44,773
<u>\$ 6,453,961</u>	<u>\$ 37,260,398</u>	<u>\$ 35,466,559</u>
\$ -	\$ 911,351	\$ 791,931
-	275,331	333,988
-	174,298	219,325
-	193,987	217,892
<u>-</u>	<u>1,554,967</u>	<u>1,563,136</u>
4,765,915	15,169,046	15,173,458
61,046	156,069	264,266
<u>4,826,961</u>	<u>15,325,115</u>	<u>15,437,724</u>
-	452,876	33,815
-	48,436	44,773
-	346,798	234,889
-	(110,827)	(200,878)
-	569,700	629,961
-	90,716	91,216
-	403,843	340,641
-	63,625	48,553
-	71,225	54,872
1,627,000	2,261,571	2,147,786
-	4,000,000	3,762,204
-	200,000	200,000
-	19,734	20,869
-	24,552	41,458
-	-	583,537
-	11,938,067	10,432,003
<u>1,627,000</u>	<u>20,380,316</u>	<u>18,465,699</u>
<u>\$ 6,453,961</u>	<u>\$ 37,260,398</u>	<u>\$ 35,466,559</u>

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	2016	2015
Total Fund Balance for Governmental Funds	\$ 20,380,316	\$ 18,465,699
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported in the funds. Those assets consist of:		
Land	968,609	968,609
Land Improvements, Net of Accumulated Depreciation	1,587,515	1,678,956
Buildings and Improvements, Net of Accumulated Depreciation	56,019,276	58,167,603
Equipment, Net of Accumulated Depreciation	1,502,307	1,703,270
The District's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:		
Net Pension Liability	(30,455,398)	(24,791,497)
Deferred Outflows of Resources - Pension Related	5,730,896	4,366,714
Deferred Inflows of Resources - Pension Related	(3,282,271)	(7,545,453)
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the funds.		
	156,069	264,266
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(418,258)	(462,122)
Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end are:		
	4,471,493	3,666,687
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(35,940,000)	(40,355,000)
Unamortized Premiums	(1,020,433)	(1,232,412)
Unamortized Discounts	67,896	76,948
Certificates of Participation Payable	(979,177)	(1,069,675)
Severance Benefits Payable	(208,852)	(258,146)
Compensated Absences Payable	(164,419)	(149,046)
Other Postemployment Benefits Payable	(7,455,011)	(6,648,506)
Total Net Position of Governmental Activities	\$ 10,960,558	\$ 6,846,895

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	Major		
	General	Food Service	Community Service
REVENUES			
Local Sources			
Property Taxes	\$ 9,743,437	\$ -	\$ 407,006
Earnings on Investments	22,772	2,631	2,432
Other	1,558,501	1,203,554	1,871,008
State Sources	35,469,498	109,618	275,007
Federal Sources	1,290,511	846,446	-
Total Revenues	<u>48,084,719</u>	<u>2,162,249</u>	<u>2,555,453</u>
EXPENDITURES			
Current			
Administration	1,756,789	-	-
District Support Services	1,194,644	-	-
Regular Instruction	23,417,435	-	-
Vocational Education Instruction	290,157	-	-
Special Education Instruction	9,592,822	-	-
Instructional Support Services	1,422,376	-	-
Pupil Support Services	3,496,242	-	-
Sites and Buildings	4,403,903	-	-
Fiscal and Other Fixed Cost Programs	139,490	-	-
Food Service	-	1,959,099	-
Community Service	-	-	2,440,496
Capital Outlay	576,831	1,507	21,995
Debt Service			
Principal	90,498	-	-
Interest and Fiscal Charges	52,262	-	-
Total Expenditures	<u>46,433,449</u>	<u>1,960,606</u>	<u>2,462,491</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,651,270	201,643	92,962
OTHER FINANCING SOURCES (USES)			
Sale of Equipment Proceeds	2,680	-	-
Insurance Recovery Proceeds	22,795	-	2,844
Energy Rebate	23,700	-	-
Total Other Financing Sources (Uses)	<u>49,175</u>	<u>-</u>	<u>2,844</u>
Net Change in Fund Balances	1,700,445	201,643	95,806
Fund Balances - Beginning of Year	15,869,166	451,138	435,118
Fund Balances - End of Year	<u>\$ 17,569,611</u>	<u>\$ 652,781</u>	<u>\$ 530,924</u>

See accompanying Notes to Financial Statements.

Funds	Total Governmental	
	Funds	
Debt Service	2016	2015
\$ 5,357,436	\$ 15,507,879	\$ 15,693,926
16,027	43,862	16,294
-	4,633,063	4,150,197
73,649	35,927,772	34,149,255
-	2,136,957	1,907,923
<u>5,447,112</u>	<u>58,249,533</u>	<u>55,917,595</u>
-	1,756,789	1,630,916
-	1,194,644	1,188,681
-	23,417,435	23,150,183
-	290,157	270,787
-	9,592,822	8,798,182
-	1,422,376	1,371,559
-	3,496,242	3,448,277
-	4,403,903	3,747,260
-	139,490	141,031
-	1,959,099	2,043,708
-	2,440,496	2,159,226
-	600,333	1,933,811
4,415,000	4,505,498	4,196,146
1,115,389	1,167,651	1,277,477
<u>5,530,389</u>	<u>56,386,935</u>	<u>55,357,244</u>
(83,277)	1,862,598	560,351
-	2,680	-
-	25,639	-
-	23,700	-
-	52,019	-
<u>(83,277)</u>	<u>1,914,617</u>	<u>560,351</u>
1,710,277	18,465,699	17,905,348
<u>\$ 1,627,000</u>	<u>\$ 20,380,316</u>	<u>\$ 18,465,699</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	2016	2015
Net Change in Fund Balance-Total Governmental Funds	\$ 1,914,617	\$ 560,351
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$5,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital Outlays	293,471	1,582,540
Gain (Loss) on Disposal of Capital Assets	(9,329)	-
Proceeds from Sales of Capital Assets	(2,680)	-
Depreciation Expense	(2,722,193)	(2,648,109)
<p>Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the Statement of Activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources.</p>		
	(36,537)	624,883
<p>The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:</p>		
Repayment of Certificates of Participation	90,498	86,146
Repayment of Bond Principal	4,415,000	4,110,000
Change in Accrued Interest Expense - General Obligation Bonds	43,864	39,841
Amortization of Bond Premium	211,979	174,772
Amortization of Bond Discount	(9,052)	(9,052)
<p>Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.</p>		
	(108,197)	23,908
<p>In the statement of activities, certain operating expenses - other postemployment benefits, severance benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).</p>		
	(772,584)	(1,006,045)
<p>Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue of the internal service funds is reported with governmental activities.</p>		
	804,806	1,032,326
Change in Net Position of Governmental Activities	\$ 4,113,663	\$ 4,571,561

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources				
Property Taxes	\$ 9,786,010	\$ 9,786,010	\$ 9,743,437	\$ (42,573)
Earnings on Investments	10,000	5,000	22,772	17,772
Other	1,240,703	1,213,551	1,558,501	344,950
State Sources	33,146,404	34,712,420	35,469,498	757,078
Federal Sources	1,274,349	1,321,189	1,290,511	(30,678)
Total Revenues	<u>45,457,466</u>	<u>47,038,170</u>	<u>48,084,719</u>	<u>1,046,549</u>
EXPENDITURES				
Current:				
Administration	1,663,797	1,770,354	1,756,789	(13,565)
District Support Services	1,373,852	1,391,939	1,194,644	(197,295)
Regular Instruction	23,375,827	24,024,713	23,417,435	(607,278)
Vocational Education Instruction	217,470	276,513	290,157	13,644
Special Education Instruction	8,921,450	9,514,791	9,592,822	78,031
Instructional Support Services	1,476,134	1,478,273	1,422,376	(55,897)
Pupil Support Services	3,519,565	3,592,619	3,496,242	(96,377)
Sites and Buildings	4,390,729	4,275,979	4,403,903	127,924
Fiscal and Other Fixed Cost Programs	167,511	145,000	139,490	(5,510)
Capital Outlay	614,752	614,752	576,831	(37,921)
Debt Service				
Principal	86,146	86,146	90,498	4,352
Interest and Fiscal Charges	56,614	56,614	52,262	(4,352)
Total Expenditures	<u>45,863,847</u>	<u>47,227,693</u>	<u>46,433,449</u>	<u>(794,244)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(406,381)	(189,523)	1,651,270	1,840,793
OTHER FINANCING SOURCES (USES)				
Sale of Equipment Proceeds	-	-	2,680	2,680
Insurance Recovery Proceeds	-	11,295	22,795	11,500
Energy Rebate	-	23,700	23,700	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>34,995</u>	<u>49,175</u>	<u>14,180</u>
Net Change in Fund Balances	<u>\$ (406,381)</u>	<u>\$ (154,528)</u>	1,700,445	<u>\$ 1,854,973</u>
FUND BALANCE				
Beginning of Year			<u>15,869,166</u>	
End of Year			<u>\$ 17,569,611</u>	

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources				
Earnings on Investments	\$ -	\$ -	\$ 2,631	\$ 2,631
Other - Primarily Meal Sales	1,161,035	1,161,035	1,203,554	42,519
State Sources	90,000	90,000	109,618	19,618
Federal Sources	759,000	759,000	846,446	87,446
Total Revenues	<u>2,010,035</u>	<u>2,010,035</u>	<u>2,162,249</u>	<u>152,214</u>
EXPENDITURES				
Current				
Food Service	1,935,098	1,935,098	1,959,099	24,001
Capital Outlay	30,500	30,500	1,507	(28,993)
Total Expenditures	<u>1,965,598</u>	<u>1,965,598</u>	<u>1,960,606</u>	<u>(4,992)</u>
Deficiency of Revenues Under Expenditures	<u>\$ 44,437</u>	<u>\$ 44,437</u>	201,643	<u>\$ 157,206</u>
FUND BALANCE				
Beginning of Year			<u>451,138</u>	
End of Year			<u>\$ 652,781</u>	

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources				
Property Taxes	\$ 404,698	\$ 404,698	\$ 407,006	\$ 2,308
Earnings on Investments	200	200	2,432	2,232
Other - Primarily Tuition and Fees	1,570,530	1,622,635	1,871,008	248,373
State Sources	190,988	262,113	275,007	12,894
Total Revenues	<u>2,166,416</u>	<u>2,289,646</u>	<u>2,555,453</u>	<u>265,807</u>
EXPENDITURES				
Current				
Community Service	2,161,568	2,239,885	2,440,496	200,611
Capital Outlay	13,532	24,616	21,995	(2,621)
Total Expenditures	<u>2,175,100</u>	<u>2,264,501</u>	<u>2,462,491</u>	<u>197,990</u>
Excess of Revenues Over Expenditures	(8,684)	25,145	92,962	67,817
OTHER FINANCING SOURCES (USES)				
Insurance Recovery Proceeds	-	-	2,844	2,844
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>2,844</u>	<u>2,844</u>
Net Change in Fund Balance	<u>\$ (8,684)</u>	<u>\$ 25,145</u>	95,806	<u>\$ 70,661</u>
FUND BALANCE				
Beginning of Year			<u>435,118</u>	
End of Year			<u>\$ 530,924</u>	

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2015)**

	Governmental Activities - Internal Service Funds	
	2016	2015
ASSETS		
Cash and Cash Equivalents	\$ 4,736,458	\$ 4,009,853
Accounts Receivable	422	447
Total Assets	4,736,880	4,010,300
LIABILITIES		
Accounts Payable	265,387	343,613
Total Liabilities	265,387	343,613
NET POSITION		
Unrestricted	4,471,493	3,666,687
Total Net Position	\$ 4,471,493	\$ 3,666,687

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	Governmental Activities - Internal Service Funds	
	2016	2015
OPERATING REVENUES		
Charges for Services	\$ 6,716,016	\$ 6,411,917
Total Operating Revenues	6,716,016	6,411,917
OPERATING EXPENSES		
Insurance Claim Payments	4,981,153	4,484,538
Administrative Fees	949,930	902,357
Total Operating Expenses	5,931,083	5,386,895
Operating Income (Loss)	784,933	1,025,022
NONOPERATING INCOME		
Earnings on Investments	19,873	7,304
Total Nonoperating Income	19,873	7,304
CHANGE IN NET POSITION	804,806	1,032,326
Total Net Position - Beginning of Year	3,666,687	2,634,361
TOTAL NET POSITION - END OF YEAR	\$ 4,471,493	\$ 3,666,687

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2016
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2015)**

	Totals	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 6,716,041	\$ 6,411,470
Payments for Medical Fees and Insurance Claims	(5,059,379)	(4,455,653)
Payments for Services, Supplies, & Fees	(949,930)	(902,357)
Net Cash Provided by Operating Activities	706,732	1,053,460
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	19,873	7,304
Net Increase in Cash and Cash Equivalents	726,605	1,060,764
Cash and Cash Equivalents - Beginning of Year	4,009,853	2,949,089
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 4,736,458	\$ 4,009,853
Displayed on the Statement of Net Position as:		
Cash and Investments	\$ 4,736,458	\$ 4,009,853
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income	\$ 784,933	\$ 1,025,022
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable	25	(447)
Increase (Decrease) in Accounts Payable	(78,226)	28,885
Total Adjustments	(78,201)	28,438
Net Cash Provided by Operating Activities	\$ 706,732	\$ 1,053,460

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

	Private- Purpose Trust
ASSETS	
Cash and Investments	\$ 148,176
Total Assets	148,176
NET POSITION	
Held in Trust	148,176
Total Net Position	\$ 148,176

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016**

	Private- Purpose Trust
ADDITIONS	
Gifts and Donations	\$ 72,667
Earnings on Investments	573
Total Additions	73,240
DEDUCTIONS	
Miscellaneous	63,427
Total Deductions	63,427
Change in Net Position	9,813
Net Position - Beginning of Year	138,363
Net Position - End of Year	\$ 148,176

See accompanying Notes to Financial Statements.

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 659 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as Accounting Principles Generally Accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 659 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, account groups, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. Based on these criteria, there are no organizations considered to be component units of the District.

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

C. Basic Financial Statement Presentation

The Government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The Fiduciary Funds are only reported in the statement of Fiduciary Net Position at the Fund Financial Statement level.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

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

Separate Fund financial statements are provided for governmental, proprietary funds, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services is the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

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

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

1. Revenue Recognition – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.
2. Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

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

Major Governmental Funds

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

Food Service Special Revenue Fund - The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund come from user fees, and reimbursements from the Federal and State governments.

Community Service Special Revenue Fund - The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

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

Proprietary Funds

Internal Service Funds – The Internal Service Fund accounts for the financing of a self-insured health and dental plan provided for the District's employees on a cost reimbursement basis.

Fiduciary Funds

Private-Purpose Trust Fund – The Private-Purpose Trust Fund is used to report resources that are to be used for scholarships to support students that continue their education.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

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

F. Cash and Investments

Cash of the individual funds is combined for investment purposes. Investments consist primarily of certificates of deposit, and money market funds. Investments with an original maturity of less than one year are recorded at amortized cost, which approximates fair value. Investments with an original maturity of more than one year are recorded at fair value based on quoted market prices. Interest earned as a result of these investments and the combined deposit account is distributed to the appropriate funds based on average cash and investment balances of each fund.

G. Cash and Cash Equivalents

For purposes of reporting cash flows, the District considers all demand accounts, savings accounts, certificates of deposits, and money market funds, to be cash and cash equivalents while all deposits in the Minnesota Municipal Money Market Fund Trust (MN Trust), Minnesota School District Liquid Asset Fund (MSDLAF), and government bonds regardless of maturities are considered investments.

H. Receivables

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are current property taxes receivable.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Inventories

Inventories are recorded using the consumption method of accounting and consist of fuel, food and other supplies on hand at June 30, 2016, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method, and surplus commodities are stated at standardized cost, as determined by the Department of Agriculture.

J. Prepaid Items

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

K. Property Taxes

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

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

The majority of District revenue in the General (and to a lesser extent the Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy which is frozen at \$374,466. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. State aids are then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. Certain other portions of the District's 2015 pay 2016 levy, normally revenue for the 2016-17 fiscal year, are also advance recognized at June 30, 2016, as required by state statute to match revenue with the same fiscal year as the related expenditures.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes (Continued)

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

L. Capital Assets

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

Capital assets are recorded in the Government-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment and furnishings.

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.

M. Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense) until that time. The District has one type of item that qualifies as this reporting element, pension related.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Long-Term Liabilities

In the government-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 amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period they are incurred.

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

O. Accrued Employee Benefits

Compensated Absences

The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave, vacation leave, and termination benefits. The District accounts for the employee benefits as follows:

Vacation leave vests and may be carried forward but must be used by the end of the following contract year. A liability of \$164,419 is included in long-term debt for earned but unpaid vacation.

Sick Pay

Sick leave does not vest and is accounted for as an expenditure when paid, except as discussed below.

Severance

Severance pay is available for certain eligible employees. The maximum benefit is generally based on accumulated unused sick leave. The total amounts cannot exceed certain contract limits.

Other Postemployment Benefits Payable

Under the provisions of the various employee and union contracts the District provides Health and Dental Care coverage until age 65 if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45, at June 30, 2016.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Pensions

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

Q. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The District has three types of deferred inflows. Two types occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year end) under the modified accrual basis of accounting. The third type of deferred inflow is pension related.

R. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for Food and Community Service accounts, grants, and 2016-2017 school year deposits.

S. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. Nonspendable portions of fund balance relate to prepaids and inventories. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Director of Finance the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available; it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District self-insures for health and dental insurance offered to its employees. District purchases commercial insurance coverage for all other risks of loss. There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

U. Self-Insurance Claims

This liability represents an estimate of health and dental claims incurred but not reported as of June 30, 2016. These claims are included in accounts payable in the Statement of Net Position.

V. Net Position

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

W. Summarized Comparative Information

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds			
Community Service Fund	\$ 2,264,501	\$ 2,462,491	\$ 197,990

These excess expenditures were funded with higher than anticipated revenues and existing fund balances.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits will not be returned in full. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

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

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

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

B. Investments

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

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and 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 banks 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 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.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

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

External Investment Pools –

	Amount
MN Trust Investment Term Series	\$ 10,261,430
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	7,335,380
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	1,019,917
	\$ 18,616,727

The Minnesota Municipal Money Market Fund Trust (MN Trust) is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under Minnesota statutes as described on the previous page. Its investments are valued at amortized cost, which approximates fair value. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

MSDLAF is an external investment pool not registered with the Securities Exchange Commission (SEC). The fair value of the position in the pool is the same as the value of the pool shares.

Interest Rate Risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations. Information about the sensitivity of the fair values of the District's investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Type	Total	12 Months or Less
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 7,335,380	\$ 7,335,380
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	1,019,917	1,019,917
MN Trust Investment Shares Portfolio	10,261,430	10,261,430
Total	\$ 18,616,727	\$ 18,616,727

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Custodial Credit Risk.

For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy requires insurance of all balances held with each investment account. As of June 30, 2016, the investment balances were fully covered by insurance for each brokerage firm.

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. The following chart summarizes year-end ratings for the District's investments as rated by Moody's Investors Service:

<u>Type</u>	<u>Rated by</u>	<u>Credit Rating</u>
MN Trust Investment Shares Portfolio	S&P	AAAm
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	S&P	AAAm
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	S&P	AAAm

Concentration of Credit Risk.

The District places no limit on the amount the District may invest in any one issuer. The following is a list of investments which individually comprise more than five percent of the District's total investments:

<u>Type</u>	<u>Amount</u>	<u>Percentage</u>
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 7,335,380	39.4%
Minnesota School District Liquid Asset Fund Max Series (MSDMAX)	1,019,917	5.5%
MN Trust Investment Shares Portfolio	10,261,430	55.1%

C. Balance Sheet Presentation

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

Deposits	\$ 9,840,368
Cash on Hand	950
Minnesota School District Liquid Asset Funds	8,355,297
MN Trust Investment Shares Portfolio	10,261,430
Total Cash and Investments	<u>\$ 28,458,045</u>
Cash and Investments - Statement of Net Position	\$ 28,309,869
Cash and Investments - Statement of Fiduciary Net Position	148,176
Total Cash and Investments	<u>\$ 28,458,045</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurement

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

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

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

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants and would use in pricing the asset.

Assets measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
None noted	\$ -	\$ -	\$ -	\$ -
Investments measured at Net Asset Value (NAV)				8,355,297
				\$ 8,355,297

MSDLAF is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of \$1.00. The Pool elects to measure investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurement (Continued)

The District reports its investment in the Pool at the NAV per share, the fair value established by the Pool.

The District's investment in the Pool is included in two share classes, as follows:

	Net Asset Value	Unfunded Commitments
MSDLAF Liquid	\$ 7,335,380	\$ -
MSDLAF Max	1,019,917	-

The Liquid Class has no redemption requirements. The Max Class may not be redeemed for at least 14 days, and a 24 hour hold is placed on redemption requests. Redemptions prior to 14 days may be subject to penalty.

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 968,609	\$ -	\$ -	\$ 968,609
Total Capital Assets, Not Being Depreciated	968,609	-	-	968,609
Capital Assets, Being Depreciated				
Land Improvements	3,721,583	38,076	-	3,759,659
Buildings and Improvements	89,168,660	127,486	-	89,296,146
Equipment	4,324,483	127,909	(32,512)	4,419,880
Total Capital Assets, Being Depreciated	97,214,726	293,471	(32,512)	97,475,685
Accumulated Depreciation for				
Land Improvements	(2,042,627)	(129,517)	-	(2,172,144)
Buildings and Improvements	(31,001,057)	(2,275,813)	-	(33,276,870)
Equipment	(2,621,213)	(316,863)	20,503	(2,917,573)
Total Accumulated Depreciation	(35,664,897)	(2,722,193)	20,503	(38,366,587)
Total Capital Assets, Being Depreciated, Net	61,549,829	(2,428,722)	(12,009)	59,109,098
Governmental Activities Capital Assets, Net	\$ 62,518,438	\$ (2,428,722)	\$ (12,009)	\$ 60,077,707

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 CAPITAL ASSETS (CONTINUED)

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

Governmental Activities		
Administration		\$ 4,477
District Support Services		27,958
Regular Instruction		2,561,067
Special Education Instruction		1,255
Sites and Buildings		90,923
Food Service		32,941
Community Service		3,572
Total Depreciation Expense, Governmental Activities		<u>\$ 2,722,193</u>

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The District has issued general obligation school building bonds to finance the construction of capital facilities or refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
2/16/2010	2.0 - 4.0%	22,615,000	2/1/2022	\$ 1,545,000	\$ 15,640,000
12/7/2011	2.0 - 2.375%	9,750,000	2/1/2024	535,000	9,065,000
12/19/2012	1.5 - 2.0%	9,825,000	2/1/2025	715,000	8,530,000
1/3/2013	1.5 - 3.0%	5,965,000	2/1/2017	1,325,000	1,325,000
5/13/2014	2.0 - 3.0%	1,525,000	2/1/2025	145,000	1,380,000
Total General Obligation Bonds				4,265,000	35,940,000
Bond Premium - Net				213,815	1,020,433
Bond Discounts - Net				(9,052)	(67,896)
Certificates of Participation Payable				95,070	979,177
Other Postemployment Benefits Payable				-	7,455,011
Severance Benefit Payable				-	208,852
Compensated Absences Payable				164,419	164,419
Net Pension Liability				-	30,455,398
				<u>\$ 4,729,252</u>	<u>\$ 76,155,394</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Minimum annual principal and interest payments necessary to retire long-term debt, not including certificate of participation, compensated absences payable and severance and health benefits payable are as follows:

<u>Year Ending June 30,</u>	General Obligation Bonds Payable	
	Principal	Interest
2017	\$ 4,265,000	\$ 1,003,819
2018	4,625,000	897,819
2019	4,795,000	777,544
2020	4,985,000	620,444
2021	5,195,000	452,344
2022 - 2026	12,075,000	619,431
	\$ 35,940,000	\$ 4,371,401

C. Description of Long-Term Liabilities

General Obligation Bonds

On February 16, 2010, the District issued \$22,615,000 of General Obligation School Building Refunding Bonds, Series 2010A. The proceeds of the issue were used to refund the outstanding principal and interest of the District's General Obligation School Building Bonds of 2001A on August 1, 2011.

On December 7, 2011, the District issued \$9,750,000 of General Obligation Refunding Bonds, Series 2011A to refund the portion of General Obligation School Building Refunding Bonds, Series 2003A totaling \$9,350,000, which were scheduled to mature in 2016 through 2024. This type of refunding is considered an advance crossover refunding. The proceeds of the refunding bonds were placed into an escrow account pending the call date of the old bonds (February 1, 2013).

On December 19, 2012, the District issued \$9,825,000 of General Obligation Alternative Facility Refunding Bonds, Series 2012A to refund the portion of General Obligation Alternative Facilities Refunding Bonds, Series 2004A and 2005A totaling \$9,950,000, which were scheduled to mature in 2015 through 2025. The Series 2012A bonds were issued at a premium of \$386,172. This type of refunding is considered an advance crossover refunding. The proceeds of the refunding bonds were placed into an escrow account pending the call date of the old bonds (February 1, 2014).

On January 3, 2013, the District issued \$5,965,000 of General Obligation School Building Refunding Bonds, Series 2013A. The proceeds of the issue were used to refund the outstanding principal and interest of the District's General Obligation School Building Bonds of 2003A and 2003C on February 1, 2013. The new issue was issued at a premium of \$226,892.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

General Obligation Bonds (Continued)

On May 13, 2014, the District issued \$1,525,000 of General Obligation Capital Facilities Bonds, Series 2014A. The proceeds of this issue were used to finance certain capital improvements to school facilities.

Compensated Absences Payable

The amount of the estimated obligation at June 30, 2016 is \$164,419. The District's General Fund finances compensated absences on a pay-as-you-go basis.

Severance Payable

Severance pay is available for certain eligible employees. The maximum benefit is generally based on accumulated unused sick leave, and years of service. The amount of the estimated obligation at June 30, 2016 is \$208,852. The District's General Fund finances severance benefits on a pay-as-you-go basis.

Certificate of Participation

On December 1, 2009 the District raised funds through the issuance of a loan payable. The maximum amount that could be drawn on the loan was \$1,495,000 and was used to finance capital improvements made to an elementary school. The loan was structured as a lease purchase agreement. Repayment of the principal is made through rental payments.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2016. The total cost of assets associated with the capital leases is \$2,686,518. The related accumulated depreciation of the assets at June 30, 2016 is \$591,034

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 142,760
2018	142,759
2019	142,759
2020	142,759
2021	142,759
2022 - 2026	499,663
2027 - 2031	-
2032 - 2036	-
Total Minimum Lease Payments	1,213,459
Less Amounts Representing Interest	234,282
Present Value of Net Minimum Lease Payments	\$ 979,177

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Liabilities

	June 30, 2015	Net Additions	Retirements	June 30, 2016
Bonds Payable	\$ 40,355,000	\$ -	\$ 4,415,000	\$ 35,940,000
Bond Premium	1,232,412	-	211,979	1,020,433
Bond Discounts	(76,948)	-	(9,052)	(67,896)
Certificates of Participation Payable	1,069,675	-	90,498	979,177
Other Postemployment Benefits Payable	6,648,506	1,570,937	764,432	7,455,011
Severance Benefits Payable	258,146	38,580	87,874	208,852
Compensated Absences Payable	149,046	164,419	149,046	164,419
Net Pension Liability	24,791,497	19,488,414	13,824,513	30,455,398
Total	<u>\$ 74,427,334</u>	<u>\$ 21,262,350</u>	<u>\$ 19,534,290</u>	<u>\$ 76,155,394</u>

NOTE 6 RESTRICTED FUND BALANCES

Certain portions of fund balance are Restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balances for the governmental funds:

A. Deferred Maintenance

The fund balance restriction represents accumulated resources available to provide maintenance on buildings with funding available for that purpose.

B. Health and Safety

The fund balance restriction represents available resources to be used for Health & Safety projects in accordance with an approved Health & Safety plan.

C. Operating Capital

The fund balance restriction represents available resources in the General Fund to be used to purchase equipment and facilities.

D. Teacher Development and Evaluation

The fund balance restriction represents available resources to be expended for teacher development and evaluation programs.

E. Community Education Programs

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

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

F. Early Childhood and Family Education Programs

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

G. School Readiness

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

H. Restricted for Other Purposes

The fund balance restriction represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (GERF)

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

2. Teachers Retirement Fund (TRA)

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

**NORTHFIELD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

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

B. Benefits Provided

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

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

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

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

1. GERS Benefits

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

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota 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

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years of Service are Up to July 1, 2006	1.2% per Year
	First Ten Years, if Service Years are July 1, 2006 or After	1.4% per Year
	All Other Years of Service If Service Years are Up to July 1, 2006	1.7% per Year
	All Other Years of Service If Service Years are July 1, 2006 or After	1.9% per Year

With these provisions:

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

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota 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.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits (Continued)

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

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

C. Contributions

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

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2015. In fiscal year ending June 30, 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2016, were \$544,855. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

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

	Ending June 30, 2015		Ending June 30, 2016	
	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%
Coordinated	7.5	7.5	7.5	7.5

The District's contributions to TRA for the plan's fiscal year ended June 30, 2016, were \$1,560,272. The District's contributions were equal to the required contributions for each year as set by state statute.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs

At June 30, 2016, the District reported a liability of \$6,156,833 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.1188% at the end of the measurement period and 0.1183% for the beginning of the period.

For the year ended June 30, 2016, the District recognized pension expense of \$670,745 for its proportionate share of GERF's pension expense.

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

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 57,097	\$ 310,409
Changes in Actuarial Assumptions	383,426	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	548,072
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	20,290	-
District Contributions Subsequent to the Measurement Date	544,855	-
Total	<u>\$ 1,005,668</u>	<u>\$ 858,481</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

Of the resources related to pensions resulting from District contributions to GERF subsequent to the measurement date, \$544,855 is reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expenses Amount</u>
2017	\$ (107,705)
2018	(107,705)
2019	(327,967)
2020	145,709

2. TRA Pension Costs

At June 30, 2016, the District reported a liability of \$24,298,565 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.3928% at the end of the measurement period and 0.4172% 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:

<u>Description</u>	<u>Amount</u>
District's Proportionate Share of the TRA Net Pension Liability	\$ 24,298,565
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	2,980,581

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.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$1,429,250. It also recognized \$526,928 as pension expense for the support provided by direct aid.

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

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Economic Experience	\$ 1,245,055	\$ -
Changes in Actuarial Assumptions	1,867,914	-
Net Difference Between Projected and Actual Investment Earnings	-	1,858,405
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	51,987	565,385
District Contributions Subsequent to the Measurement Date	1,560,272	-
Total	<u>\$ 4,725,228</u>	<u>\$ 2,423,790</u>

Of the resources related to pensions resulting from District contributions to TRA subsequent to the measurement date, \$1,560,272 is reported as deferred outflows and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expenses Amount</u>
2017	\$ (225,674)
2018	(225,674)
2019	(225,674)
2020	1,126,345
2021	291,843

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

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

<u>Assumptions</u>	<u>GERF</u>	<u>TRA</u>
Inflation	2.75%	3.00%
		3.50% Based on Years of Service
Active Member Payroll Growth	3.50% per Year	8.00%
Investment Rate of Return	7.90%	

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

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

The following changes in actuarial assumptions for GEF occurred in 2015: As of July 1, 2014, the discount rate was changed from 8.0% through June 30, 2017 and 8.5% thereafter to 8.0% for all years, the inflation assumption was changed from 3.0% to 2.75%, the payroll growth assumption was changed from 3.75% to 3.5%, assumed increases in member salaries were decreased by 0.25% at all ages and the assumed postretirement benefit increase rate was changed from 1.0% per year through 2026 and 2.5% thereafter to 1.0% per year through 2034 and 2.5% per year thereafter.

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

The long-term expected rate of return on pension plan investments is 7.9% for GEF and 8.00% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.00% for TRA. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

<u>Description</u>	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase in Discount Rate</u>
<u>GERF Discount Rate</u>	6.90%	7.90%	8.90%
District's Proportionate Share of the GERF Net Pension Liability	\$ 9,680,729	\$ 6,156,833	\$ 3,246,635
<u>TRA Discount Rate</u>	7.00%	8.00%	9.00%
District's Proportionate Share of the TRA Net Pension Liability	\$ 36,985,561	\$ 24,298,565	\$ 13,710,900

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Merger of Duluth Teacher’s Retirement Fund Association (DTRFA)

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

	6/30/14 CAFR	Restated
Total Pension Liability (A)	\$ 24,901,612,000	\$ 25,299,564,000
Plan Fiduciary Net Position (B)	20,293,684,000	20,519,756,000
Net Pension Liability (A-B)	\$ 4,607,928,000	\$ 4,779,808,000

I. Pension Plan Fiduciary Net Position

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

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

NOTE 8 DEFINED CONTRIBUTION BENEFIT PLAN

The District has a retirement plan qualifying under the Internal Revenue Code 403(b) for the benefit of employees hired on or after July 1, 2002. For qualifying employees the District’s annual and maximum contribution is based on the number of years an individual has taught at the District with a maximum career contribution of \$25,000.

The District contribution for the years ended June 30, 2016, 2015, and 2014 were approximately \$268,918, \$256,384, and \$201,632, respectively. The related employee contributions were \$850,342, \$810,302, and \$741,918, for the years ended June 30, 2016, 2015, and 2014, respectively.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan (“the Plan”) that provides health and dental insurance to eligible employees and their spouses through the District’s self-insured health insurance plan. There are 536 active participants and 68 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes up to 80% of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2016, the District contributed \$764,432 to the plan.

C. Annual OPEB Cost and Net OPEB Obligation

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

Annual Required Contribution	\$ 1,682,013
Interest on Net OPEB Obligation	265,941
Adjustment to Annual Required Contribution	(377,017)
Annual OPEB Cost (Expense)	<u>1,570,937</u>
Contributions Made	<u>(764,432)</u>
Increase in Net OPEB Obligation	806,505
Net OPEB Obligation - Beginning of Year	<u>6,648,506</u>
Net OPEB Obligation - End of Year	<u><u>\$ 7,455,011</u></u>

The District’s annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016, 2015, and 2014:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2016	\$ 1,570,937	48.7%	\$ 7,455,011
6/30/2015	\$ 1,569,250	38.7%	\$ 6,648,506
6/30/2014	\$ 1,494,115	48.1%	\$ 5,686,054

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$13,993,036. The annual payroll for active employees covered by the plan in the actuarial valuation was \$23,198,976 for a ratio of UAAL to covered payroll of 60.32%.

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

E. Actuarial Methods and Assumptions

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

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The initial healthcare trend rate was 7.50%, reduced by decrements to an ultimate rate of 5% after ten years. The UAAL is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2016 doesn't exceed 30 years.

NOTE 10 FLEXIBLE BENEFIT PLAN

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

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 FLEXIBLE BENEFIT PLAN (CONTINUED)

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

Payments of health insurance premiums are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General, Food Service, and Community Service Funds.

Payments for amounts withheld for medical reimbursement and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

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

NOTE 11 SELF-INSURED HEALTH AND DENTAL PLAN

The District has elected to self-insure their employee dental insurance program and their health insurance program. The District established an internal service fund to account for contributions from other funds for health and dental insurance. Contributions during the year were based on claims history. The amounts charged to expenses include administrative fees, claims paid, and accruals for claims incurred but not paid at year end. The District recorded total expenses of \$5,931,083 for the year ended June 30, 2016.

The liability for unpaid claims is included in the Internal Service Fund as accounts payable.

	<u>2016</u>	<u>2015</u>
Beginning of Fiscal Year Liability - July 1	\$ 343,613	\$ 314,728
Incurred Claims	4,981,154	4,484,538
Claims Payments	<u>5,059,380</u>	<u>4,455,653</u>
End of Fiscal Year Liability - June 30	<u>\$ 265,387</u>	<u>\$ 343,613</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 12 COMMITMENTS AND CONTINGENCIES

Federal and State Programs

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

Operating Leases

The District has commitments under operating leases for facilities and equipment. Some of these operating leases are covered by the levy.

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 448,473
2018	414,158
2019	384,308
Total Minimum Lease Payments	<u>\$ 1,246,939</u>

The District had \$906,100 of expenditures related to these leases during the year ended June 30, 2016.

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REQUIRED SUPPLEMENTARY INFORMATION

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**NORTHFIELD PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 659
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
 JUNE 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2014	\$ -	\$ 13,993,036	\$ 13,993,036	0.0%	\$ 23,198,976	60.32%
7/1/2012	\$ -	\$ 12,886,686	\$ 12,886,686	0.0%	\$ 23,129,627	55.72%
7/1/2010	\$ -	\$ 12,879,241	\$ 12,879,241	0.0%	\$ 22,135,154	58.18%

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST TWO FISCAL YEARS**

Fiscal Year	<u>2016</u>	<u>2015</u>
Measurement Date	June 30, 2015	June 30, 2014
PERA		
District's Proportion of the Net Pension Liability (Asset)	0.1188%	0.1183%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 6,156,833	\$ 5,567,224
District's Covered-Employee Payroll	6,969,875	6,211,247
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	88.33%	89.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.20%	78.70%
TRA		
District's Proportion of the Net Pension Liability (Asset)	0.3928%	0.4172%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 24,298,565	\$ 19,224,276
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	<u>2,980,581</u>	<u>1,333,077</u>
	\$ 27,279,146	\$ 20,557,353
District's Covered-Employee Payroll	19,836,024	18,972,883
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered-Employee Payroll	122.50%	101.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.80%	81.50%

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA			
Contractually Required Contribution	\$ 544,855	\$ 514,948	\$ 450,316
Contributions in Relation to the Contractually Required Contribution	<u>(544,855)</u>	<u>(514,948)</u>	<u>(450,316)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 7,264,732	\$ 6,969,875	\$ 6,211,247
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.39%	7.25%
TRA			
Contractually Required Contribution	\$ 1,560,272	\$ 1,487,706	\$ 1,328,100
Contributions in Relation to the Contractually Required Contribution	<u>(1,560,272)</u>	<u>(1,487,706)</u>	<u>(1,328,100)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 20,803,603	\$ 19,836,024	\$ 18,972,883
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.00%

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SUPPLEMENTARY INFORMATION

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2016**

	2016			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Over (Under) Final Budget
REVENUES				
Local Sources				
Property Tax	\$ 5,384,485	\$ 5,384,485	\$ 5,357,436	\$ (27,049)
Earnings on Investments	12,000	12,000	16,027	4,027
Other	52,000	52,000	-	(52,000)
State Sources	-	-	73,649	73,649
Total Revenues	5,448,485	5,448,485	5,447,112	(1,373)
EXPENDITURES				
Debt Service:				
Bond Principal	4,415,000	4,415,000	4,415,000	-
Bond Interest	1,109,094	1,109,094	1,109,094	-
Paying Agent Fees and other	6,000	6,000	6,295	295
Total Expenditures	5,530,094	5,530,094	5,530,389	295
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ (81,609)	\$ (81,609)	(83,277)	\$ (1,668)
Fund Balance - Beginning of Year			1,710,277	
Fund Balance - End of Year			\$ 1,627,000	

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SCHEDULE OF CHANGES IN FUND EQUITIES
YEAR ENDED JUNE 30, 2016**

	Fund Equities June 30, 2015	Revenues	Expenditures	Transfers	Total
GOVERNMENTAL FUNDS					
General Fund					
Nonspendable	\$ 59,361	\$ -	\$ -	\$ 422,586	\$ 481,947
Restricted for Staff Development	-	512,583	561,354	48,771	-
Restricted for Deferred Maintenance	234,889	258,401	146,492	-	346,798
Restricted for Health and Safety	(200,878)	285,526	195,475	-	(110,827)
Restricted for Capital Project Levy	-	750,000	769,818	19,818	-
Restricted for Operating Capital	629,961	869,284	929,545	-	569,700
Restricted for Learning and Development	-	851,436	851,436	-	-
Restricted for Area Learning Center	-	518,096	924,065	405,969	-
Restricted for Gifted and Talented	-	56,015	56,015	-	-
Restricted for Teacher Development and Evaluation	91,216	-	500	-	90,716
Restricted for Basic Skills	-	1,223,393	1,339,869	116,476	-
Restricted for Career and Tech. Programs	-	16,845	100,329	83,484	-
Restricted for Safe Schools	-	153,778	153,778	-	-
Assigned for Severance	3,762,204	-	-	237,796	4,000,000
Assigned for Special Education	200,000	-	-	-	200,000
Assigned for Tobacco Settlement	20,869	-	-	(1,135)	19,734
Assigned for Self-Insurance	583,537	-	-	(583,537)	-
Assigned for Carry-Over Funds	41,458	134,511	116,538	(34,879)	24,552
Unassigned	10,446,549	42,504,026	40,288,235	(715,349)	11,946,991
Total General Fund	15,869,166	48,133,894	46,433,449	-	17,569,611
Food Service Fund					
Nonspendable	13,629	-	-	4,581	18,210
Restricted for Other Purposes	437,509	2,162,249	1,960,606	(4,581)	634,571
Total Food Service Fund	451,138	2,162,249	1,960,606	-	652,781
Community Service Fund					
Nonspendable	5,598	-	-	(4,443)	1,155
Restricted for Community Education	340,641	2,028,330	1,965,128	-	403,843
Restricted for E.C.F.E.	48,553	238,980	223,908	-	63,625
Restricted for School Readiness	54,872	244,916	228,563	-	71,225
Unassigned	(14,546)	46,071	44,892	4,443	(8,924)
Total Community Service Fund	435,118	2,558,297	2,462,491	-	530,924
Capital Projects Fund					
Restricted for Other Purposes	-	-	-	-	-
Total Capital Projects Fund	-	-	-	-	-
Debt Service Fund					
Restricted for Other Purposes	1,710,277	5,447,112	5,530,389	-	1,627,000
Total Debt Service Fund	1,710,277	5,447,112	5,530,389	-	1,627,000
TOTAL GOVERNMENT FUNDS	18,465,699	58,301,552	56,386,935	-	20,380,316
FIDUCIARY FUNDS					
Trust Fund					
Unassigned	138,363	73,240	63,427	-	148,176
Total Trust Fund	138,363	73,240	63,427	-	148,176
TOTAL FIDUCIARY FUNDS	138,363	73,240	63,427	-	148,176
PROPRIETARY FUNDS					
Internal Service Fund					
Unassigned	3,666,687	6,735,889	5,931,083	-	4,471,493
Total Internal Service Fund	3,666,687	6,735,889	5,931,083	-	4,471,493
TOTAL PROPRIETARY FUNDS	3,666,687	6,735,889	5,931,083	-	4,471,493
GRAND TOTAL	\$ 22,270,749	\$ 65,110,681	\$ 62,381,445	\$ -	\$ 24,999,985

SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through Minnesota Department of Education			
Non-Cash Assistance (Commodities):			
National School Lunch Program	# 10.555	1-0659-000	\$ 114,479
Total Non-Cash Assistance			\$ 114,479
Cash Assistance:			
Commodity Cash Rebate Program	# 10.555	1-0659-000	19,076
School Breakfast Program	# 10.553	1-0659-000	129,226
National School Lunch Program	# 10.555	1-0659-000	544,223
Summer Program	# 10.559	1-0659-000	35,406
After School Snack	# 10.555	1-0659-000	4,036
Total Cash Assistance			<u>731,967</u>
Total U.S. Department of Agriculture			<u>846,446</u>
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Title I, Part A - Grants to Local Educational Agencies	84.010	1-0659-000	321,396
Title II, Part A - Improving Teacher Quality State Grants	84.367	1-0659-000	67,043
Title III, Part A - English Language Acquisition Grants	84.365	1-0659-000	31,988
Title IV, Part B - Twenty-First Century Community Learning Centers	84.287	1-0659-000	116,087
Special Education - Grants to States	& 84.027	1-0659-000	693,772
Special Education - Preschool Incentive	& 84.173	1-0659-000	12,200
Special Education - Grants for Infants and Families	84.181	1-0659-000	<u>6,706</u>
Total U.S. Department of Education			1,249,192
Pass-Through Independent School District #917			
Carl Perkins Vocational Education Basic Grants to States	84.048	1-0917-000	<u>8,570</u>
Total Independent School District #917			8,570
Pass-Through Region 10			
Discretionary Low Incidence	& 84.027	**	<u>4,379</u>
Total Region 10			<u>4,379</u>
Total U.S. Department of Education			<u>1,262,141</u>
U.S. Department of Health and Human Services			
Project Aware Grant	93.243	**	<u>28,570</u>
Total U.S. Department of Health and Human Services			<u>28,570</u>
Total Federal Awards Expended			<u>\$ 2,137,157</u>
&	Special Education Cluster = \$710,351		
#	Child Nutrition Cluster = \$846,446		
**	Not available		

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 659. The reporting entity is defined in Note 1 to the financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, Cost Principles for State and Local Governments, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 TOTALS BY CATALOG OF FEDERAL DOMESTIC ASSISTANCE NUMBER

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>
National School Lunch Program	10.555	\$ 681,814
Special Education Grants to States	84.027	\$ 698,151

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

Board of Education
Independent School District No. 659
Northfield, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 659, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Independent School District No. 659's basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 659's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District No. 659's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 659'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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 659'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*.

Purpose of this Report

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



CliftonLarsonAllen LLP

Austin, Minnesota
November 21, 2016

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

Board of Education
Independent School District No. 659
Northfield, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 659's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 659's major federal programs for the year ended June 30, 2016. Independent School District No. 659's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 659's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 659'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 Independent School District No. 659's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 659 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, 2016.

Report on Internal Control Over Compliance

Management of Independent School District No. 659's 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 Independent School District No. 659's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 659's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. 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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
November 21, 2016

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE


Board of Education
Independent School District No. 659
Northfield, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 659, as of June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated November 21, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 659 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Independent School District No. 659's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
November 21, 2016

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016**

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

FINANCIAL STATEMENTS

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

FEDERAL AWARDS

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes x no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition

Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? x yes _____ no

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2016**

PART II: FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

None

PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None

Part IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SUMMARY SCHEDULE OF PRIOR FEDERAL AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

Summary Schedule of Prior Federal Audit Findings

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>If not Corrected, Provide Planned Corrective Action or Other Explanation</u>
None noted			

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2016**

	Audit	UFARS	Difference		Audit	UFARS	Difference
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenues	\$ 48,133,894	\$ 48,133,878	\$ 16	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	\$ 46,433,449	\$ 46,433,432	\$ 17	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Nonspendable:			
460 Nonspendable	\$ 481,947	\$ 481,947	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
Restricted:				Restricted:			
403 Staff Development	\$ -	\$ -	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ 346,798	\$ 346,798	\$ -	409 Alternative Fac. Program	\$ -	\$ -	\$ -
406 Health & Safety	\$ (110,827)	\$ (110,827)	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	467 LTFM	\$ -	\$ -	\$ -
408 Cooperative Rev.	\$ -	\$ -	\$ -	464 Other Purposes	\$ -	\$ -	\$ -
409 Alternative Facility Program	\$ -	\$ -	\$ -	Unassigned			
413 Project Funded by COP	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -				
416 Levy Reduction	\$ -	\$ -	\$ -	07 DEBT SERVICE			
417 Taconite Building Maint	\$ -	\$ -	\$ -	Total Revenues	\$ 5,447,112	\$ 5,447,111	\$ 1
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Expenditures	\$ 5,530,389	\$ 5,530,389	\$ -
424 Operating Capital	\$ 569,700	\$ 569,700	\$ -	Nonspendable:			
426 \$25 Taconite	\$ -	\$ -	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
427 Disabled Accessibility	\$ -	\$ -	\$ -	Restricted:			
428 Learning & Development	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	464 Other Purposes	\$ 1,627,000	\$ 1,627,000	\$ -
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	Unassigned:			
438 Gifted & Talented	\$ -	\$ -	\$ -	463 Unassigned	\$ -	\$ -	\$ -
440 Teacher Development & Evaluation	\$ 90,716	\$ 90,716	\$ -				
441 Basic Skills	\$ -	\$ -	\$ -	08 TRUST			
445 Career and Tech, Programs	\$ -	\$ -	\$ -	Total Revenues	\$ 73,240	\$ 73,239	\$ 1
448 Achievement and Integration	\$ -	\$ -	\$ -	Total Expenditures	\$ 63,427	\$ 63,427	\$ -
449 Safe Schools Levy	\$ -	\$ -	\$ -	Unreserved:			
450 Pre-Kindergarten	\$ -	\$ -	\$ -	422 Unassigned	\$ 148,176	\$ 148,176	\$ -
451 QZAB Payments	\$ -	\$ -	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -	Total Revenues	\$ 6,735,889	\$ 6,735,889	\$ -
467 LTFM	\$ -	\$ -	\$ -	Total Expenditures	\$ 5,931,083	\$ 5,931,084	\$ (1)
464 Other Purposes	\$ -	\$ -	\$ -	Unassigned:			
Committed:				422 Unassigned	\$ 4,471,493	\$ 4,471,493	\$ -
418 Separation/Retirement Benefits	\$ -	\$ -	\$ -				
461 Committed	\$ -	\$ -	\$ -	25 OPEB REVOCABLE TRUST			
Assigned				Total Revenue	\$ -	\$ -	\$ -
462 Assigned	\$ 4,244,286	\$ 4,244,286	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Unassigned				Unassigned:			
422 Unassigned	\$ 11,946,991	\$ 11,946,992	\$ (1)	422 Unassigned	\$ -	\$ -	\$ -
02 FOOD SERVICE				45 OPEB IRREVOCABLE TRUST			
Total Revenues	\$ 2,162,249	\$ 2,162,248	\$ 1	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 1,960,606	\$ 1,960,606	\$ -	Total Expenditures	\$ -	\$ -	\$ -
Nonspendable				Unassigned:			
460 Nonspendable	\$ 18,210	\$ 18,210	\$ -	422 Unassigned	\$ -	\$ -	\$ -
Restricted:				47 OPEB DEBT SERVICE			
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -	Total Revenue	\$ -	\$ -	\$ -
464 Other Purposes	\$ 634,571	\$ 634,570	\$ 1	Total Expenditures	\$ -	\$ -	\$ -
Unassigned				Nonspendable:			
463 Unassigned	\$ -	\$ -	\$ -	460 Nonspendable	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE				Restricted:			
Total Revenues	\$ 2,558,297	\$ 2,558,291	\$ 6	425 Bond Refundings	\$ -	\$ -	\$ -
Total Expenditures	\$ 2,462,491	\$ 2,462,483	\$ 8	464 Other Purposes	\$ -	\$ -	\$ -
Nonspendable				Unassigned:			
460 Nonspendable	\$ 1,155	\$ 1,155	\$ -	422 Unassigned	\$ -	\$ -	\$ -
Restricted:							
426 \$25 Taconite	\$ -	\$ -	\$ -				
431 Community Education	\$ 403,843	\$ 403,843	\$ -				
432 E.C.F.E.	\$ 63,625	\$ 63,625	\$ -				
440 Teacher Development & Evaluation	\$ -	\$ -	\$ -				
444 School Readiness	\$ 71,225	\$ 71,225	\$ -				
447 Adult Basic Education	\$ -	\$ -	\$ -				
452 OPEB Liab Not In Trust	\$ -	\$ -	\$ -				
464 Other Purposes	\$ -	\$ -	\$ -				
Unassigned							
463 Unassigned	\$ (8,924)	\$ (8,922)	\$ (2)				

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STUDENT ACTIVITY FUNDS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 659
Northfield, Minnesota

Report on the Financial Statement

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 659 as of June 30, 2016, and the related note to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the regulatory basis of accounting described in the notes to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the note to the financial statements, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statements are prepared by the Independent School District No. 659 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in the note to the financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles


In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 659 as of June 30, 2016, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds Independent School District No. 659 as of June 30, 2016, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statements.



CliftonLarsonAllen LLP

Austin, Minnesota
November 21, 2016

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2016**

	Balance 6/30/2015	Receipts & Transfers In	Disbursements & Transfers Out	Balance 6/30/2016
Middle School/ Elementary:				
MS Musical	\$ 5,803	\$ 2,972	\$ 4,395	\$ 4,380
MS Yearbook	13,395	1,707	1,678	13,424
MS Student Council	8,060	7,778	10,817	5,021
GP Student Council	312	815	460	667
Sibley Student Council	1,314	311	295	1,330
BW Student Council	3,072	1,349	1,621	2,800
MS Talent Show	1,863	-	-	1,863
Nfld Fastpitch Softball	545	-	-	545
Greenvale Activity	391	-	-	391
ALC Candle Shop	533	5,164	5,086	611
	<u>35,288</u>	<u>20,096</u>	<u>24,352</u>	<u>31,032</u>
High School:				
Alpine Ski Team	2,895	1,624	1,043	3,476
Baseball	691	710	1,022	379
Basketball, Boys	1,258	450	1,062	646
Basketball, Girls	4,665	3,118	3,711	4,072
Bowling	2,006	749	1,383	1,372
Cheer Team	3,910	7,799	9,576	2,133
Cross Country	2,384	4,840	5,252	1,972
Dance Team	5,140	20,138	18,997	6,281
Football	1,806	875	1,635	1,046
Golf, Boys	1,037	3,385	2,381	2,041
Golf, Girls	1,010	980	1,471	519
Gymnastics	(961)	1,866	784	121
Hockey, Boys	311	1,100	973	438
Hockey, Girls	1,469	880	336	2,013
Lacrosse, Girls	(571)	690	-	119
Nordic Skiing	171	4,265	3,546	890
Soccer, Boys	39	-	-	39
Soccer, Girls	577	386	960	3
Softball	9,613	11,235	7,957	12,891
Swimming, Boys	352	17,406	17,190	568
Swimming, Girls	4,961	15,593	13,453	7,101
Tennis, Boys	1,227	6,315	6,369	1,173
Tennis, Girls	133	9,052	8,770	415
Track, Boys	2,723	60	677	2,106
Track, Girls	233	31	-	264
Volleyball	830	5,079	5,691	218
Weight Lifting	3,837	5,404	4,310	4,931
Wrestling	5,285	7,472	7,018	5,739
Applied Science Class	3,211	4,633	4,278	3,566
Art Club	3,276	2,907	3,161	3,022
Band	23,577	80,015	91,304	12,288

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2016**

	Balance 6/30/2015	Receipts & Transfers In	Disbursements & Transfers Out	Balance 6/30/2016
High School (Continued):				
Chess Club	\$ 138	\$ 179	\$ 165	\$ 152
Costa Rica Trip Fund	11,902	-	-	11,902
DECA	2,399	12,382	12,033	2,748
Drama Club	9,091	12,583	16,972	4,702
Drama/Rock & Roll	8,199	228	2,647	5,780
Environmental Club	4	-	-	4
Interest/Bank Charges	481	20	34	467
International Club	192	-	-	192
Jazz Band	659	2,113	1,408	1,364
Junior Class	12,167	19,436	16,491	15,112
Leadership Class	2,523	-	-	2,523
Math Team	707	-	-	707
National Honor Society	785	86	359	512
NHS Film Society	996	-	-	996
Norhian	12,320	11,359	9,821	13,858
Orchestra	15,361	5,765	3,287	17,839
Poinsettia Sales	15,051	18,217	18,877	14,391
R.A.L.I.E.	3,194	3,000	3,464	2,730
Robotics Club	2,465	12,500	10,961	4,004
Senior Class	20,753	19,140	17,479	22,414
Share	3,034	7,701	7,589	3,146
Ski Club	26,632	-	700	25,932
Speech	8,228	8,079	7,533	8,774
Student Council	15,717	2,729	3,851	14,595
Vocal Music	16,303	35,951	29,764	22,490
World History AP	699	-	-	699
	<u>277,095</u>	<u>390,525</u>	<u>387,745</u>	<u>279,875</u>
	<u>\$ 312,383</u>	<u>\$ 410,621</u>	<u>\$ 412,097</u>	<u>\$ 310,907</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STUDENT ACTIVITY FUNDS
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE MANUAL FOR ACTIVITY FUND ACCOUNTING

Board of Education
Independent School District No. 659
Northfield, Minnesota

Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of as of Independent School District No. 659 and for the year ended June 30, 2016, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated November 21, 2016. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*. 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 relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Austin, Minnesota
November 21, 2016

