West Central Education District
Sauk Centre, Minnesota

Financial Statements

June 30, 2016

bergan KDV
CPAS | ADVISORS

West Central Education District
Table of Contents

West Central Education District
Governing Board and Administration
June 30, 2016

Governing Board	Position	District Represented
John Funk	Chairperson	Melrose
Don Winkels	Vice Chairperson	Albany
Lew Storkamp	Clerk/Treasurer	Paynesville
Jeff Schuster	Director	Sauk Centre
Dan Brooks	Ex Officio	Sauk Centre
Greg Johnson	Ex Officio	Albany
Thomas Rich	Ex Officio	Melrose
Robert Huot	Ex Officio	Paynesville

Administration
Laurie Fevig

BerganKDV

Independent Auditor's Report

BerganKDV, Ltd.

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Coralville, IA
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Minneapolis
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Bloomington, MN
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To the Governing Board
West Central Education District
Sauk Centre, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities and General Fund of West Central Education District, Sauk Centre, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of West Central Education District, Sauk Centre, Minnesota, as of June 30, 2016, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements.

Other Matters

Other Information

The accompanying supplementary information identified in the Table of Contents and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the 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 accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2016, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 31, 2016

FINANCIAL HIGHLIGHTS

- Overall revenues for the year were $3,743,692. Expenditures were $3,649,863.

- The District meets regularly with the superintendents and finance staff of the member districts to discuss allocations of federal and local dollars to be used for local expenditures. This process has been useful in maintaining quality communication amongst all the participating finance groups.

- The District continues to use the services of the Minnesota School District Liquid Asset Fund (MSDLAF) in order to maximize the return on monies in reserve in the fund balance.

- The District is working on a model to assist in estimating tuition billing revenue in an attempt to be closer to actual revenue.

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 and liabilities. 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 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 – are 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.

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

Governmental Activities – Most of the District's basic services are included here, such as alternative regular education, special education, and administration. Federal and state aids finance most of these activities, with the rest coming from fee for services billed back to member districts.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds, 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. The District has one fund.

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Statement of Net Position/ Governmental Activities
As of June 30, 2016 (with comparable June 30, 2015 data)

	June 30, 2015	June 30, 2016
Assets		
Cash and investments	$ 405,018	$ 444,113
Due from Department of Education	1,143	98,439
Due from Federal Government	481,016	345,814
Due from other Minnesota school districts	260,080	314,724
Prepaid items	3,703	3,151
Equipment	41,263	31,362
Total assets	1,192,223	1,237,603
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	380,521	486,662
Total assets and deferred outflows of resources	$ 1,572,744	$ 1,724,265
Liabilities		
Accounts payable	$ 21,703	11,200
Salaries and benefits payable	171,660	237,585
Due to other Minnesota school districts	237,555	252,859
Due to Department of Education	109,441	-
Unearned revenue	660	827
Compensated absences payable within one year	3,594	3,952
Compensated absences payable after one year	10,781	11,855
Severance payable after one year	21,304	21,304
Net other post employment benefits (OPEB) obligation	76,158	83,047
Net pension liability	1,724,579	2,095,692
Total liabilities	2,377,435	2,718,321
Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	528,697	255,463
Net Position		
Invested in capital assets	41,263	31,362
Unrestricted	(1,374,651)	(1,280,881)
Total net position	(1,333,388)	(1,249,519)
Total liabilities, deferred inflows of resources, and net position	$ 1,572,744	$ 1,724,265

Statement of Activities/ Governmental Activities
As of June 30, 2016 (with comparable June 30, 2015 data)

	June 30, 2015	June 30, 2016
Revenues		
Charges for services	$ 1,319,234	$ 1,533,412
Operating grants and contributions	1,721,720	2,148,797
Aids and other payments from state	10,936	47,356
Other sources	15,404	14,127
Total revenues	3,067,294	3,743,692
Expenses		
Administration	27,294	27,872
District support services	41,594	40,276
Regular instruction	330,956	332,811
Vocational education instruction	3,259	2,890
Special education services	2,910,495	3,240,365
Instructional support services	39,000	6,800
Pupil support services	2,040	1,900
Fiscal and other fixed cost program	6,145	6,909
Total expenses	3,360,783	3,659,823
Change in net position	$ (293,489)	$ 83,869

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $703,770. This is an increase of $93,829 from the District's June 30, 2015, combined fund balance total that was $609,941.

Statement of Revenue, Expenditures, and Changes in Fund Balances – Governmental Fund
Fiscal Year Ended June 30, 2016 (with comparable June 30, 2015 data)

	2014-2015	2015-2016
Revenues		
Other local and county revenues	$ 1,334,638	$ 1,547,539
Revenue from state sources	667,384	832,093
Revenue from federal sources	1,060,912	1,364,060
Total revenues	3,062,934	3,743,692
Expenditures		
Current		
Administration	27,294	27,872
District support services	41,494	40,176
Elementary and secondary regular instruction	330,446	328,869
Special education instruction	2,890,895	3,215,048
Instructional support services	39,000	6,000
Pupil support services	2,040	1,900
Fiscal and other fixed cost programs	6,145	6,909
Capital outlay		
Special education instruction	9,644	23,089
Total expenditures	3,346,958	3,649,863
Net change in fund balances	(284,024)	93,829
Fund Balance		
Beginning of year	893,965	609,941
End of year	$ 609,941	$ 703,770

Further Discussion

The three primary revenue sources for the District include the Federal allocation, member district billing, and tuition for special education programs operated by the District. The federal allocation was relatively flat in FY16 with only a slight increase.

Revenue from the member districts are calculated for three areas: Operational- all expenditures which cannot be federal or state; ALC usage- recapturing general education expenditures; and Purchase of Service for the related service providers within their district. There is also a one-time bill sent to each district which includes the expenditures for all summer programming which are overseen by the District. Operational was consistent with budgeted amounts, however, ALC usage was up for FY 16 and a new salary schedule for certified and non-certified resulted in a significant increase for Purchase of Service.

Although the tuition revenue has appeared to have unanticipated adjustments over the years, through some in-depth investigating and work with MDE, the formula has an adjustment factor which ultimately uses an average cost per hour instead of actual cost per hour. Understanding this formula and sending in a request to use actual should eliminate the ambiguity of the tuition revenue.

In order to fully comply with Minnesota Department of Education's directive to match Uniform Financial Accounting and Reporting Standards (UFARS) and EDRS entries, the Education District did a clean- up bill to address budgeted vs actual expenditures.

The General Fund balance increased by $93,829 from the prior year. The District's operating revenues were higher during the 2015-2016 fiscal year than in previous fiscal year primarily because of adjustments in billing to local districts. The majority of our spending is related to salaries, benefits, supplies, and equipment that are needed to allow students to derive educational benefit from specialized instruction and/or accommodations. Since we are an organization that is service oriented, it is not surprising to see the majority of expenditures in salaried positions and benefits.

<u>Budget to Actual</u>: In regards to the Revenue budget to actual, the primary impacts were understanding tuition billing and member district billing increased to cover general education staff expenditures at the ALC. In regards to the Expenditure budget to actual, the primary impact included the certified and non-certified staff salary increases which were not anticipated.

<u>Capital Assets</u>: Capital assets decreased by $9,901 mostly due to accumulated depreciation and disposal of outdated equipment. Total for FY15 was $41,263 and FY16 was $31,362.

The District's fund balance increased in the past year. The current fund balance is in line with suggested recommendations made during previous audits. During subsequent years, we will be working to maintain the fund balance at current levels in order to decrease impact on local district's budgets.

Currently, in my opinion, the District's overall financial status is in good condition, but the prospects for the future still seem to me to be dependent upon the overall economy and stabilization of state and federal aid. The board will also want to monitor the effects of modified funding formulas from the State, and the potential impact on fiscal stability.

Respectfully submitted by,
Laurie S. Fevig
Executive Director

Definitions

Elementary and Secondary Regular Instruction – Expenditures for all activities dealing directly with the teaching of pupils, the interaction between teachers and pupils in the classroom and co-curricular activities at the kindergarten, elementary and secondary levels. This does not include special education instruction.

Special Education Instruction – Expenditures for instruction of students who, because of atypical characteristics or conditions, are provided educational programs that are different from regular instructional programs. This includes expenditures for special instruction of students who are emotionally or psychologically disabled or mentally handicapped, for students with physical, hearing, speech, and visual impairments and for students with special learning and behavior problems.

Instructional Support Services – Expenditures for activities intended to help teachers provide instruction, not including expenditures for administration. This includes expenditures for assistant principals, curriculum development, libraries, media centers, audiovisual support, staff development, and computer-assisted instruction.

Pupil Support Services – Expenditures for all non-instructional services provided to students, not including transportation and food service. This includes expenditures for counseling, guidance, health services, psychological services and attendance and social work services.

BASIC FINANCIAL STATEMENTS

West Central Education District
Statement of Net Position
June 30, 2016

	Governmental Activities
Assets	
Cash and investments	$ 444,113
Due from Department of Education	98,439
Due from federal government	345,814
Due from other Minnesota School Districts	314,724
Prepaid Items	3,151
Capital assets	
Equipment, net of accumulated depreciation	31,362
Total assets	1,237,603
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	486,662
Total assets and deferred outflows of resources	$ 1,724,265
Liabilities	
Accounts payable	$ 11,200
Salaries and benefits payable	237,585
Due to other Minnesota School Districts	252,859
Unearned revenue	827
Compensated absences payable	
Payable within one year	3,952
Payable after one year	11,855
Severance payable	
Payable after one year	21,304
Net other post employment benefits (OPEB) obligation	83,047
Net pension liability	2,095,692
Total liabilities	2,718,321
Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	255,463
Net Position	
Invested in capital assets	31,362
Unrestricted	(1,280,881)
Total net position	(1,249,519)
Total liabilities, deferred inflows of resources, and net position	$ 1,724,265

See notes to financial statements.

West Central Education District
Statement of Activities
Year Ended June 30, 2016

		Program Revenues			Net (expense) Revenues And Changes In Net Position
Functions/programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
Administration	$ 27,872	$ -	$ -	$ -	$ (27,872)
District support services	40,276	-	-	-	(40,276)
Elementary and secondary regular instruction	332,811	305,819	-	-	(26,992)
Vocational education instruction	2,890	-	-	-	(2,890)
Special education instruction	3,240,365	1,227,593	2,148,797	-	136,025
Instructional Support Services	6,800	-	-	-	(6,800)
Pupil support services	1,900	-	-	-	(1,900)
Fiscal and other fixed cost programs	6,909	-	-	-	(6,909)
Total governmental activities	$ 3,659,823	$ 1,533,412	$ 2,148,797	$ -	22,386
	General revenues				
	Taxes				
	State aid-formula grants				47,356
	Other general revenues				13,062
	Investment income				1,065
	Total general revenues				61,483
	Change in net position				83,869
	Net position - beginning				(1,333,388)
	Net position - ending				$ (1,249,519)

See notes to financial statements.

West Central Education District
Balance Sheet - Governmental Fund
June 30, 2016

	General
Assets	
Cash and investments	$ 444,113
Due from Department of Education	98,439
Due from Federal Government	345,814
Due from other Minnesota School Districts	314,724
Prepaid items	3,151
Total assets	$ 1,206,241
Liabilities	
Accounts payable	$ 11,200
Salaries and benefits payable	237,585
Due to other Minnesota School Districts	252,859
Unearned revenue	827
Total liabilities	502,471
Fund Balance	
Nonspendable	3,151
Unassigned	700,619
Total fund balances	703,770
Total liabilities and fund balance	$ 1,206,241

See notes to financial statements.

West Central Education District
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Fund
June 30, 2016

Total fund balance - governmental fund	$ 703,770
Amounts reported for governmental activities in the statement of net position Are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	291,823
Less accumulated depreciation	(260,461)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Compensated absences payable	(15,807)
Severance payable	(21,304)
Net OPEB	(83,047)
Net pension liability	(2,095,692)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	486,662
Deferred inflows of resources related to pensions	(255,463)
Total net position - governmental activities	$ (1,249,519)

See notes to financial statements.

West Central Education District
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Fund
Year Ended June 30, 2016

	General
Revenues	
Other local and county revenues	$ 1,547,539
Revenue from state sources	832,093
Revenue from federal sources	1,364,060
Total revenues	3,743,692
Expenditures	
Current	
Administration	27,872
District support services	40,176
Elementary and secondary regular instruction	328,869
Special education instruction	3,215,048
Instructional support services	6,000
Pupil support services	1,900
Fiscal and other fixed cost programs	6,909
Capital outlay	
Special education instruction	23,089
Total expenditures	3,649,863
Net change in fund balances	93,829
Fund Balance	
Beginning of year	609,941
End of year	$ 703,770

See notes to financial statements.

West Central Education District
Reconciliation of the Statement of Revenues,
Expenditures, and Change in Fund Balance to the
Statement of Activities - Governmental Fund
Year Ended June 30, 2016

Net change in fund balance - total governmental fund	$ 93,829
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Depreciation expense	(9,101)
Loss on disposal of capital assets	(800)
Net post employment benefit obligations are recognized as paid in the Governmental funds but recognized as the expense is incurred in the Statement of Activities.	(6,889)
Compensated absences and severance are recognized as paid in the Governmental funds but recognized as the expense is incurred in the Statement of Activities.	(1,432)
Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statements of Activities factors in items related to pensions on a full accrual perspective.	8,262
Change in net position - governmental activities	$ 83,869

See notes to financial statements.

West Central Education District
Statement of Revenues, Expenditures, and
Change in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance With Final Budget - Over (under)
	Original	Final		
Revenues				
Other local and county revenues	$ 1,330,694	$ 1,477,771	$ 1,547,539	$ 69,768
Revenue from state sources	842,633	700,000	832,093	132,093
Revenue from federal sources	1,383,001	1,358,926	1,364,060	5,134
Total revenues	3,556,328	3,536,697	3,743,692	206,995
Expenditures				
Current				
Administration	31,000	27,872	27,872	-
District support services	37,100	39,213	40,176	963
Elementary and secondary regular instruction	310,177	317,904	328,869	10,965
Special education instruction	3,192,522	3,105,050	3,215,048	109,998
Instructional support services	-	6,000	6,000	-
Pupil support services	2,300	-	1,900	1,900
Fiscal and other fixed cost programs	4,610	6,909	6,909	-
Capital outlay				
Special education instruction	-	23,089	23,089	-
Total expenditures	3,577,709	3,526,037	3,649,863	123,826
Net change in fund balances	$ (21,381)	$ 10,660	93,829	$ 83,169
Fund Balance				
Beginning of year			609,941	
End of year			$ 703,770	

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates for the purpose of providing educational instruction to students of the District's member districts.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's Governing Board. Control by or dependence on the Governing Board was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the District and obligation of the District to finance any deficits that may occur. These financial statements represent the District, the primary government. The District has no component units. The District consists of the following Independent School Districts:

- Albany
- Melrose
- Paynesville
- Sauk Centre

B. Basic Financial Statement Information

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other 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 a purpose 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 that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these Statements.

Separate fund financial statements are provided for the governmental fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. 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 years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are compensated absences and claims and judgments are recognized when payment is due.

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

Description of Fund:

Major Fund:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources.

D. Deposits and Investments

Deposits and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investment held by a 2.a.7 and/or a 2.a.7 like investment pool are measured at amortized cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

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

Minnesota Statutes requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by FDIC insurance or corporate surety bonds.

Minnesota Statutes authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

F. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than $1,250. Such 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 costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

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 purpose. Useful lives vary from five to 15 years for equipment.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. A deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

H. Compensated Absences

District employees are entitled to sick leave at the rate of 15 days per year and accumulate to a maximum of 100 days. Support staff employed over 15 years are paid 25% of accumulated sick leave at termination.

I. Severance Payable

Severance pay shall be available to an Administrator that has completed at least ten years of service with the District.

J. 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.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis, and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in TRA Note 6.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2016.

L. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include fund balances related to inventory and prepaid expenditures, for example. The District balance for prepaid items was $3,151 at year-end.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balances – The government's highest level of decision making authority is the Governing Board. Committed fund balances can only be established through formal action taken by the Governing Board.
- Assigned Fund Balances – The Executive Director and the Business Manager are authorized by the Governing Board to assign fund balances for specific purposes.
- Unassigned Fund Balances – Resources that have not been restricted, committed, or assigned.
- Minimum Fund Balance Policy – The District's policy is to maintain a minimum unassigned General Fund balance of one month of operating expenditures. Replenishing the fund balance when it falls below the targeted level shall be accomplished through budget reductions.

M. Net Position

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

N. Use of Estimates

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the Director submits to the District's Governing Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to July 1, the Director submits to the District's Governing Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
3. The Director is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the District's Governing Board.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund.
5. Budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Budgets are as originally adopted or as amended by the District's Governing Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the Governing Board.

Custodial credit risk – deposits: for deposits, this is the risk that in the event of a bank failure, the district's deposits may not be returned to it. The district has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118a.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, or NCUA coverage. As of June 30, 2016, the District's bank balance of $123,598 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name. The District's book balance at year-end was $78,492.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

Investments at June 30, 2016 were comprised of shares in the MSDLAF and MSDLAF Max Series.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy requires their investments to be rated "A" or better for any security which is a federal obligation of any state or local government and "AA" or better for any security which is a revenue obligation of any state or local government as required by *Minnesota Statutes* 118A.04. The District's investments in MSDLAF and MSDMAX were both rated AAAm by Standard & Poor's (S&P). The balance at year-end was $365,621.

Concentration of Credit Risk: Limits the amount the District may invest in any one issuer. The District's policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District's investments in MSDLAF and MSDMAX were not exposed to concentration of credit risk as these investments were in an external pool and were exempt from this risk.

Interest Rate Risk: Managing exposure to fair value arising from increasing interest rates. The District's investments policy states the District should manage their interest rates in a manner to attain a market rate of return through various economic and budgetary cycles and taking into account constraints on risk and cash flow requirements.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states all investment securities shall be held in third party safekeeping by a designated custodial agent

The District's entire investment balance of $365,621 is valued using a quoted market prices (Level 1 inputs).

B. Investments (Continued)

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	$ 78,492
Investments (Note 3.B.)	365,621
Total deposits and investments	$ 444,113

Deposits and investments in the June 30, 2016, basic financial statements were as follows:

Statement of Net Position	$ 444,113

NOTE 3 – 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 being Depreciated				
Equipment	$ 292,623	$ -	$ 800	$ 291,823
Less accumulated depreciation for				
Equipment	251,360	9,101	-	260,461
Governmental activities, capital assets, net	$ 41,263	$ (9,101)	$ 800	$ 31,362

Depreciation expense of $9,101 for the year ended June 30, 2016, was charged to the following governmental functions:

District support services	$ 100
Elementary and secondary regular instruction	2,351
Vocational education instruction	2,890
Special education instruction	3,760
Total depreciation expense	$ 9,101

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Balance Outstanding	Due Within One Year
Compensated absences	$ 15,807	$ 3,952
Severance payable	21,304	-
Total	$ 37,111	$ 3,952

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
Compensated absences	$ 14,375	$ 3,092	$ 1,660	$ 15,807
Severance payable	21,304	-	-	21,304
Total long-term Liabilities	$ 35,679	$ 3,092	$ 1,660	$ 37,111

The General Fund typically liquidates the liabilities related to compensated absences and severance payable.

NOTE 5 – FUND BALANCES

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of respective funds.

	General Fund
Nonspendable - prepaid items	$ 3,151
Unassigned	700,619
Total	$ 703,770

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

A. Plan Description

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

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

Teachers' Retirement Association (Continued)

B. Plan Description (Continued)

Teachers employed in Minnesota's public elementary and secondary school, 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.

C. Benefits Provided

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

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

Tier 1 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 if service years 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:

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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 is applied. 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.

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

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

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

C. Contribution Rate

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

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

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

Teachers' Retirement Association (Continued)

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

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

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

D. Merger of DTRFA

Legislation enacted in 2014 merged the 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	$ 24,901,612,000	$ 25,299,564,000
Plan fiduciary net position	20,293,684,000	20,519,756,000
Net pension liability	$ 4,607,928,000	$ 4,779,808,000

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

Teachers' Retirement Association (Continued)

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Measurement date	June 30, 2015
Valuation date	July 1, 2015
Experience study	October 30, 2009
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	8.00%
Wage inflation	3.00%
Projected salary increase	3.5-12%, based on years of service
Cost of living adjustment	2.00%
Mortality Assumption	
Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

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

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

Teachers' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
Total	100 %	

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

F. Discount Rate

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

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability

On June 30, 2016, the District reported a liability of $1,769,193 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0286% at the end of the measurement period and 0.0308% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 1,769,193
State's proportionate share of the net pension liability associated with the District	216,954

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

For the year ended June 30, 2016, the district recognized pension expense of $155,339. It also recognized $38,355 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 97,497	$ -
Net difference between projected and actual earnings on plan investment	-	159,214
Changes of assumptions	136,004	-
Changes in proportion	71,346	41,774
Contributions to TRA subsequent to the measurement date	126,649	-
Total	$ 431,496	$ 200,988

$126,649 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Teachers' Retirement Association (Continued)

G. Net Pension Liability (Continued)

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2017	$ (3,308)
2018	(3,308)
2019	(3,307)
2020	98,977
2021	14,805

H. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8.0% as well as the liability measured using 1% lower and 1% higher.

District proportionate share of NPL		
1% decrease (7.0%)	Current (8.0%)	1% increase (9.0%)
$ 2,692,941	$ 1,769,193	$ 998,299

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

I. Pension Plan Fiduciary Net Position

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

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

Public Employees' Retirement Association

A. Plan Description

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by PERA. PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Fund (GERF)

All full-time and certain part-time employees of the District other than teachers are covered by the 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.

B. Benefits Provided

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

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.

GERF Benefits

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

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

Public Employees' Retirement Association (Continued)

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively, in fiscal year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2016, were $31,063. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

GERF Pension Costs

At June 30, 2016, the District reported a liability of $326,499 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2015, the District's proportion was 0.0063%, which was a decrease of 0.0002% from its proportion measured as of June 30, 2014.

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

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

For the year ended June 30, 2016, the District recognized pension expense of $32,466 for its proportionate share of GERF's pension expense.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,124	$ 16,461
Changes in actuarial assumptions	20,979	-
Difference between projected and actual investments earnings	-	30,968
Changes in proportion	-	7,046
District's contributions to GERF subsequent to the measurement date	31,063	-
	$ 55,166	$ 54,475

$31,063 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year 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:

Year Ended June 30,	Pension Expense Amount
2017	$ (8,684)
2018	(8,683)
2019	(20,732)
2020	7,727

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

GERF

Assumptions	GERF	
Inflation	2.75 %	Per year
Active member payroll growth	3.90	Per year
Investment rate of return	7.90	

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

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

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

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

Asset Class	Target Allocation	Long-Term
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	100%	

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

Public Employees' Retirement Association (Continued)

F. Discount Rates

The discount rate used to measure the total pension liability was 7.9% for GERF. 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 table presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate (6.9%)	Discount Rate (7.9%)	1% Increase in Discount Rate (8.9%)
District's proprionate share of the GERF net pension liability	$ 513,372	$ 326,499	$ 172,170

H. Pension Plan Fiduciary Net Position

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For year 2016, the District contributed $23,454 to the plan. As of June 30, 2016, there were two retirees receiving health benefits from the District's health plan.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other post employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The District prospectively implemented this Statement during the 2010 year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

	$ 31,616
Interest on net OPEB obligation	3,046
Adjustment to ARC	(4,319)
Annual OPEB cost (expense)	30,343
Contributions made	(23,454)
Increase in net OPEB obligation	6,889
Net OPEB obligation - beginning of year	76,158
Net OPEB obligation - end of year	$ 83,047

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obigation
06/30/16	$ 30,343	$ 23,454	77%	$ 83,047
06/30/15	30,636	6,266	20%	76,158
06/30/14	11,004	1,721	16%	51,788

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $246,302 and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $246,302. The covered payroll (annual payroll of active employees covered by the plan) was $1,669,081 and the ratio of the UAAL to the covered payroll was 14.8%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

At the July 1, 2014 actuarial valuation date, the projected unit credit funding method was used. The actuarial assumptions included a 4.0% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5% after ten years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2014 was 30 years.

NOTE 8 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

West Central Education District
Schedule of Funding Progress - Other Post Employment Benefits
June 30, 2016

Actuarial Valuation Date	Actuarial Value Of Assets (a)	Actuarial Accrued Liability (aal) - Projected Unit Credit (b)	Unfunded Aal (uaal) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	Uaal As A Percentage Of Covered Payroll ((b-a)/c)
07/01/14	$ -	$ 246,302	$ 246,302	0.0%	$ 1,669,081	14.8%
07/01/11	-	75,440	75,440	0.0%	1,468,283	5.1%
07/01/08	-	67,793	67,793	0.0%	1,561,751	4.3%

West Central Education District
Schedule of District's and Non-Employer Proportionate
Share of Net Pension Liability
GERF Retirement Funds

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0065%	$ 305,337	$ 340,345	89.7%	78.75%
2015	0.0063%	326,499	362,680	90.0%	78.20%

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

Schedule of District's and Non-Employer Proportionate
Share of Net Pension Liability
TRA Retirement Funds

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proprtionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liablility and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0308%	$ 1,419,242	$ 99,943	$ 1,519,184	$ 1,405,005	101.0%	81.5%
2015	0.0286%	1,769,193	216,954	1,986,147	1,451,067	121.9%	76.8%

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

West Central Education District
Schedule of District Contributions
GERF Retirement Funds
Last Ten Years

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 24,675	$ 24,675	$ -	$ 340,345	7.25%
2015	27,201	27,201	-	362,680	7.50%
2016	31,063	31,063	-	414,173	7.50%

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

Schedule of District Contributions
TRA Retirement Funds
Last Ten Years

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 98,350	$ 98,350	$ -	$ 1,405,005	7.0%
2015	108,830	108,830	-	1,451,067	7.5%
2016	126,649	126,649	-	1,688,653	7.5%

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

TRA Retirement Funds

Changes of benefit terms

The DTRFA was merged into TRA on June 30, 2015.

Changes of assumptions

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

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SUPPLEMENTARY INFORMATION

West Central Education District
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2016

	Audit	Ufars	Audit-ufars
01 General Fund			
Total revenue	$ 3,743,692	$ 3,743,692	$ -
Total expenditures	3,649,863	3,649,863	-
Nonspendable:			
460 Nonspendable fund balance	3,151	3,151	-
Restricted/reserved:			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health And Safety	-	-	-
407 Capital Projects Levy	-	-	-
408 Cooperative Programs	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	-	-	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development And Evaluation			
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration Revenue			
449 Safe School Crime	-	-	-
450 Transition for Pre-kindergarten	-	-	-
451 QZAB and QSCB Payments	-	-	-
452 OPEB liabilities not held in trust	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Committed for separation	-	-	-
461 Committed	-	-	-
Assigned:			
462 Assigned fund balance	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	700,619	700,619	-
02 Food Services Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
426 $25 Taconite	-	-	-
431 Community Education	-	-	-
432 ECFE	-	-	-
440 Teacher Development and Evaluation			
444 School Readiness	-	-	-
447 Adult Basic Education	-	-	-
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-

	Audit	Ufars	Audit-ufars
06 Building Construction Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded By COPop/LP	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
425 Bond Refundings	-	-	-
451 QZAB And QSCB payments	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
20 Internal Service Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
25 OPEB Revocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
45 OPEB Irrevocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Unassigned fund balance (net position)	-	-	-
47 OPEB Debt Service			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
425 Bond refundings	-	-	-
460 Nonspendable fund balance	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-

West Central Education District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
Through Minnesota Department Of Education			
USDOED	84.027	Federal Special Education	$ 1,158,297
USDOED	84.027	Individuals With Disabilities Part B	129,940
USDOED	84.173	Disabled Early Education	49,445
Total Federal Special Education Cluster			1,337,682
Through Minnesota Department Of Education			
USDOED	84.181	Infants And Toddlers	26,388
Total Federal Expenditures			$ 1,364,070

See notes to financial statements.

West Central Education District
Note to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

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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*

Independent Auditor's Report

To the Governing Board
West Central Education District
Sauk Centre, 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 and General Fund of West Central Education District, Sauk Centre, Minnesota, as of and for the year ending June 30, 2016, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 31, 2016.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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.

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Internal Control over Financial Reporting
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be material weaknesses, listed as 2002-001 and 2007-001.

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

District's Response to the Findings
The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 31, 2016

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Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required By the Uniform Guidance

Independent Auditor's Report

To the Governing Board
West Central Education District
Sauk Centre, Minnesota

Report on Compliance for Each Major Federal Program
We have audited the compliance of West Central Education District, Sauk Centre, Minnesota, with the types of compliance requirements described in the OMB *Compliance Supplemen*t that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in accordance with the Uniform Guidance.

Management's Responsibility
Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal programs.

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

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

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Opinion on Each Major Federal Program
In our opinion, West Central Education District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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

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

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 31, 2016

West Central Education District
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Findings 2002-001 and 2007-001
• Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	84.027 and 84.173
Name of Federal Program or Cluster:	Individuals with Disabilities Education Act (Cluster)
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	No

West Central Education District
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2002-001

Criteria or Specific Requirement:
Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:
The District does not have adequate segregation of accounting duties.

Questioned Costs:
None

Context:
This finding impacts the internal control for all significant accounting functions.

Effect:
The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:
There are a limited number of office employees.

Recommendation:
Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   Administration will continually review current segregation of accounting duties to determine if further segregation is possible.

3. <u>Official Responsible for Ensuring CAP</u>
   Laurie Fevig, Director, is the official responsible for ensuring corrective action of the deficiency.

West Central Education District
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2002-001 (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (Continued)

4. Planned Completion Date for CAP
   The completion of the CAP is ongoing.

5. Plan to Monitor Completion of CAP
   The Governing Board will monitor this CAP.

Audit Finding 2007-001

Criteria or Specific Requirement:
The District does not have a process and the related internal control established to provide for the preparation of the financial statements.

Condition:
The District management has requested BerganKDV, Ltd. Draft the financial statements and accompanying notes to financial statements.

Questioned Costs:
None

Context:
This finding impacts the internal control for all financial statement and related disclosures.

Effect:
This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause:
District office employees have not had the training necessary to ensure financial statements are prepared in their entirety.

Recommendation:
Continue to train District office employees on financial statement presentation issues.

West Central Education District
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2007-001 (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District will continue to contract with an outside firm to prepare its financial statements. District management will seek training to increase its knowledge regarding preparation of the financial statements.

3. Official Responsible for Ensuring CAP
   Laurie Fevig, Director, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The completion of the CAP is ongoing.

5. Plan to Monitor Completion of CAP
   The Governing Board will monitor this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned cost.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.

BerganKDV

Report on Legal Compliance

Independent Auditor's Report

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To the Governing Board
West Central Education District
Sauk Centre, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of West Central Education District, Sauk Centre, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, and have issued our report thereon dated October 31, 2016.

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

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

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 31, 2016