

RIDGEWAY COMMUNITY SCHOOL
CSD# 4083
Houston, Minnesota

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

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**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
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**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

INTRODUCTORY SECTION

JUNE 30, 2016

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2016**

| | <u>2015-2016</u> | <u>Term Expires</u> |
|--|------------------------------|---------------------|
| Samantha Conway | Chairperson - Teacher | 5/31/2017 |
| Sheila Langowski | Vice-Chairperson - Community | 5/31/2016 |
| Ann Vande Berg | Secretary - Parent | 5/31/2017 |
| Jennifer Krings | Treasurer - Teacher | 5/31/2017 |
| Rhonda Anderson | Member - Teacher | 5/31/2016 |
| Judith Lubahn | Member - Teacher | 5/31/2016 |
| Maggie McDermott | Member - Parent | 5/31/2017 |
| Jodi Dansingburg - Ex-officio & School Coordinator | | |
| Mary Feathergill - Ex-officio & Business Manager | | |

**RIDGEWAY COMMUNITY ASSOCIATION
BOARD OF DIRECTORS**

| | <u>2015-2016</u> | <u>Term Expires</u> |
|---------------|------------------|---------------------|
| Jim Morcomb | President | 6/30/2016 |
| Terry Stinson | Treasurer | 6/30/2017 |
| Steve Groth | Secretary/Clerk | 6/30/2016 |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

FINANCIAL SECTION

JUNE 30, 2016

INDEPENDENT AUDITOR'S REPORT

Board of Education
Ridgeway Community School
Houston, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Ridgeway Community School, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Ridgeway Community School'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 audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ridgeway Community School as of June 30, 2016, and the respective changes in financial position and cash flows, where applicable, and the respective budgetary comparison for the General Fund and each major special revenue fund for the year then ended in conformity 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 on pages 3 through 12 and the required supplemental 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 the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response 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 Ridgeway Community School, Houston, Minnesota's basic financial statements. The introductory section, supplementary information, and Uniform Financial Accounting and Reporting Standards Compliance Table are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information and Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain addition 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 supplementary information and Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the School's financial statement for the year ended June 30, 2015, from which such partial information was derived.

The School's 2015 financial statements were audited by other auditors whose report dated October 26, 2015, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 4, 2016, on our consideration of the School'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 the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

Smith, Schepf and Associates, Ltd.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section of Ridgeway Community Schools' annual financial report presents our discussion and analysis of the School's financial performance during the year that ended on June 30, 2016. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- Total Assets: \$2,121,763.
- Overall revenues for the General Fund were \$927,465 while overall expenses totaled \$939,835.
- The General Fund Unassigned Fund Balance is \$247,924. This represents a decrease of \$14,658 from last year.
- The General Fund total fund balance decreased by \$14,385 from the prior year.
- The Food Service Fund total fund balance remained a net zero balance.
- The Community Service Fund total fund balance decreased by \$10,785 from the prior year.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and other required reports. The basic financial statements include two kinds of statements that present different views of the School:

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

School-wide Statements. The school-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the School'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 two school-wide statements report the School's net position and how they have changed. Net position – the difference between the School's assets and liabilities – are one way to measure the School's financial health or position. Over time, increases or decreases in the School's net position is an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the School you need to consider additional non-financial factors such as changes in the condition of school buildings and other facilities.

In the school-wide financial statements the School's activities are shown in one category: Governmental activities. Most of the School's basic services are included here, such as elementary and secondary regular instruction, special education, transportation, administration, food services, and community education. State aids finance most of these activities.

Fund Financial Statements. The fund financial statements provide more detailed information about the School's funds – focusing on its most significant or "major" funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants. The School establishes other funds to control and manage money for particular purposes.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The School has one kind of fund:

- **Governmental funds.** Most of the School'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 School's programs. Because this information does not encompass the additional long-term focus of the school-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or difference) between them.

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net position. The school's combined net position from Governmental activities was \$565,129 for the year ended June 30, 2016. This was a decrease of \$14,105 from the prior year due to pension related expenses.

The goal of the School has been to establish an unassigned fund balance of 25% or more so that the School will not have to secure a loan in order to cover the cash flow from one year to the next. The School also plans for specific large expenditure items in the areas of technology, transportation, equipment replacement, and curriculum replacement on a year to year basis.

| | Total | |
|---------------------------------------|------------|------------|
| | 2016 | 2015 |
| Assets | | |
| Current and other assets | \$ 443,701 | \$ 502,890 |
| Capital assets | 1,678,062 | 1,675,243 |
| Total assets | 2,121,763 | 2,178,133 |
| Deferred Outflows of Resources | | |
| Total deferred outflows of resources | 105,594 | 166,264 |
| Liabilities | | |
| Current liabilities | 78,452 | 148,293 |
| Long-Term liabilities | 1,493,379 | 1,461,256 |
| Total liabilities | 1,571,831 | 1,609,549 |
| Deferred Inflows of Resources | | |
| Total deferred inflows of resources | 90,397 | 155,614 |
| Net Position | | |
| Net investment in capital assets | 765,035 | 733,883 |
| Restricted | 2,687 | 13,472 |
| Unrestricted | (202,593) | (168,121) |
| Total net position | \$ 565,129 | \$ 579,234 |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (Continued)

School's Revenue. The School's total revenues were \$1,190,262 for the year ended June 30, 2016; compared to \$1,004,552 for the year ending June 30, 2015. Federal and State sources accounted for 52.2% (compared to 58.5% the previous year) of the total revenue, with the remaining revenue coming from general revenues, donations, small grants and program revenues.

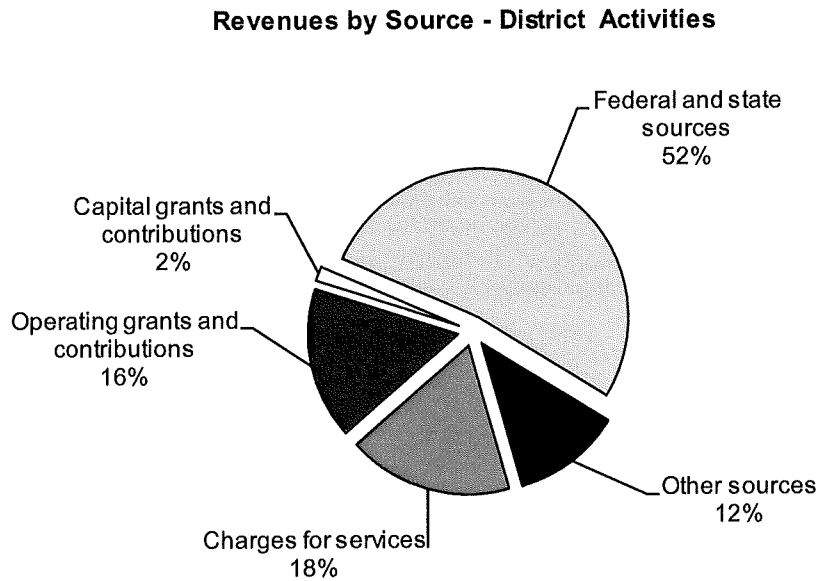
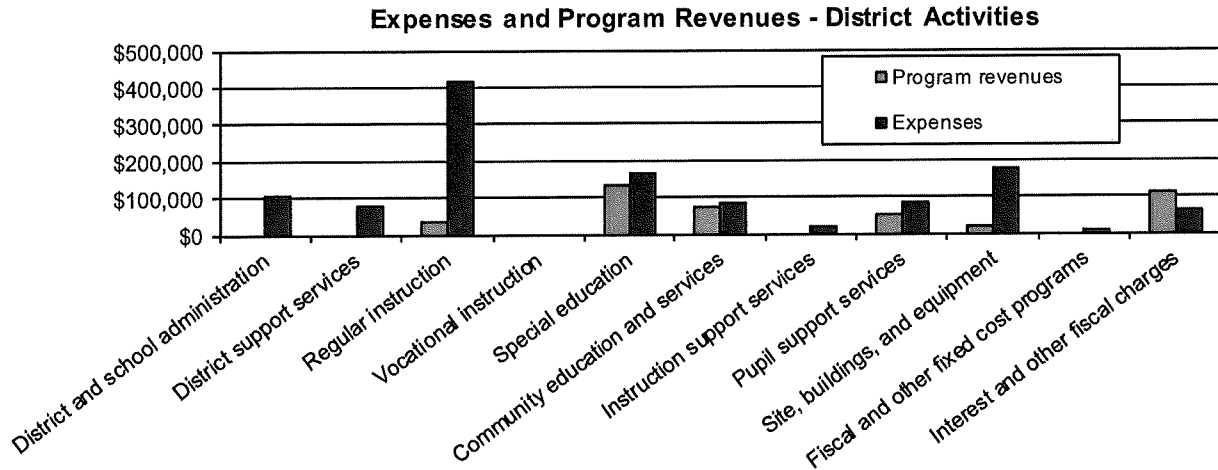
A condensed version of the Statement of Activities follows:

| | Total | |
|--------------------------------------|-------------------|-------------------|
| | 2016 | 2015 |
| Revenue | | |
| Program revenues: | | |
| Charges for services | \$ 213,545 | \$ 86,960 |
| Operating grants and contributions | 195,606 | 270,293 |
| Capital grants and contributions | 18,896 | 20,948 |
| General revenues: | | |
| Federal and state sources | 621,585 | 587,806 |
| Other sources | 140,271 | 38,220 |
| Investment earnings | 359 | 325 |
| Total revenues | <u>1,190,262</u> | <u>1,004,552</u> |
| Expenses | | |
| District and school administration | 104,926 | 76,644 |
| District support services | 80,504 | 115,756 |
| Regular instruction | 416,836 | 315,022 |
| Special education | 163,073 | 145,653 |
| Community education and services | 85,446 | 55,205 |
| Instruction support services | 18,743 | 20,519 |
| Pupil support services | 82,228 | 76,130 |
| Site, buildings, and equipment | 178,556 | 88,561 |
| Fiscal and other fixed cost programs | 9,440 | 8,504 |
| Interest and other fiscal charges | 64,615 | 66,514 |
| Total expenses | <u>1,204,367</u> | <u>968,508</u> |
| Change in net position | (14,105) | 36,044 |
| Net position, beginning | <u>579,234</u> | <u>543,190</u> |
| Net position, end | <u>\$ 565,129</u> | <u>\$ 579,234</u> |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE (Continued)

Below are specific graphs that provide comparisons of the school activities direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by general state aid.



**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND BASIS FINANCIAL ANALYSIS

Financial Analysis of the School's Funds

The financial performance of the School is reflected in its governmental funds as well. As the School completed the year, its Governmental Funds reported a combined fund balance of \$365,249.

The School adheres to the state attendance statutes and works with families to help keep student attendance steady.

History of adjusted average daily membership:

| <u>Fiscal Year</u> | <u>ADM</u> | <u>% Change</u> |
|--------------------|------------|-----------------|
| 2007 | 76.27 | |
| 2008 | 68.27 | -10.5% |
| 2009 | 71.19 | 4.3% |
| 2010 | 81.84 | 15.0% |
| 2011 | 86.97 | 6.3% |
| 2012 | 92.30 | 6.1% |
| 2013 | 101.32 | 9.8% |
| 2014 | 96.00 | -5.3% |
| 2015 | 92.86 | -3.3% |
| 2016 | 96.64 | 4.1% |

General Fund. The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade five.

Total General Fund Operating Revenue increased \$26,094 from the previous year (being \$927,465 in 2016, and \$901,371 in 2015). The primary increases were in the Basic Formula aid and Special Education revenues which increased \$28,843 and \$9,909 respectively with increasing student numbers.

Basic general education revenue is determined by multiple complex state formulas, largely enrollment driven, and consists of a specified minimum amount with variables such as socioeconomic indicators driving additional funding. For Minnesota charter schools the majority of all funding is made up of general education aid, special education aid, and charter school lease aid. Other revenue consists of federal and private grant funding that is often expenditure driven.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND BASIS FINANCIAL ANALYSIS (Continued)

General fund revenues were as follows:

| | 2016 | 2015 | Increase/ (Decrease) |
|------------------------------------|-------------------|-------------------|-------------------------|
| Other local sources | 11,171 | 19,769 | (8,598) |
| Investment income | 327 | 321 | 6 |
| State sources | 885,005 | 846,167 | 38,838 |
| Federal sources | 30,962 | 35,114 | (4,152) |
| Total General Fund Revenues | \$ 927,465 | \$ 901,371 | \$ 26,094 |

Total General Fund expenditures increased \$58,778 from the previous year. The increase in the General Fund expenditures was from purchasing a vehicle for student transporting and an increase in staffing allocated to the General Fund due to the state decrease in Title I Part A funding, which was in the past allocated to the school's classroom paraprofessionals.

General fund expenditures were as follows:

| | 2016 | 2015 | Increase/ (Decrease) |
|--|-------------------|-------------------|-------------------------|
| District and school administration | \$ 81,232 | \$ 74,753 | \$ 6,479 |
| District support services | 78,439 | 69,291 | 9,148 |
| Regular instruction | 347,468 | 354,373 | (6,905) |
| Special education | 156,588 | 145,653 | 10,935 |
| Instructional support services | 18,074 | 20,300 | (2,226) |
| Pupil support services | 54,085 | 18,257 | 35,828 |
| Site, buildings, and equipment | 194,509 | 189,926 | 4,583 |
| Fiscal and other fixed cost programs | 9,440 | 8,504 | 936 |
| Total General Fund Expenditures | \$ 939,835 | \$ 881,057 | \$ 58,778 |

The total General Fund balance on June 30, 2016, is \$261,788 compared to \$276,173 on June 30, 2015 (decrease of \$14,385). Of the amount, \$13,864 is nonspendable or restricted – leaving an amount of (\$247,924) in the Unassigned General Fund Balance.

Food Service Fund. The Food Service Fund accounts for the activities related to providing child nutrition services to support K-5 academic programs. The fund operates with the goal that revenues exceed expenditures on day-to-day school breakfast and lunch operations so that the excess can be used to systematically replace and upgrade kitchen equipment. The goal for the food service fund is that the child nutrition services program is self-supporting and does not rely upon resources from K-5 instruction programs.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FUND BASIS FINANCIAL ANALYSIS (Continued)

Food Service Fund. (Continued)

The Food Service revenue for 2015-2016 totaled \$54,127 compared to \$46,550 the previous year – an increase of \$7,577.

The Food Service expenditures for 2015-2016 totaled \$57,242 compared to \$54,262 the previous year – an increase in expenditures of \$2,980.

Community Service Fund. The Community Service Fund accounts for the activities related to providing education and recreation programs for Pre-Kindergarten and before and after school child care and enrichment programs. The fund operates on the goal of breaking even on a yearly basis so that it does not rely upon resources from K-5 instruction programs.

The Community Service Fund realized a decrease in fund balance of \$10,785.

Community Service Fund revenues for 2015-2016 totaled \$71,532; compared to \$56,968 in the previous year. This was an increase of revenue of \$14,564 which is due to an increase in after school child care and preschool enrollments.

Community Service Fund expenditures for 2015-2016 totaled \$82,317; compared to \$55,205 in the previous year. This was an increase of expenditures of \$27,112 from the previous year which is due to an increase in staffing and additional programming added to the after school child care.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GENERAL FUND BUDGETARY HIGHLIGHTS

The School provided a Revised 2015-2016 Budget in January of 2016 with a small revision done in May of 2016. The revenue was adjusted down \$22,297 due primarily to adjusting state aid to actual student enrollment.

The Actual 2016 revenue was \$6,752 less than the Revised Budget Revenue.

The Revised 2016 Budget stated expenditures at \$5,531 higher than the Original 2016 Budget. The Actual expenditures were \$9,734 less than projected.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the School had invested \$1,678,062 (net of accumulated depreciation) in a broad range of capital assets, technology equipment, and other types of equipment. Capital assets are recorded in the School-wide financial statements, but are not reported in the Fund financial statements.

| | Total, net of accumulated depreciation | |
|---------------------------------------|--|---------------------|
| | 2016 | 2015 |
| Ridgeway Community School | | |
| Land improvements | \$ 14,651 | \$ 14,651 |
| Equipment | 288,705 | 227,524 |
| Ridgeway Community Association | | |
| Land | 48,000 | 48,000 |
| Buildings and improvements | 1,893,114 | 1,890,614 |
| Total | 2,244,470 | 2,180,789 |
| Less: Accumulated depreciation | (566,408) | (505,546) |
| | <u>\$ 1,678,062</u> | <u>\$ 1,675,243</u> |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long Term Liabilities. As of June 30, 2016, the School had \$955,226 in payable outstanding. The School also had \$14,394 in loan discounts at the end of the year. A summary of outstanding long-term liabilities as of June 30, 2016, is as follows:

| | Total | |
|---------------------------------------|---------------------|---------------------|
| | 2016 | 2015 |
| Ridgeway Community Association | | |
| Building loan payable | \$ 913,027 | \$ 941,360 |
| Loan discount | (14,394) | (15,294) |
| Ridgeway Community School | | |
| Compensated absences payable | 42,199 | 36,487 |
| Net pension liability | 552,547 | 519,007 |
| Total | <u>\$ 1,493,379</u> | <u>\$ 1,481,560</u> |

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the State of Minnesota for its revenue authority. State legislated revenue changes to educational funding has had a positive effect on the School's cash flow. The school will apply the additional revenue towards their goals and visions to provide a quality education. The School will continue to plan conservatively on budget projections and maintain an adequate fund balance to keep the School from having to incur operational loans.

The School will continue its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School Office, Ridgeway Community School, 35564 County Rd 12, Houston, Minnesota 55943.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
STATEMENT OF NET POSITION**
June 30, 2016
With Comparative Data as of June 30, 2015

| | Governmental Activities | |
|---|-------------------------|-------------------|
| | 2016 | 2015 |
| Assets | | |
| Cash and investments | \$ 323,435 | \$ 379,988 |
| Other receivables | 104,595 | 91,950 |
| Due from other governmental units | 1,607 | 1,867 |
| Prepaid expenses | 14,064 | 13,791 |
| Bond issuance costs, net | | 15,294 |
| Capital Assets: | | |
| Land | 48,000 | 48,000 |
| Other capital assets, net of accumulated depreciation | 1,630,062 | 1,627,243 |
| TOTAL ASSETS | 2,121,763 | 2,178,133 |
| Deferred Outflows of Resources | | |
| Deferred outflow from pension activities | 105,594 | 166,264 |
| Liabilities | | |
| Accounts payable | 2,594 | 36,505 |
| Accrued liabilities | 59,984 | 44,706 |
| Unearned revenue | 15,874 | 31,484 |
| Long-Term Liabilities: | | |
| Due within one year | 35,180 | 35,598 |
| Due in more than one year | 905,652 | 942,249 |
| Net pension liability | 552,547 | 519,007 |
| TOTAL LIABILITIES | 1,571,831 | 1,609,549 |
| Deferred Inflows of Resources | | |
| Deferred inflows from pension activities | 90,397 | 155,614 |
| Net Position | | |
| Net investment in capital assets | 765,035 | 733,883 |
| Restricted: | | |
| Community service | 2,687 | 13,472 |
| Unrestricted: | (202,593) | (168,121) |
| TOTAL NET POSITION | \$ 565,129 | \$ 579,234 |

See Notes to Financial Statements

RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

| 2016 | | | | |
|--------------------------------------|--------------|------------------|--------------------------|-------------------|
| | | Program Revenues | | |
| | | Charges for | Operating | Capital Grants |
| Functions/Programs | Expenses | Services | Grants and Contributions | and Contributions |
| District and school administration | \$ 104,926 | \$ | \$ | \$ |
| District support services | 80,504 | | | |
| Regular instruction | 416,836 | | 36,659 | |
| Special education | 163,073 | | 135,211 | |
| Community education and services | 85,446 | 70,186 | 1,346 | |
| Instruction support services | 18,743 | | | |
| Pupil support services | 82,228 | 31,738 | 22,390 | |
| Site, buildings, and equipment | 178,556 | | | 18,896 |
| Fiscal and other fixed cost programs | 9,440 | | | |
| Interest and other fiscal charges | 64,615 | 111,621 | | |
| Total governmental activities | \$ 1,204,367 | \$ 213,545 | \$ 195,606 | \$ 18,896 |

General Revenues:

State aid not restricted to specific purposes

Miscellaneous

Investment income

Total general revenues

Change in net position

Net Position - Beginning

Net Position - Ending

See Notes to Financial Statements

| 2016 | 2015 |
|---|---|
| Net (Expense) Revenue and Changes in Net Position Total Governmental Activities | Net (Expense) Revenue and Changes in Net Position Total Governmental Activities |
| \$ (104,926) | \$ (76,644) |
| (80,504) | (115,756) |
| (380,177) | (305,343) |
| (27,862) | (13,146) |
| (13,914) | 1,763 |
| (18,743) | (20,519) |
| (28,100) | (29,580) |
| (159,660) | (67,613) |
| (9,440) | (8,504) |
| 47,006 | 45,035 |
| (776,320) | (590,307) |
| 621,585 | 587,806 |
| 140,271 | 38,220 |
| 359 | 325 |
| 762,215 | 626,351 |
| (14,105) | 36,044 |
| 579,234 | 543,190 |
| \$ 565,129 | \$ 579,234 |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2016

With Partial Comparative Data as of June 30, 2015

| | General | Food Service | Community Service |
|---|-------------------|---------------|----------------------|
| Assets | | | |
| Cash and investments | \$ 217,530 | \$ 212 | \$ 4,919 |
| Accounts receivable | 367 | | 1,273 |
| Due from other school districts | 334 | | |
| Due from Minnesota Department of Education | 98,369 | | |
| Due from Federal through Minnesota Department of Education | 5,859 | | |
| Prepaid items | 13,864 | 200 | |
| TOTAL ASSETS | <u>\$ 336,323</u> | <u>\$ 412</u> | <u>\$ 6,192</u> |
| Liabilities and Fund Balance | | | |
| Liabilities | | | |
| Accounts payable | \$ 2,147 | \$ 59 | \$ 388 |
| Salaries and accrued liabilities payable | 56,946 | 353 | 2,685 |
| Unearned revenue | 15,442 | | 432 |
| TOTAL LIABILITIES | <u>74,535</u> | <u>412</u> | <u>3,505</u> |
| Fund Balances | | | |
| Nonspendable: | | | |
| Prepaid items | 13,864 | 200 | |
| Restricted for: | | | |
| Community service | | | 2,687 |
| Debt service | | | |
| Unassigned: | | | |
| General fund | 247,924 | | |
| Special revenue funds | | (200) | |
| TOTAL FUND BALANCES | <u>261,788</u> | | <u>2,687</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 336,323</u> | <u>\$ 412</u> | <u>\$ 6,192</u> |

See Notes to Financial Statements

| Building Corporation | Total Governmental Funds | |
|-------------------------|--------------------------|-------------------|
| | 2016 | 2015 |
| \$ 100,774 | \$ 323,435 | \$ 379,988 |
| | 1,640 | 1,115 |
| | 334 | 1,867 |
| | 98,369 | 87,200 |
| | 5,859 | 3,635 |
| | 14,064 | 13,791 |
| <u>\$ 100,774</u> | <u>\$ 443,701</u> | <u>\$ 487,596</u> |

| | | |
|----|---------------|----------------|
| \$ | \$ 2,594 | \$ 36,505 |
| | 59,984 | 44,706 |
| | 15,874 | 31,484 |
| | <u>78,452</u> | <u>112,695</u> |

| | | |
|-------------------|-------------------|-------------------|
| | 14,064 | 13,791 |
| | 2,687 | 13,472 |
| 100,774 | 100,774 | 85,256 |
| | 247,924 | 262,582 |
| | (200) | (200) |
| <u>100,774</u> | <u>365,249</u> | <u>374,901</u> |
| <u>\$ 100,774</u> | <u>\$ 443,701</u> | <u>\$ 487,596</u> |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

| | General | Food Service | Community Service |
|---|-------------------|---------------|-------------------|
| Revenues | | | |
| Local sources: | | | |
| Other local sources | \$ 11,171 | \$ 31,737 | \$ 71,532 |
| Investment income | 327 | | |
| State sources | 885,005 | 3,165 | |
| Federal sources | 30,962 | 19,225 | |
| TOTAL REVENUES | <u>927,465</u> | <u>54,127</u> | <u>71,532</u> |
| Expenditures | | | |
| District and school administration | 81,232 | | |
| District support services | 78,439 | | |
| Regular instruction | 347,468 | | |
| Special education | 156,588 | | |
| Community education and services | | | 82,317 |
| Instructional support services | 18,074 | | |
| Pupil support services | 54,085 | 57,242 | |
| Site, buildings, and equipment | 194,509 | | |
| Fiscal and other fixed cost programs | 9,440 | | |
| Building corporation | | | |
| Principal | | | |
| Interest and other fiscal charges | | | |
| TOTAL EXPENDITURES | <u>939,835</u> | <u>57,242</u> | <u>82,317</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (12,370) | (3,115) | (10,785) |
| Other Financing Sources | | | |
| Sale of capital asset | 1,100 | | |
| Transfers in | | 3,115 | |
| Transfers out | (3,115) | | |
| NET CHANGE IN FUND BALANCES | (14,385) | | (10,785) |
| FUND BALANCES - BEGINNING | <u>276,173</u> | | <u>13,472</u> |
| FUND BALANCES - ENDING | <u>\$ 261,788</u> | <u>\$</u> | <u>\$ 2,687</u> |

See Notes to Financial Statements

| Building Corporation | Total Governmental Funds | |
|-------------------------|--------------------------|------------|
| | 2016 | 2015 |
| \$ 128,000 | \$ 242,440 | \$ 234,388 |
| 32 | 359 | 325 |
| | 888,170 | 848,736 |
| | 50,187 | 49,103 |
| 128,032 | 1,181,156 | 1,132,552 |
| | 81,232 | 76,537 |
| | 78,439 | 69,291 |
| | 347,468 | 354,373 |
| | 156,588 | 145,653 |
| | 82,317 | 55,205 |
| | 18,074 | 20,300 |
| | 111,327 | 72,519 |
| 19,566 | 214,075 | 189,926 |
| | 9,440 | 8,504 |
| 28,333 | 28,333 | 26,434 |
| 64,615 | 64,615 | 66,514 |
| 112,514 | 1,191,908 | 1,085,256 |
| 15,518 | (10,752) | 47,296 |
| | 1,100 | |
| | 3,115 | 7,712 |
| | (3,115) | (7,712) |
| 15,518 | (9,652) | 47,296 |
| 85,256 | 374,901 | 327,605 |
| \$ 100,774 | \$ 365,249 | \$ 374,901 |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
RECONCILIATION OF NET POSITION IN THE
SCHOOL-WIDE FINANCIAL STATEMENTS AND FUND BALANCES
IN THE FUND BASIS FINANCIAL STATEMENTS
June 30, 2016**

Amounts reported for governmental activities in the statement of net position are different because:

| | | |
|--|------------------|--------------------------|
| Total governmental fund balances (pages 16 and 17) | | \$ 365,249 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Land | \$ 48,000 | |
| Governmental funds - capital assets | 2,244,470 | |
| Less: Accumulated depreciation | <u>566,408</u> | |
| | | 1,678,062 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | | |
| Building loan payable | \$ (898,633) | |
| Compensated absences | (42,199) | |
| Net pension liability | <u>(537,350)</u> | |
| | | <u>(1,478,182)</u> |
| Net position of governmental activities (page 13) | | <u><u>\$ 565,129</u></u> |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016**

Amounts reported for governmental activities in the statement of activities are different because:

| | | | |
|--|----|-----------------|------------------------|
| Net change in fund balances - total governmental funds (pages 18 and 19) | \$ | (9,652) | |
| Governmental funds reported capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$1,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. | | | |
| Capital outlays | \$ | 83,681 | |
| Depreciation expense | | <u>(80,862)</u> | |
| | | | 2,819 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | | | |
| Compensated absences | | | (5,712) |
| Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. | | | |
| Principal retirement on long-term debt | \$ | 27,433 | |
| Net pension liability | | <u>(28,993)</u> | |
| | | | <u>(1,560)</u> |
| Change in net position of governmental activities (pages 14 and 15) | \$ | | <u><u>(14,105)</u></u> |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND**

For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

| | Budgeted Amounts | | 2016 | Over (Under) | 2015 |
|---|-------------------|-------------------|-------------------|----------------|-------------------|
| | Original | Final | Actual | Final Budget | Actual |
| Revenues | | | | | |
| Local sources: | | | | | |
| Other local sources | \$ 13,882 | \$ 16,677 | 11,171 | \$ (5,506) | \$ 19,769 |
| Investment income | 300 | 325 | 327 | 2 | 321 |
| State sources | 904,438 | 886,598 | 885,005 | (1,593) | 846,167 |
| Federal sources | 37,894 | 30,617 | 30,962 | 345 | 35,114 |
| TOTAL REVENUES | <u>956,514</u> | <u>934,217</u> | <u>927,465</u> | <u>(6,752)</u> | <u>901,371</u> |
| Expenditures | | | | | |
| District and school administration | 76,140 | 80,977 | 81,232 | 255 | 74,753 |
| District support services | 67,584 | 73,191 | 78,439 | 5,248 | 69,291 |
| Regular instruction | 367,388 | 350,555 | 347,468 | (3,087) | 354,373 |
| Special education | 151,127 | 159,835 | 156,588 | (3,247) | 145,653 |
| Instructional support services | 24,140 | 23,052 | 18,074 | (4,978) | 20,300 |
| Pupil support services | 55,011 | 56,070 | 54,085 | (1,985) | 18,257 |
| Site, buildings, and equipment | 193,948 | 196,530 | 194,509 | (2,021) | 189,926 |
| Fiscal and other fixed cost programs | 8,700 | 9,359 | 9,440 | 81 | 8,504 |
| TOTAL EXPENDITURES | <u>944,038</u> | <u>949,569</u> | <u>939,835</u> | <u>(9,734)</u> | <u>881,057</u> |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | 12,476 | (15,352) | (12,370) | 2,982 | 20,314 |
| Other Financing Sources | | | | | |
| Sale of capital asset | | | 1,100 | 1,100 | |
| Transfers out | | | (3,115) | (3,115) | (7,712) |
| NET CHANGE IN FUND BALANCE | 12,476 | (15,352) | (14,385) | 967 | 12,602 |
| FUND BALANCE - BEGINNING | <u>276,173</u> | <u>276,173</u> | <u>276,173</u> | | <u>263,571</u> |
| FUND BALANCE - ENDING | <u>\$ 288,649</u> | <u>\$ 260,821</u> | <u>\$ 261,788</u> | <u>\$ 967</u> | <u>\$ 276,173</u> |

See Notes to Financial Statements

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOOD SERVICE FUND**

For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

| | Budgeted Amounts | | 2016 | Over (Under) | 2015 |
|---|-------------------|-------------------|----------------|------------------|----------------|
| | Original | Final | Actual | Final Budget | Actual |
| Revenues | | | | | |
| Local sources: | | | | | |
| Other local sources | \$ 33,980 | \$ 29,992 | \$ 31,737 | \$ 1,745 | \$ 29,992 |
| State sources | 2,370 | 2,569 | 3,165 | 596 | 2,569 |
| Federal sources | 13,450 | 13,989 | 19,225 | 5,236 | 13,989 |
| TOTAL REVENUES | 49,800 | 46,550 | 54,127 | 7,577 | 46,550 |
| Expenditures | | | | | |
| Pupil support services | 52,260 | 54,962 | 57,242 | 2,280 | 54,262 |
| EXCESS OF REVENUES OVER (UNDER) EXPENDITURES | (2,460) | (8,412) | (3,115) | 5,297 | (7,712) |
| Other Financing Sources | | | | | |
| Transfers in | | | 3,115 | 3,115 | 7,712 |
| NET CHANGE IN FUND BALANCE | (2,460) | (8,412) | | 8,412 | |
| FUND BALANCE - BEGINNING | | | | | |
| FUND BALANCE - ENDING | \$ (2,460) | \$ (8,412) | \$ | \$ 11,527 | \$ |

See Notes to Financial Statements

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND**

For the Year Ended June 30, 2016
With Partial Comparative Data for the Year Ended June 30, 2015

| | Budgeted Amounts | | 2016 | Over (Under) | 2015 |
|-----------------------------------|------------------|-----------|-----------|--------------|-----------|
| | Original | Final | Actual | Final Budget | Actual |
| Revenues | | | | | |
| Local sources: | | | | | |
| Other local sources | \$ 63,290 | \$ 71,634 | \$ 71,532 | \$ (102) | \$ 56,968 |
| TOTAL REVENUES | 63,290 | 71,634 | 71,532 | (102) | 56,968 |
| Expenditures | | | | | |
| Community education and services | 66,359 | 80,328 | 82,317 | 1,989 | 55,205 |
| NET CHANGE IN FUND BALANCE | (3,069) | (8,694) | (10,785) | (2,091) | 1,763 |
| FUND BALANCE - BEGINNING | 13,472 | 13,472 | 13,472 | | 11,709 |
| FUND BALANCE - ENDING | \$ 10,403 | \$ 4,778 | \$ 2,687 | \$ (2,091) | \$ 13,472 |

See Notes to Financial Statements

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies

The financial statements of Ridgeway Community School have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB has issued codification of governmental accounting and financial reporting standards dated June 30, 2000. This codification and subsequent GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local government.

Financial Reporting Entity

Ridgeway Community School, Houston, Minnesota ("School") is a Charter School, and was formed August 29, 2001 through an agreement with Winona Area Public Schools School No. 861 in accordance with Minnesota Statutes and began operating September 17, 2001 pursuant to applicable Minnesota laws and statutes. The primary objective of the School is to prepare individuals for responsible, self-directed, lifelong learning, with an emphasis on traditional rural values of cooperation, respect, community service, and stewardship of the natural environment.

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

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the School.

Based on these criteria, there is one organization that is considered to be a component unit of the School. Ridgeway Community Association is a Minnesota non-profit corporation holding IRS classification as a 501 (C)(3) tax exempt organization which owns the real estate and building that is leased by the School for its operations. Ridgeway Community Association is governed by a separate board appointed by the board of the School. Although it is legally a separate from the School (as a blended component unit) because its sole purpose is to acquire, construct, and own an educational site, which is leased to the School. All long-term debt related to the purchase of the building and property and fixed assets related to the school site will be the responsibility of and will be under ownership of the Ridgeway Community Association.

Basic Financial Statement Presentation

The School-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 School.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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*.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Basic Financial Statement Presentation (Continued)

The School applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense, and is reported separately on the Statement of Activities.

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

Proprietary funds are used to report business-type activities carried on by a school. No activities of the School were determined to be of this nature, so no proprietary funds are present in the financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The School-wide financial statements were prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions." Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State aids are recorded as revenue in the fiscal year for which the aids are designated by statute.

Governmental fund types are accounted for using the modified accrual basis of accounting. Under this method revenues are recognized when susceptible to accrual, i.e. both measurable and available to finance expenditures of the fiscal period. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual are state aids, fees, and interest. For this purpose, the School considers all revenue to be available if they are collected within 60 days after the end of the current period.

Expenditures are generally recognized using the modified accrual basis of accounting when a related fund liability is incurred. Exceptions to this rule include (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued, and (2) principal and interest on general long-term debt which is recognized when due.

These methods are in accordance with the Uniform Financial Accounting and Reporting System (UFARS), which the School uses to prepare its financial statements.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Non-exchange transaction, in which the School receives value without directly giving equal value in return, include grants, and donations. Revenue from grants and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year in which the resources are required to be used or the year when use is first permitted; matching requirements, in which the School must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the School on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it is recognized.

Unearned revenue is recorded when assets are recognized before revenue recognition criteria have been satisfied. Grants received before eligibility requirements other than time requirements are met are recorded as unearned revenue. Grants received before time requirements are met are recorded as a deferred inflow of resources.

Description of Funds

The accounts of the School are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues and expenditures. School resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the individual funds in the governmental fund category) for the determination of major funds. The School electively added as major funds, those which had specific community focus.

The major funds of the School are presented as follows:

The *general fund* is the School's primary operating fund. It accounts for all financial resources and transactions except those required to be accounted for in other funds.

The *food service fund* accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities.

The *community service fund* accounts for the resources designated for programs other than those for elementary and secondary students.

The *Building Corporation Fund* - Accounts for all activities of the Ridgeway Community Association. This includes accounting for the proceeds and uses of resources borrowed for the purpose of purchasing and building the school site, the receipt of lease payments from Ridgeway Community School, and the debt service payments required under the terms of the building loan.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Description of Funds (Continued)

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than program services.

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

Budgets and Budgetary Accounting

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

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

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

Cash and Investments

Except where otherwise required, the School maintains all deposits in bank accounts in the name of the School. These deposits are invested on a short-term basis with interest income allocated to each fund based upon their relative account balance. The balances shown in each fund represents an equity interest in the commingled pool of cash and temporary cash investments, which is under the management of the School.

Investments are reported at cost, which approximates fair value. Cash deposits are reported at carrying amount, which reasonably estimates fair value.

Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the School. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

Prepaid Expenses

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets are recorded 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 School maintains a capitalization threshold level of \$1,000. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Depreciation is provided using the straight-line method applied over the following estimated useful lives of the assets.

| | Useful Life in Years |
|------------------------|-------------------------|
| Buildings | 50 |
| Furniture and fixtures | 5 - 15 |

Capital assets not being depreciated include land.

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

Unearned Revenue

Unearned revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Fund Balance

Fund balances of governmental fund types are classified in three separate categories. The general meaning is as follows:

- Nonspendable – Such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned)
- Restricted/Reserved – Indicates that a portion of fund equity has been legally segregated for specific purposes.
- Unassigned Fund Balance – Indicates that portion of fund equity which is available for general expenditures in future periods.

RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

Full-time 12-month employees of the School earn 12 days of personal leave each year, and student service-day employees earn 9 days of personal leave each year. This benefit vests to employees. At June 30, 2016, compensated absences totaling \$42,199 are recorded in the financial statements.

Long-term Obligations

In the school-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

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

Comparative Data

Comparative data for the prior year has been presented in certain of the accompanying financial statements in order to provide an understanding of changes in the School's financial position and operations. However, complete comparative data has not been presented since their inclusion would not provide meaningful comparisons. Certain amounts in the prior year totals column have been reclassified to conform with the current year presentation.

Concentration of Credit Risk

Financial instruments which expose the School to a concentration of credit risk consist primarily of cash and investments. Credit risk is discussed in Note 3.

Net Position

Net position represents the difference between assets and liabilities in the school-wide financial statements. Net position invested in capital assets, net of related debt 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 statements when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. Summary of Significant Accounting Policies (Continued)

Pension

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 Note 9.

2. Stewardship and Accountability

Excess of expenditures over appropriations at the individual fund level during 2016 is as follows:

| | | |
|------------------------|----|-------|
| Food Service Fund | \$ | 2,280 |
| Community Service Fund | | 1,989 |

Excess expenditures were the result of planned processes.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. Cash and Investments

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School's deposit policy for custodial credit risk follows Minnesota Statutes for deposits. The School's deposits are entirely covered by federal depository insurance or by collateral held by the School's custodial banks in the School's name.

Minnesota Statutes require that all School deposits be insured, secured by surety bonds or be collateralized. Except for notes secured by first mortgages of future maturity, the market value of collateral pledged by the custodial bank must equal 110% of the deposits not covered by insurance or surety bonds.

Credit Risk

The School has no investment policy that would limit its investment choices.

Concentration of Credit Risk

The School has no limit on the amount the School may invest in any one issuer.

Interest Rate Risk

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

Summary of Cash

As of June 30, 2016, the School's cash and cash equivalents consisted of the following items, all of which are held in an internal investment pool:

| | |
|----------|--------------------------|
| Deposits | <u><u>\$ 323,435</u></u> |
|----------|--------------------------|

4. Due from Other Governmental Units

The amounts due from other governmental units at June 30, 2016 are as follows:

| <u>Fund</u> | <u>Minnesota Department of Education</u> | <u>Federal Government Through MDE</u> | <u>Other Minnesota School Districts</u> | <u>Total</u> |
|-------------|--|---|---|-------------------|
| General | <u>\$ 98,369</u> | <u>\$ 5,859</u> | <u>\$ 334</u> | <u>\$ 104,562</u> |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. Capital Assets

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

| Governmental Activities | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------------|------------------|------------------|---------------------------|
| <i>Ridgeway Community Association</i> | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 48,000 | \$ | \$ | \$ 48,000 |
| Total capital assets, not being depreciated | 48,000 | | | 48,000 |
| <i>Ridgeway Community School</i> | | | | |
| Capital assets, being depreciated: | | | | |
| Land improvements | 14,651 | | | 14,651 |
| Equipment | 227,524 | 81,181 | 20,000 | 288,705 |
| <i>Ridgeway Community Association</i> | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 1,890,614 | 2,500 | | 1,893,114 |
| Total capital assets, being depreciated | 2,132,789 | 83,681 | 20,000 | 2,196,470 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 2,826 | 733 | | 3,559 |
| Equipment | 116,219 | 22,625 | 20,000 | 118,844 |
| Buildings and improvements | 386,501 | 57,504 | | 444,005 |
| Total accumulated depreciation | 505,546 | 80,862 | 20,000 | 566,408 |
| Total capital assets, being depreciated, net | 1,627,243 | 2,819 | | 1,630,062 |
| Governmental activities capital assets, net | \$ 1,675,243 | \$ 2,819 | \$ | \$ 1,678,062 |

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

| | |
|--------------------------------|--------|
| District support services | \$ 214 |
| Regular instruction | 45,904 |
| Instructional support services | 219 |
| Pupil support services | 5,977 |
| Site, buildings and equipment | 28,548 |

Total depreciation expense - governmental activities \$ 80,862

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Liabilities

The long-term debt obligations outstanding and related maturities and interest rates are summarized in the following schedules. General Obligation Bonds are serviced by the Building Corporation Fund. They are backed by the full faith and credit of the School.

A summary of interest rates, maturities and June 30, 2016 balances is as follows:

| | Range of Interest Rates | Final Maturity | Balance June 30, 2016 |
|-----------------------|----------------------------|-------------------|-----------------------------|
| Building Loan Payable | | | |
| Building Note A | 6.93% | 2033 | \$ 866,818 |
| Building Note B | 7.50% | 2018 | 46,209 |
| | | | <u>\$ 913,027</u> |
| Total | | | <u>\$ 913,027</u> |

The following is a summary of the changes in long-term debt obligations for the year ended June 30, 2016:

| | Beginning Balance | Additions | Reductions | Ending Balance | Amounts Due Within One Year |
|--------------------------------|----------------------|------------------|------------------|---------------------|-----------------------------------|
| GOVERNMENTAL ACTIVITIES | | | | | |
| Building loan payable | \$ 941,360 | | \$ 28,333 | \$ 913,027 | \$ 30,368 |
| Loan discount | (15,294) | | (900) | (14,394) | (900) |
| Compensated absences payable | 36,487 | 5,712 | | 42,199 | 5,712 |
| Net pension liability | 519,007 | 33,540 | | 552,547 | |
| Governmental Activities | | | | | |
| Long-term Liabilities | <u>\$ 1,481,560</u> | <u>\$ 39,252</u> | <u>\$ 27,433</u> | <u>\$ 1,493,379</u> | <u>\$ 35,180</u> |

The annual requirements to amortize all long-term debt outstanding as of June 30, 2016, over the life of the debt, are summarized below:

| Years | Building Loan Payable | | |
|--------------------------------|-----------------------|-------------------|---------------------|
| | Principal | Interest | Total |
| <u>Governmental Activities</u> | | | |
| 2017 | \$ 30,368 | \$ 62,580 | \$ 92,948 |
| 2018 | 75,723 | 59,037 | 134,760 |
| 2019 | 33,191 | 54,880 | 88,071 |
| 2020 | 35,566 | 52,505 | 88,071 |
| 2021 | 38,111 | 49,960 | 88,071 |
| Thereafter | 700,068 | 320,088 | 1,020,156 |
| Totals | <u>\$ 913,027</u> | <u>\$ 599,050</u> | <u>\$ 1,512,077</u> |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

6. Long-Term Liabilities (Continued)

Building Loan Payable

Ridgeway Community Association obtained a construction loan on June 27, 2007 in the amount of \$1,100,000 to pay off the 2006 building loan and to finance construction which began after June 30, 2007. This project consisted of renovating the existing building as well as two additional classrooms and a library. The financing bank issued two separate bonds as follows: \$1,045,000 with a term of twenty-five years and \$55,000 with a term of ten years. From the time of issuance until the conversion date interest is a "floating rate" set on the first of each month at three percent above the base interest rate. Upon reaching the conversion date, December 26, 2007, the interest rates became fixed at 6.93% and 7.5%, respectively. Issuance costs related to the loan amounted to \$22,487. The loans are guaranteed by Ridgeway Community School.

7. Inter-fund Transfers

Ridgeway Community School had one inter-fund transfer during the June 30, 2016 year, \$3,115 was transferred from the General Fund to replenish the deficit in the Food Service Fund.

8. Operating Lease

Ridgeway Community School incurs expenses under an operating lease for rent of facilities. This lease agreement is cancelable and has a term of twenty-five years. The following is a schedule of future minimum lease payments required under the operating lease:

| | |
|------------------------------|---------------------|
| Year ending June 30, | |
| 2017 | \$ 128,000 |
| 2018 | 128,000 |
| 2019 | 128,000 |
| 2020 | 128,000 |
| 2021 | 128,000 |
| 2022-2026 | 640,000 |
| 2027-2031 | 640,000 |
| 2032 | 128,000 |
| Total Minimum Lease Payments | <u>\$ 2,048,000</u> |

The School's lease expense for the year ended June 30, 2016 was \$128,000.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide

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

Plan Description

1. General Employees Retirement Fund (GERF)

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

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

2. Teachers Retirement Fund (TRA)

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

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

Benefits Provided

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

1. GERS Benefits

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

2. TRA Benefits

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

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

| Tier I: | <u>Step Rate Formula</u> | <u>Coordinated</u> | <u>Step Rate Formula</u> | <u>Basic</u> |
|---------|--|----------------------|--------------------------|----------------------|
| | 1st ten years if service years prior to 7/1/06 | 1.2 percent per year | 1st ten years | 2.2 percent per year |
| | 1st ten years if service years after 7/1/06 | 1.4 percent per year | All years after | 2.7 percent per year |
| | All other years if service years prior to 7/1/06 | 1.7 percent per year | | |
| | All years after 7/1/06 | 1.9 percent 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 percent per year early retirement reduction factors 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).

or

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Tier II: For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members applies. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 percent for Basic members applies. Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. These reduction factors average approximately 4 to 5.4 percent per year.

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 (A-1) 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 five plans, which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is also eligible for a refund of their employee contributions plus interest.

The benefit provisions started 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.

Contributions

1. GERS Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. These Statutes are established and amended by the state legislature. The School makes annual contributions to the pension plans equal to the amount required by state statutes. GERS Basic Plan members and Coordinated Plan members were required to contribute 9.10% and 6.5%, respectively, of their annual covered salary in 2016. The School is required to contribute the following percentages of annual covered payroll: 11.78% for Basic Plan members and 7.5% for Coordinated Plan members. The School's contributions to the Public Employee's Retirement Fund for the years ending June 30, 2016 was \$15,113. The School's contributions were equal to the contractually required contributions for each year as set by the state statute.

2. TRA Contributions

Minnesota Statute Chapter 354 sets the rates for the employee and employer contributions. These statutes are established and amended by the state legislature.

| | Ending June 30, 2015 | | Ending June 30, 2016 | |
|-------------|----------------------|----------|----------------------|----------|
| | Employee | Employer | Employee | Employer |
| Basic | 11.0% | 11.5% | 11.0% | 11.5% |
| Coordinated | 7.5% | 7.5% | 7.5% | 7.5% |

The School contributions for the year ended June 30, 2016 was \$22,996, respectively, equal to required contributions for each year as set by state statute.

RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Positions" to the employer contributions 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 | <u>(435,999)</u> |
| Total employer contributions | 339,066,956 |
| Total non-employer contributions | <u>41,587,410</u> |
| Total contributions reported in Schedule of Employer and Non-Employer Allocations | <u>\$ 380,654,366</u> |

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

Merger of Duluth Teacher's Retirement Fund Association (DTRFA)

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

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

Pension Costs

1. GERF Pension Costs

At June 30, 2016, the School reported a liability of \$181,388 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 School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2014, through June 30, 2015, relative to the total employer contributions received from all of PERA's participating employers. The School's proportion was 0.0035% at the end of the measurement period and 0.0037% at the beginning of the measurement period.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (continued)

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

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

For the year ended June 30, 2016, the School recognized pension expense of \$21,830 for its proportionate share of GERF's pension expense.

At June 30, 2016, the School 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:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Difference between expected and actual economic experience | \$ | \$ 7,367 |
| Difference between projected and actual investment earnings | | 18,051 |
| Changes in actuarial assumptions | 11,942 | |
| Changes in proportion | | 7,046 |
| Contributions paid to GERF subsequent to the measurement date | <u>14,074</u> | |
| Total | <u>\$ 26,016</u> | <u>\$ 32,464</u> |

\$14,074 reported as deferred outflows of resources related to pensions resulting from School 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: | <u>Pension Expense Amount</u> |
|---------------------|-----------------------------------|
| 2017 | \$ (5,985) |
| 2018 | (5,985) |
| 2019 | (12,844) |
| 2020 | 4,292 |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (continued)

2. TRA Pension Costs

At June 30, 2016, the School reported a liability of \$371,159 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School. The School's proportionate share was 0.0060% at the end of the measurement period and 0.0075% for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the school 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 school were as follows:

| | | |
|---|----|---------|
| District's proportionate share of net pension liability | \$ | 371,159 |
| State's proportionate share of the net pension liability associated with the district | \$ | 45,283 |

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

For the year ended June 30, 2016, the School recognized pension expense of \$29,761. It also recognized \$8,005 as pension expense for the support provided by direct aid.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|-----------------------------------|----------------------------------|
| Difference between expected and actual economic experience | \$ 23,685 | \$ |
| Difference between projected and actual investment earnings | | 44,684 |
| Changes in actuarial assumptions | 28,532 | |
| Changes in proportion | | 13,249 |
| Contributions paid to GERS subsequent to the measurement date | 27,361 | |
| Total | \$ 79,578 | \$ 57,933 |

RIDGEWAY COMMUNITY SCHOOL
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Pension Costs (continued)

\$27,361 reported as deferred outflows of resources related to pensions resulting from School 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. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

| Year ended June 30: | Pension Expense Amount |
|---------------------|---------------------------|
| 2017 | \$ (7,429) |
| 2018 | (7,429) |
| 2019 | (7,428) |
| 2020 | 16,570 |

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:

| Assumptions | GERF | TRA |
|------------------------------|----------------|-------------------------------------|
| Inflation | 2.75% per year | 3.00% |
| Active Member Payroll Growth | 3.50% per year | 3.5 - 12% based on years of service |
| Investment Rate of Return | 7.90% | 8.00% |

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

Actuarial assumptions for GERF 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, to June 30, 2008, with an update of economic assumptions used in the 2014. Assumptions have not been prepared for PERA's other plans, but assumptions are reviewed annually.

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

The long-term expected rate of return on pension plan investments is 7.9% for GERF and 8.0% for TRA. The State Board of Investment, which manages the investments of PERA and TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

Actuarial Assumptions (continued)

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.9% for GERF and 8.0% for TRA (this is a decrease from the discount rate at the prior measurement date of 8.5%). The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on those assumptions, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Liability Sensitivity

The following table presents the School'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 School'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:

| | <u>1% Decrease in Discount Rate</u> | <u>Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|---|---|--------------------------|---|
| GERF Discount Rate | 6.9% | 7.9% | 8.9% |
| District's proportionate share of the GERF net pension liability | \$ 285,207 | \$ 181,388 | \$ 95,650 |
| TRA Discount Rate | 7.0% | 8.0% | 9.0% |
| District's proportionate share of the TRA net pension liability | \$ 564,953 | \$ 371,159 | \$ 209,433 |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. Defined Benefit Pension Plans – Statewide (Continued)

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.

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

10. Risk Management

The School is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The School carries insurance for employee health, liability, property, and automotive insurance. Settled claims resulting from these risks have not exceeded the insurance coverage in any of the past four years. There was no reduction in insurance coverage during 2016.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. Commitments and Contingencies

Federal and State Programs

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

Lease Commitment and Terms - School Site - Ridgeway Association

The School leases its educational site from Ridgeway Community Association (a blended component unit). Under the terms of the lease agreement, the lease term is for the period beginning April 1, 2011 and ending June 30, 2032.

The net annual base rent for the term of the lease agreement is directly tied to the debt service requirements of the Ridgeway Community Association. In addition, the School is responsible for all utility costs.

The total amount of rent paid by the School to Ridgeway Community Association under the terms of the lease agreement was \$128,000 for fiscal 2016. Future amounts to be requested for state lease aid from the Minnesota Department of Education may vary due to financing arrangements, which are subject to change.

The School's ability to make payment under this lease agreement is dependent on its revenues which are in turn, largely dependent on sufficient enrollments being served at the School and on sufficient state aids per student being authorized and received from the State of Minnesota. The School believes that its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due.

In addition, the School is responsible for reasonable repairs and maintenance costs applicable to a tenant, as well as all custodial and utility costs.

12. Student Activity Accounts

The School has no student activity accounts as of June 30, 2016. If the School does have any student activity accounts established, they will be under school board control.

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

REQUIRED SUPPLEMENTAL INFORMATION

JUNE 30, 2016

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

**Schedule of School's Contributions
GERF Retirement Funds
Last Ten Years**

| Fiscal Year Ending June 30 | Pension Plan | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | District Covered Employee Payroll | Contributions as a Percentage of Covered Employee Payroll |
|----------------------------------|-----------------|---|--|--|--|--|
| 2015 | PERA | \$ 14,259 | \$ 14,259 | \$ | \$ 204,755 | 6.96% |
| 2016 | PERA | 15,113 | 15,113 | | 185,644 | 8.14% |
| 2017 | | | | | | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| 2020 | | | | | | |
| 2021 | | | | | | |
| 2022 | | | | | | |
| 2023 | | | | | | |
| 2024 | | | | | | |

**Schedule of School's Contributions
TRA Retirement Funds
Last Ten Years**

| Fiscal Year Ending June 30 | Pension Plan | Statutorily Required Contribution | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | District Covered Employee Payroll | Contributions as a Percentage of Covered Employee Payroll |
|----------------------------------|-----------------|---|--|--|--|--|
| 2015 | TRA | \$ 23,846 | \$ 23,846 | \$ | \$ 311,897 | 7.65% |
| 2016 | TRA | 22,996 | 22,996 | | 373,136 | 6.16% |
| 2017 | | | | | | |
| 2018 | | | | | | |
| 2019 | | | | | | |
| 2020 | | | | | | |
| 2021 | | | | | | |
| 2022 | | | | | | |
| 2023 | | | | | | |
| 2024 | | | | | | |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

**Schedule of School's and Non-Employer Proportionate Share of Net Pension Liability
Public Employees PERA
Last Ten Years (presented prospectively)**

| Fiscal Year Ending June 30 | District's Portion 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 | 0.0037% | \$ 173,807 | \$ 204,755 | 84.9% | 78.7% |
| 2015 | 0.0035% | 181,388 | 185,644 | 97.7% | 78.2% |
| 2016 | | | | | |
| 2017 | | | | | |
| 2018 | | | | | |
| 2019 | | | | | |
| 2020 | | | | | |
| 2021 | | | | | |
| 2022 | | | | | |
| 2023 | | | | | |

**Schedule of School's and Non-Employer Proportionate Share of Net Pension Liability
TRA
Last Ten Years (presented prospectively)**

| Fiscal Year Ending June 30 | District's Portion of the Net Pension Liability (Asset) | District's Proportionate Share of the Net Pension Liability (Asset) | District's Proportionate Share of State of Minnesota's Proportionate Share of the Net Pension Liability | Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension 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 | 0.0075% | \$ 345,595 | \$ 24,228 | \$ 369,823 | \$ 311,897 | 111% | 81.5% |
| 2015 | 0.0060% | 371,159 | 45,283 | 416,442 | 373,136 | 99% | 76.8% |
| 2016 | | | | | | | |
| 2017 | | | | | | | |
| 2018 | | | | | | | |
| 2019 | | | | | | | |
| 2020 | | | | | | | |
| 2021 | | | | | | | |
| 2022 | | | | | | | |
| 2023 | | | | | | | |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

SUPPLEMENTAL INFORMATION

JUNE 30, 2016

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
COMPARATIVE BALANCE SHEET
GENERAL FUND
June 30, 2016 and 2015**

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Assets | | |
| Cash and cash equivalents | \$ 217,530 | \$ 280,352 |
| Accounts receivable | 367 | 1,115 |
| Due from other school districts | 334 | 1,449 |
| Due from Minnesota Department of Education | 98,369 | 87,200 |
| Due from Federal through Minnesota Department of Education | 5,859 | 3,363 |
| Prepaid items | 13,864 | 13,591 |
| TOTAL ASSETS | <u>\$ 336,323</u> | <u>\$ 387,070</u> |
| Liabilities | | |
| Accounts payable | \$ 2,147 | \$ 35,655 |
| Salaries and accrued liabilities payable | 56,946 | 43,998 |
| Unearned revenue | 15,442 | 31,244 |
| TOTAL LIABILITIES | <u>74,535</u> | <u>110,897</u> |
| Fund Balances | | |
| Nonspendable: | | |
| Prepaid items | 13,864 | 13,591 |
| Unassigned: | 247,924 | 262,582 |
| TOTAL FUND BALANCES | <u>261,788</u> | <u>276,173</u> |
| TOTAL LIABILITIES AND FUND BALANCE | <u>\$ 336,323</u> | <u>\$ 387,070</u> |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL**

BUILDING CORPORATION FUND

For the Year Ended June 30, 2016

With Partial Comparative Data for the Year Ended June 30, 2015

| | <u>Budgeted Amounts</u> | | 2016 | Over (Under) | 2015 |
|-----------------------------------|-------------------------|------------------|-------------------|---------------------|------------------|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Final Budget</u> | <u>Actual</u> |
| Revenues | | | | | |
| Local sources: | | | | | |
| Other local sources | \$ 128,000 | \$ 128,000 | \$ 128,000 | \$ | \$ 127,659 |
| Investment income | 5 | 30 | 32 | 2 | 4 |
| TOTAL REVENUES | 128,005 | 128,030 | 128,032 | 2 | 127,663 |
| Expenditures | | | | | |
| Sites, buildings, and equipment | 16,157 | 21,307 | 19,566 | (1,741) | 1,784 |
| Principal | 28,618 | 28,618 | 28,333 | (285) | 26,434 |
| Interest and other fiscal charges | 64,330 | 64,330 | 64,615 | 285 | 66,514 |
| TOTAL EXPENDITURES | 109,105 | 114,255 | 112,514 | (1,741) | 94,732 |
| NET CHANGE IN FUND BALANCE | 18,900 | 13,775 | 15,518 | 1,743 | 32,931 |
| FUND BALANCE - BEGINNING | 85,256 | 85,256 | 85,256 | | 52,325 |
| FUND BALANCE - ENDING | \$ 104,156 | \$ 99,031 | \$ 100,774 | \$ 1,743 | \$ 85,256 |

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA
SUPPLEMENTAL COST SCHEDULES**
For the Fiscal Years Ended June 30, 2016 and 2015
(Unaudited)

| | 2015 - 2016 Expenditures | Cost Per Adjusted Average Daily Membership (All Funds) |
|--|-----------------------------|--|
| Fiscal Year Ended June 30, 2016 | | |
| District and school administration | \$ 81,232 | \$ 841 |
| District support services | 78,439 | 812 |
| Regular instruction | 347,468 | 3,595 |
| Special education | 156,588 | 1,620 |
| Community education and services | 82,317 | 852 |
| Instructional support services | 18,074 | 187 |
| Pupil support services | 111,327 | 1,152 |
| Site, buildings, and equipment | 214,075 | 2,215 |
| Fiscal and other fixed cost programs | 9,440 | 98 |
| TOTALS | \$ 1,098,960 | \$ 11,372 |

2015 - 2016 Adjusted Average Daily Membership - 96.64

Note: The Pupil Unit amounts above and below exclude tuitioned-in out of state students

| | 2014 - 2015 Expenditures | Cost Per Adjusted Average Daily Membership (All Funds) |
|--|-----------------------------|--|
| Fiscal Year Ended June 30, 2015 | | |
| District and school administration | \$ 76,537 | \$ 824 |
| District support services | 69,291 | 746 |
| Regular instruction | 354,373 | 3,816 |
| Special education | 145,653 | 1,569 |
| Community education and services | 55,205 | 594 |
| Instructional support services | 20,300 | 219 |
| Pupil support services | 72,519 | 781 |
| Site, buildings, and equipment | 189,926 | 2,045 |
| Fiscal and other fixed cost programs | 8,504 | 92 |
| TOTALS | \$ 992,308 | \$ 10,686 |

2014 - 2015 Adjusted Average Daily Membership - 92.86

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

OTHER REQUIRED REPORTS

JUNE 30, 2016

**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 Board of Education
Ridgeway Community School
Houston, Minnesota 55943

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 of the United States, the financial statements of the governmental activities and each major fund of Ridgeway Community School, Houston, Minnesota, as of and for the year ended June 30, 2016, which collectively comprises the School's basic financial statements and have issued our report thereon dated November 4, 2016.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control over financial reporting to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and response that we consider to be a significant deficiency, Finding 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of 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*.

To the Board of Education
Ridgeway Community School
Houston, Minnesota 55943
Page Two

Minnesota Legal Compliance

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

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

Purpose of this Report

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

Smith, Schafu and Associates, Ltd.

November 4, 2016
Rochester, Minnesota

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

SCHEDULE OF FINDINGS

JUNE 30, 2016

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

**SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2016**

**FINDING 2016-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED
ACCOUNTING PRINCIPALS (GAAP)**

Condition: The School does have a control in place for the review of the drafted financial statements. However, the School does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements. The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the School's internal controls.

Criteria: The School should have controls in place to prevent or detect the omission of a material disclosure in the annual financial statements.

Questioned Costs: None.

Context: The School has informed us they will continue to rely upon the audit firm to prepare the financial statements and related footnote disclosures, and will review and approve these prior to the issuance of the financial statements.

Effect: No effect on the financial statements.

Cause: The School does not have the expertise to draft the notes to the financial statements; however, they have reviewed and approved the annual financial statements as prepared by the audit firm.

Recommendation: We recommend the School continue to evaluate their internal staff and expertise to determine if further controls over the annual financial reporting are beneficial.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit findings.

Actions Planned in Response to Findings:

The School Coordinator and Business Manager review the drafted financial statements and notes. The School does not have the expertise to ensure all disclosures required by GAAP are included in the financial statements. Accordingly, the School will rely upon the auditors for completeness of the disclosures. However, the business manager will review the notes for accuracy and compare the balances to UFARS and other School reports prior to issuance of the statements.

Official Responsible for Ensuring CAP:

Mary Feathergill, Business Manager, is the official responsible for ensuring the planned responses.

Planned Completion Date for CAP:

Not applicable as the School is willing to accept this risk at this time and will continue to evaluate the recommendation.

Plan to Monitor Completion of CAP:

Jodi Dansingburg, School Coordinator, will ensure the review by the Business Manager has been completed. She will do this through discussion with the Business Manager and reviewing the draft of the financial statements.

MINNESOTA LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Ridgeway Community School
Houston, Minnesota 55943

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 of the United States, the financial statements of the governmental activities and each major fund of Ridgeway Community School, Houston, Minnesota, as of and for the year ended June 30, 2016, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2016.

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

In connection with our audit, nothing came to our attention that caused us to believe that Ridgeway Community School, Houston, Minnesota 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 Ridgeway Community School, Houston, Minnesota's noncompliance with the above reference provisions.

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

Smith, Schaffer and Associates, Ltd.

November 4, 2016
Rochester, Minnesota

**RIDGEWAY COMMUNITY SCHOOL
HOUSTON, MINNESOTA**

COMPLIANCE TABLE

JUNE 30, 2016

Fiscal Compliance Report - 6/30/2016
District: RIDGEWAY COMMUNITY SCHOO (4083-7)

| | Audit | UFARS | Audit - UFARS | | Audit | UFARS | Audit - UFARS |
|-------------------------------------|-----------|-----------|------------------|-----------------------------------|-------|-------|------------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenue | \$927,465 | \$927,466 | (\$1) | Total Revenue | \$0 | \$0 | \$0 |
| Total Expenditures | \$939,835 | \$939,835 | \$0 | Total Expenditures | \$0 | \$0 | \$0 |
| Non Spendable: | | | | Non Spendable: | | | |
| 4.60 Non Spendable Fund Balance | \$13,864 | \$13,864 | \$0 | 4.60 Non Spendable Fund Balance | \$0 | \$0 | \$0 |
| Restricted / Reserved: | | | | Restricted / Reserved: | | | |
| 4.03 Staff Development | \$0 | \$0 | \$0 | 4.07 Capital Projects Levy | \$0 | \$0 | \$0 |
| 4.05 Deferred Maintenance | \$0 | \$0 | \$0 | 4.09 Alternative Facility Program | \$0 | \$0 | \$0 |
| 4.06 Health and Safety | \$0 | \$0 | \$0 | 4.13 Project Funded by COP | \$0 | \$0 | \$0 |
| 4.07 Capital Projects Levy | \$0 | \$0 | \$0 | 4.67 LTFM | \$0 | \$0 | \$0 |
| 4.08 Cooperative Revenue | \$0 | \$0 | \$0 | Restricted: | | | |
| 4.09 Alternative Facility Program | \$0 | \$0 | \$0 | 4.64 Restricted Fund Balance | \$0 | \$0 | \$0 |
| 4.13 Project Funded by COP | \$0 | \$0 | \$0 | Unassigned: | | | |
| 4.14 Operating Debt | \$0 | \$0 | \$0 | 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 |
| 4.16 Levy Reduction | \$0 | \$0 | \$0 | | | | |
| 4.17 Taconite Building Maint | \$0 | \$0 | \$0 | 07 DEBT SERVICE | | | |
| 4.23 Certain Teacher Programs | \$0 | \$0 | \$0 | Total Revenue | \$0 | \$0 | \$0 |
| 4.24 Operating Capital | \$0 | \$0 | \$0 | Total Expenditures | \$0 | \$0 | \$0 |
| 4.26 \$25 Taconite | \$0 | \$0 | \$0 | Non Spendable: | | | |
| 4.27 Disabled Accessibility | \$0 | \$0 | \$0 | 4.60 Non Spendable Fund Balance | \$0 | \$0 | \$0 |
| 4.28 Learning & Development | \$0 | \$0 | \$0 | Restricted / Reserved: | | | |
| 4.34 Area Learning Center | \$0 | \$0 | \$0 | 4.26 Bond Refundings | \$0 | \$0 | \$0 |
| 4.35 Contracted Alt. Programs | \$0 | \$0 | \$0 | 4.51 QZAB Payments | \$0 | \$0 | \$0 |
| 4.36 State Approved Alt. Program | \$0 | \$0 | \$0 | Restricted: | | | |
| 4.38 Gifted & Talented | \$0 | \$0 | \$0 | 4.64 Restricted Fund Balance | \$0 | \$0 | \$0 |
| 4.40 Teacher Development and | \$0 | \$0 | \$0 | Unassigned: | | | |
| Evaluation | | | | 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 |
| 4.41 Basic Skills Programs | \$0 | \$0 | \$0 | | | | |
| 4.45 Career Tech Programs | \$0 | \$0 | \$0 | 08 TRUST | | | |
| 4.48 Achievement and Integration | \$0 | \$0 | \$0 | Total Revenue | \$0 | \$0 | \$0 |
| 4.49 Safe School Crime - Crime Levy | \$0 | \$0 | \$0 | Total Expenditures | \$0 | \$0 | \$0 |
| 4.50 Pre-Kindergarten | \$0 | \$0 | \$0 | 4.22 Unassigned Fund Balance (Net | \$0 | \$0 | \$0 |
| 4.51 QZAB Payments | \$0 | \$0 | \$0 | Assets) | | | |
| 4.52 OPEB Liab Not In Trust | \$0 | \$0 | \$0 | 20 INTERNAL SERVICE | | | |
| 4.53 Unfunded Sev & Retirement Levy | \$0 | \$0 | \$0 | Total Revenue | \$0 | \$0 | \$0 |
| 4.67 LTFM | \$0 | \$0 | \$0 | Total Expenditures | \$0 | \$0 | \$0 |
| Restricted: | | | | 4.22 Unassigned Fund Balance (Net | \$0 | \$0 | \$0 |
| 4.64 Restricted Fund Balance | \$0 | \$0 | \$0 | Assets) | | | |
| Committed: | | | | 25 OPEB REVOCABLE TRUST | | | |
| 4.18 Committed for Separation | \$0 | \$0 | \$0 | Total Revenue | \$0 | \$0 | \$0 |
| 4.81 Committed Fund Balance | \$0 | \$0 | \$0 | Total Expenditures | \$0 | \$0 | \$0 |
| Assigned: | | | | 4.22 Unassigned Fund Balance (Net | \$0 | \$0 | \$0 |
| 4.62 Assigned Fund Balance | \$0 | \$0 | \$0 | Assets) | | | |
| Unassigned: | | | | 45 OPEB IRREVOCABLE TRUST | | | |
| 4.22 Unassigned Fund Balance | \$247,924 | \$247,924 | \$0 | Total Revenue | \$0 | \$0 | \$0 |
| 02 FOOD SERVICES | | | | Total Expenditures | \$0 | \$0 | \$0 |
| Total Revenue | \$54,127 | \$54,127 | \$0 | 4.22 Unassigned Fund Balance (Net | \$0 | \$0 | \$0 |
| Total Expenditures | \$57,242 | \$57,242 | \$0 | Assets) | | | |
| Non Spendable: | | | | 47 OPEB DEBT SERVICE | | | |
| 4.60 Non Spendable Fund Balance | \$200 | \$200 | \$0 | Total Revenue | \$0 | \$0 | \$0 |
| Restricted / Reserved: | | | | Total Expenditures | \$0 | \$0 | \$0 |
| 4.52 OPEB Liab Not In Trust | \$0 | \$0 | \$0 | Non Spendable: | | | |
| Restricted: | | | | 4.60 Non Spendable Fund Balance | \$0 | \$0 | \$0 |
| 4.64 Restricted Fund Balance | \$0 | \$0 | \$0 | Restricted: | | | |
| Unassigned: | | | | 4.26 Bond Refundings | \$0 | \$0 | \$0 |
| 4.63 Unassigned Fund Balance | (\$200) | (\$200) | \$0 | 4.64 Restricted Fund Balance | \$0 | \$0 | \$0 |
| 04 COMMUNITY SERVICE | | | | Unassigned: | | | |
| Total Revenue | \$71,532 | \$71,532 | \$0 | 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 |
| Total Expenditures | \$82,317 | \$82,317 | \$0 | | | | |
| Non Spendable: | | | | | | | |
| 4.60 Non Spendable Fund Balance | \$0 | \$0 | \$0 | | | | |
| Restricted / Reserved: | | | | | | | |
| 4.26 \$25 Taconite | \$0 | \$0 | \$0 | | | | |
| 4.31 Community Education | \$0 | \$0 | \$0 | | | | |
| 4.32 E.C.F.E | \$0 | \$0 | \$0 | | | | |
| 4.40 Teacher Development and | \$0 | \$0 | \$0 | | | | |
| Evaluation | | | | | | | |
| 4.44 School Readiness | \$0 | \$0 | \$0 | | | | |
| 4.47 Adult Basic Education | \$0 | \$0 | \$0 | | | | |
| 4.52 OPEB Liab Not In Trust | \$0 | \$0 | \$0 | | | | |
| Restricted: | | | | | | | |
| 4.64 Restricted Fund Balance | \$2,687 | \$2,687 | \$0 | | | | |
| Unassigned: | | | | | | | |
| 4.63 Unassigned Fund Balance | \$0 | \$0 | \$0 | | | | |