INDEPENDENT SCHOOL DISTRICT NO. 277
Minnetrista, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

bergan KDV
CPAS | ADVISORS

INDEPENDENT SCHOOL DISTRICT NO. 277

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INDEPENDENT SCHOOL DISTRICT NO. 277

BOARD OF EDUCATION AND ADMINISTRATION
For the Year Ended June 30, 2015

Board of Education	Position	Term Expires
David Botts	Chairperson	January 1, 2016
Ann Bremer	Vice Chairperson	January 1, 2016
Ralph Harrison	Treasurer	January 1, 2016
David Bond	Director	January 1, 2016
Loren Davis	Director	January 1, 2018
Gina Smith	Director	January 1, 2018
Gary Wollner	Director	January 1, 2018

Administration	
Kevin Borg	Superintendent
Mark Femrite	Assistant Superintendent for Teaching and Learning
Kathy Miller	Director of Finance
Joel Dahl	Director of Community Education
Cory Wolf	Technology Coordinator
Meredith Boo	Director of Special Services
Mark McIlmoyle	Principal - Mound Westonka High School
Christy Zachow	Principal - Grandview Middle School
Scott Eidsness	Principal - Shirley Hills Primary
Mike Moch	Principal - Hilltop Primary

bergan KDV

INDEPENDENT AUDITOR'S REPORT

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To the School Board
Independent School District No. 277
Minnetrista, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2015 and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund and Community Service Special Revenue Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 68 and GASB 71

As discussed in Note 11 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions and GASB* Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, the Schedule of Funding Progress – Other Post Employment Benefits on page 66, Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability GERF Retirement Funds on page 67, Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability TRA Retirement Funds on page 67, Schedule of District Contributions GERF Retirement Funds on page 68 and Schedule of District Contributions TRA Retirement Funds on page 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) *Circular A*-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2015, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

BerganKDV, Ltd.
Minneapolis, Minnesota
October 7, 2015

INDEPENDENT SCHOOL DISTRICT NO. 277

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

This section of Independent School District No. 277's (the "District") annual financial report presents the District's management discussion and analysis of the District's financial performance during the year that ended on June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information that includes the management's discussion and analysis ([MD&A] this section), the basic financial statements and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are the government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-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.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

District-Wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and 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 government-wide statements report the District's net position and how it has changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or position.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- **Governmental Activities** – All of the District's basic services are included here, such as regular and special education, transportation, administration, food services and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

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

- Some funds are required by law or by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (e.g. repaying its long-term debts) or to show that it is properly using certain revenues (e.g. fiduciary funds).

The District has three kinds of funds:

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

Proprietary Funds – These funds present short and long-term financial information about the activities the District operates like a business, such as retiree severance funds.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others, such as scholarships. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position – The District's combined net position was $ (90,966) on June 30, 2015.

Table 1
Statement of Net Position
Governmental Activities

	2014	2015	Percentage Change 2014-15
ASSETS			
Current and Other Assets	$ 33,466,082	$ 20,474,430	-38.8%
Capital Assets	27,860,710	37,196,886	33.5%
Total Assets	$ 61,326,792	$ 57,671,316	-6.0%
DEFERRED OUTFLOW OF RESOURCES			
Deferred Outflows	$ -	$ 2,579,046	N/A
LIABILITIES			
Long-Term Liabilities	$ 28,559,654	$ 41,533,061	45.4%
Other Liabilities	8,520,735	4,058,366	-52.4%
Total Liabilities	$ 37,080,389	$ 45,591,427	23.0%
DEFERRED INFLOW OF RESOURCES			
Deferred Inflows	$ 9,060,943	$ 14,749,901	62.8%
NET POSITION			
Net Investment in Capital Assets	$ 9,122,841	$ 10,973,577	20.3%
Restricted	1,236,350	500,022	-59.6%
Unrestricted	4,826,269	(11,564,565)	-339.6%
Total Net Position	$ 15,185,460	$ (90,966)	-100.6%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

A summary of the revenue and expenses is presented in Table 2.

Table 2
Change in Net Position

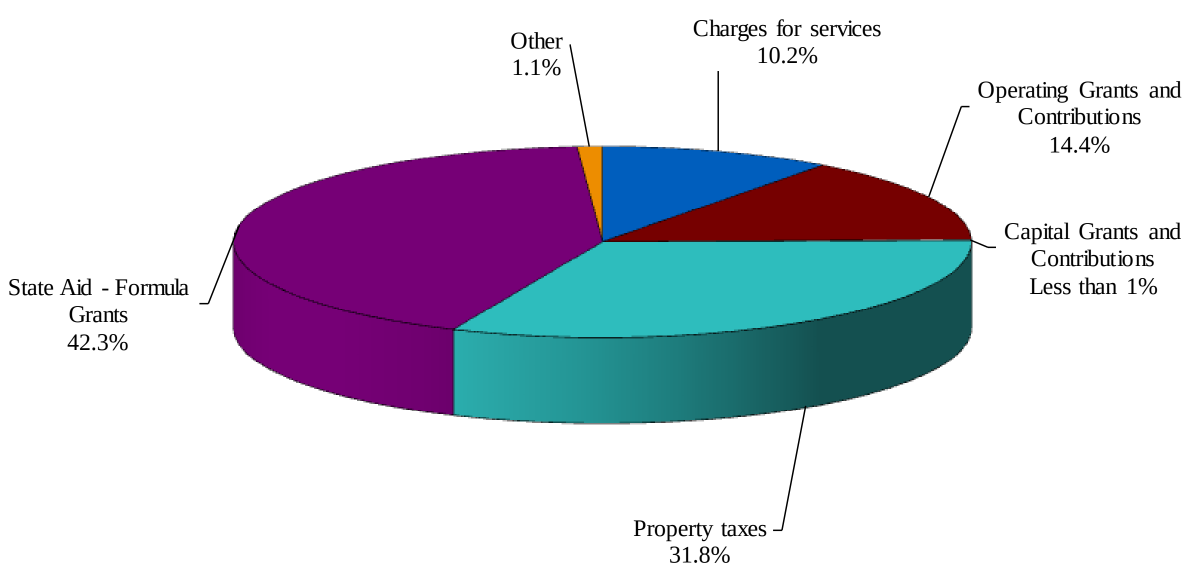
	2014	2015	Percentage Change 2014-15
REVENUES			
Program Revenues:			
Charges for Services	$ 3,540,720	$ 3,372,524	-4.8%
Operating Grants and Contributions	4,630,234	4,731,943	2.2%
Capital Grants and Contributions	209,316	66,193	-68.4%
General Revenues:			
Property Taxes	7,701,155	10,492,381	36.2%
State Aid - Formula Grants	15,732,073	13,951,104	-11.3%
Other	345,924	353,181	2.1%
Total Revenues	32,159,422	32,967,326	2.5%
EXPENSES			
Administration	986,476	1,011,924	2.6%
District Support Services	1,044,250	1,180,257	13.0%
Elementary and Secondary Regular Instruction	12,692,429	12,559,115	-1.1%
Vocational Education Instruction	151,731	168,648	11.1%
Special Education Instruction	4,667,419	4,482,444	-4.0%
Community Education and Services	2,697,731	2,561,575	-5.0%
Instructional Support Serivces	1,435,133	1,447,877	0.9%
Pupil Support Services	2,143,166	2,172,107	1.4%
Sites, Buildings and Equipment	2,775,322	3,108,250	12.0%
Fiscal and Other Fixed Cost Programs	85,785	88,554	3.2%
Food Service	1,167,171	1,223,391	4.8%
Interest on Long-Term Debt	696,432	669,182	-3.9%
Total Expenses	30,543,045	30,673,324	0.4%
Change in Accounting Principle	(90,007)	(17,570,428)	19421.2%
Change in Net Position	1,616,377	2,294,002	41.9%
End of Year Net Position	$ 15,185,460	$ (90,966)	-100.6%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Changes in Net Position – The District's total revenues were $ 32,967,326 for the year ended June 30, 2015. Property taxes and state formula aid accounted for 74.1% of total revenue for the year (see Figure A). Another 1.1% came from other general revenues combined with interest earnings and the remainder from program revenues.

Total revenues surpassed expenses, increasing net position $ 2,294,002 over last year.

Figure A
Sources of the District's Revenues for Fiscal Year 2015



The total cost of all programs and services was $ 30,673,324. The District's expenses predominately related to the educating and caring for students (regular instructional programs, vocational instruction, special education programs and instructional and pupil support) were 67.9% of expenses incurred; see Figure B. The purely administrative activities of the District accounted for just 3.3% of total costs.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure B
The District's Expenses for Fiscal Year 2015

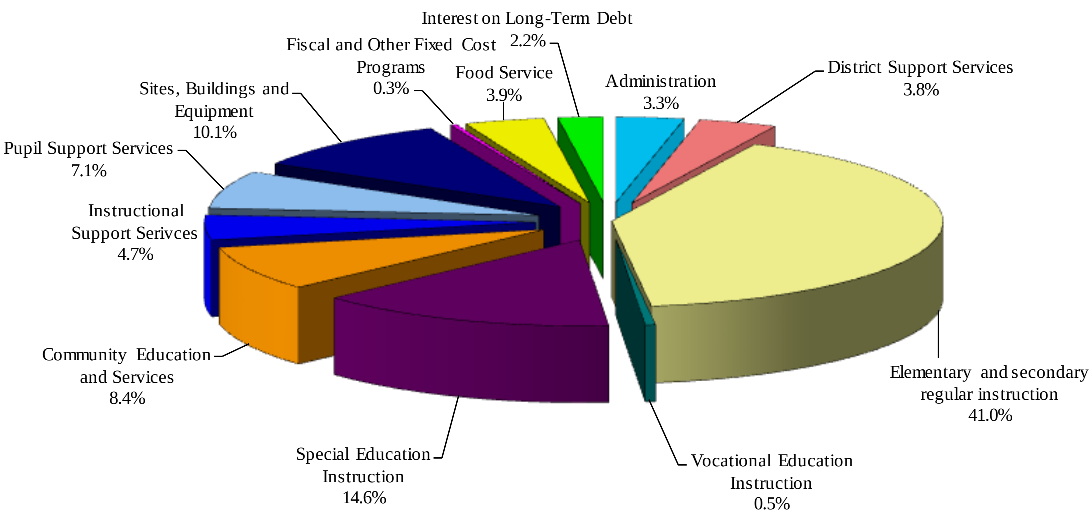


Table 3
Net Cost of Governmental Activities

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2014	2015	2014-15	2014	2015	2014-15
Administration	$ 986,476	$ 1,011,924	2.6%	$ 986,476	$ 1,011,924	2.6%
District Support Services	1,044,250	1,180,257	13.0%	1,034,853	1,168,953	13.0%
Elementary and Secondary Regular Instruction	12,692,429	12,559,115	-1.1%	10,632,979	10,626,387	-0.1%
Vocational Education Instruction	151,731	168,648	11.1%	142,263	158,606	11.5%
Special Education Instruction	4,667,419	4,482,444	-4.0%	2,143,771	1,747,353	-18.5%
Community Education and Services	2,697,731	2,561,575	-5.0%	418,003	475,302	13.7%
Instructional Support Serivces	1,435,133	1,447,877	0.9%	1,383,199	1,383,728	0.0%
Pupil Support Services	2,143,166	2,172,107	1.4%	2,047,060	2,110,977	3.1%
Sites, Buildings and Equipment	2,775,322	3,108,250	12.0%	2,553,506	3,042,057	19.1%
Fiscal and Other Fixed Cost Programs	85,785	88,554	3.2%	85,785	88,554	3.2%
Food Service	1,167,171	1,223,391	4.8%	38,448	19,641	-48.9%
Interest on Long-Term Debt	696,432	669,182	-3.9%	696,432	669,182	-3.9%
Total	$ 30,543,045	$ 30,673,324	0.4%	$ 22,162,775	$ 22,502,664	1.5%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

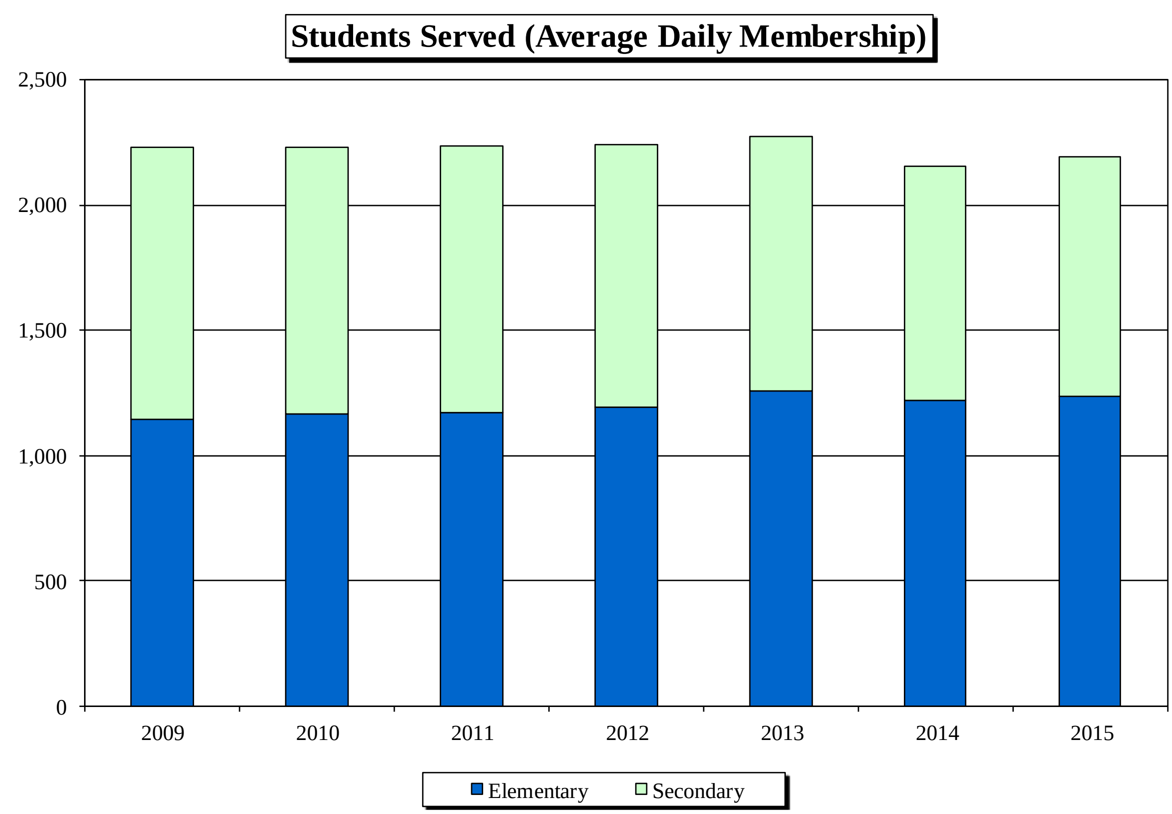
The cost of all governmental activities for 2014-15 was $ 30,673,324.

- Some of the cost was paid by the users of the District's programs: $ 3,372,524.
- The federal and state governments subsidized certain programs with grants and contributions: $ 4,731,943.
- Most of the District's costs – $ 24,443,485 – were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with $ 10,492,381 in property taxes and $ 13,951,104 of state aid based on the statewide education aid formula. In addition, $ 353,181 of investment earnings and other general revenues was recognized.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. When the District completed the year, the governmental funds reported a combined fund balance of $ 4,832,880, a decrease of $ 9,570,413 from last year's ending fund balance of $ 14,403,293. This decrease is primarily due to the use of capital facilities bonds that were sold in 2011-12.

Revenues for the District's governmental funds were $ 32,836,915 while total expenditures were $ 42,410,414, resulting in a $ 9,573,499 of revenues under expenditures. The following graph shows the number of students served by the District:



FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

During 2014-15, the District's total enrollment increased from the previous fiscal year. Enrollment projections predict that a trend of stable to increasing enrollment will occur based on new housing construction occurring and planned in the District. During the year, the District served more students than projected in the budget.

GENERAL FUND

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

The following schedule presents a summary of General Fund Revenues:

	Year Ended June 30, 2014	Year Ended June 30, 2015	Percentage Change 2014-15
Local Sources:			
Property Taxes	$ 4,328,357	$ 6,903,559	59.5%
Other	1,221,178	1,135,617	-7.0%
State Sources	18,685,031	17,121,022	-8.4%
Federal Sources	736,419	774,017	5.1%
Total	$ 24,970,985	$ 25,934,215	3.9%

Total General Fund revenue increased by $ 963,230, or 3.9%, from the previous year. This is primarily due to an increase in students versus prior year, as well as an increase in property taxes.

Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2014	Year Ended June 30, 2015	Percentage Change 2014-15
Salaries	$ 14,022,264	$ 14,278,077	1.8%
Benefits	4,599,356	4,805,506	4.5%
Purchased Services	4,359,225	4,887,199	12.1%
Supplies, Materials and Equipment	2,768,929	2,029,390	-26.7%
Other Expenses	132,036	57,624	-56.4%
Total	$ 25,881,810	$ 26,057,796	0.7%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

GENERAL FUND

Total General Fund expenditures increased $ 175,986, or .7%, from the previous year primarily due to increases in wages and benefits and general inflation of purchased services, as well as technology initiatives including a one-to-one device for students.

In 2014-15, General Fund revenues were greater than expenditures by $ 123,581.

After deducting statutory reserves, the unassigned fund balance was $ 3,121,324 at June 30, 2014. The unassigned fund balance is $ 3,042,121 at June 30, 2015.

Statutory reserves/restrictions in the General Fund for health and safety had a deficit total of $ 737,393 at June 30, 2015, solely due to a deficit health and safety fund deficit balance.

General Fund Budget Highlights

Over the course of the year, the District revised the annual operating budget. Budget amendments fall into two categories

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale and gifts.

- Increases in appropriations for significant unbudgeted costs.

While the District's final budget for the General Fund anticipated that revenues would exceed expenditures by $ 52,315; the actual results for the year show expenditures exceed revenues by $ 123,581.

- Actual revenues were $ 158,370 greater than expected, about a 0.6% variance.

- The actual expenditures were $ 334,266 greater than budgeted, about a 1.3% variance.

COMMUNITY SERVICE AND DEBT SERVICE FUNDS

The Community Service Fund experienced a current year fund balance decrease of $ 9,787 due to decreased revenues over the amount of program expenditures. The Community Service fund balance was $ 599,545 as of June 30, 2015. From the standpoint of maintaining current operating expenditures within the range of annual revenue, the Community Services Fund continues to operate on a sound financial basis.

The Debt Service Fund expenditures exceeded revenues by $ 42,922 in 2014-2015. The remaining fund balance of $ 596,041 at June 30, 2015 is available for meeting future debt service obligations.

NONMAJOR FUNDS

The Food Service Fund had positive operations of $ 10,132 due to changes in meal regulations and increased adult meal sales and upgrading computers. It has a restricted fund balance of $ 154,728 and nonspendable fund balance of $ 14,253 on June 30, 2015. This balance will be used to offset future operating losses and to fund equipment improvements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2015, the District had invested $ 57,870,523 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Table 4). Total depreciation expense for the year was $ 387,465. More detailed information can be found in Note 5 of the financial statements.

Table 4
Capital Assets - Governmental Activities

	2014	2015	Total Percent Change 2014-15
Land	$ 1,645,835	$ 1,645,835	0.0%
Construction in Progress	20,510,325	-	-100.0%
Land Improvements	2,321,252	4,147,675	78.7%
Buildings	16,021,667	43,665,602	172.5%
Furniture and Equipment	7,700,284	8,302,998	7.8%
Vehicles	108,413	108,413	0.0%
Less Accumulated Depreciation	(20,447,066)	(20,673,637)	1.1%
Total	$ 27,860,710	$ 37,196,886	33.5%

CAPITAL ASSET AND DEBT ADMINISTRATION

Long-Term Liabilities

At year-end, the District had $ 27,729,095 in G.O. bonds and capital leases payable outstanding, a decrease of 7.9% from last year, as shown in Table 5. The District also had $ 59,734 in compensated absences payable at June 30, 2015. Finally the District had $ 15,701,901 in long-term Pension/OPEB liability. Total long-term liability increased by 44.3%. More detailed information can be found in Note 6 of the financial statements.

Table 5
Outstanding Long-Term Liabilities

	2014	2015	Total Percent Change 2014-15
G.O. Bonds Payable	$ 30,040,000	$ 27,720,000	-7.7%
Capital Leases Payable	61,562	9,095	-85.2%
Compensated Absences	44,474	59,734	34.3%
Net Pension Liability	-	15,104,549	N/A
Net OPEB Obligation	307,932	597,352	N/A
Total	$ 30,453,968	$ 43,490,730	42.8%

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating referendum and building bond referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The 2015 legislative sessions provided a 2% increase in the basic education funding formula allowance for the next two years. There was also a lot of legislative discussion centered on early childhood learning. Due to this dialog, the district continues to evaluation future facilities space needs. The District will strive to maximize resources available through efficient and effective management of its operations.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunities for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have questions about this report or need additional financial information, contact: Business Services Office, Westonka Public Schools, Independent School District No. 277, Educational Service Center, 5901 Sunnyfield Road East, Minnetrista, Minnesota 55364, (952) 491-8021.

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BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
ASSETS	
Cash and Investments	$ 12,011,378
Current Property Taxes Receivable	5,608,926
Delinquent Property Taxes Receivable	149,844
Accounts Receivable	100,681
Interest Receivable	57,435
Due from Department of Education	2,082,615
Due from Federal Government through Department of Education	291,869
Due from Other Minnesota School Districts	50,000
Inventory	47,787
Prepaid Items	73,895
Capital Assets:	
Land	1,645,835
Land Improvements	4,147,675
Buildings	43,665,602
Equipment	8,302,998
Vehicles	108,413
Less Accumulated Depreciation	(20,673,637)
Total Assets	57,671,316
DEFERRED OUTFLOWS OF RESOURCES	
Deferred Outflows Related to Pensions	2,579,046
Total Assets and Deferred Outflows of Resources	$ 60,250,362
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Accounts Payable	$ 572,362
Salaries and Benefits Payable	291,687
Interest Payable	275,542
Due to Other Minnesota School Districts	200,829
Unearned Revenue	286,063
Bond Principal Payable (Net):	
Payable Within One Year	2,375,000
Payable After One Year	25,819,214
Capital Lease Payable:	
Payable Within One Year	9,095
Compensated Absences Payable:	
Payable Within One Year	47,788
Payable After One Year	11,946
Net Other Post Employment Benefits (OPEB) Payable	597,352
Net Pension Liability	15,104,549
Total Liabilities	45,591,427
Deferred Inflows of Resources	
Property Taxes Levied for Subsequent Year's Expenditures	10,023,188
Deferred Inflows Related to Pensions	4,726,713
Total Deferred Inflows of Resources	14,749,901
Net Position	
Net Investment in Capital Assets	10,973,577
Restricted	500,022
Unrestricted	(11,564,565)
Total Net Position	(90,966)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 60,250,362

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

		Program Revenues			Net (Expense) Revenues and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Administration	$ 1,011,924	$ -	$ -	$ -	$ (1,011,924)
District Support Services	1,180,257	11,304	-	-	(1,168,953)
Elementary and Secondary Regular Instruction	12,559,115	643,140	1,289,588	-	(10,626,387)
Vocational Education Instruction	168,648	-	10,042	-	(158,606)
Special Education Instruction	4,482,444	-	2,735,091	-	(1,747,353)
Instructional Support Services	1,447,877	34,149	30,000	-	(1,383,728)
Pupil Support Services	2,172,107	14,254	46,876	-	(2,110,977)
Sites and Buildings	3,108,250	-	-	66,193	(3,042,057)
Fiscal and Other Fixed Cost Programs	88,554	-	-	-	(88,554)
Food Service	1,223,391	779,413	424,337	-	(19,641)
Community Education and Services	2,561,575	1,890,264	196,009	-	(475,302)
Interest and Fiscal Charges on Long-Term Debt	669,182	-	-	-	(669,182)
Total Governmental Activities	$ 30,673,324	$ 3,372,524	$ 4,731,943	$ 66,193	(22,502,664)

General Revenues	
Taxes:	
Property Taxes, Levied for General Purposes	6,894,788
Property Taxes, Levied for Community Service	504,944
Property Taxes, Levied for Debt Service	3,092,649
State Aid-Formula Grants	13,951,104
Other General Revenues	240,674
Investment Income	112,507
Total General Revenues	24,796,666
Change in Net Position	2,294,002
Net Position - Beginning, as Previously Stated	15,185,460
Change in Accounting Principle (Note 11)	(17,570,428)
Net Position - Beginning, as Restated	(2,384,968)
Net Position - Ending	$ (90,966)

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 277

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	General	Debt Service
ASSETS		
Cash and Investments	$ 3,961,746	$ 1,793,533
Current Property Taxes Receivable	3,892,383	1,203,286
Delinquent Property Taxes Receivable	95,549	37,583
Accounts Receivable	47,394	-
Interest Receivable	4,288	-
Due from Department of Education	2,072,606	43
Due from Federal Government through Department of Education	291,869	-
Due from Other Minnesota School Districts	50,000	-
Due from Other Funds	157,098	-
Inventory	34,874	-
Prepaid Items	71,855	-
Total Assets	$ 10,679,662	$ 3,034,445
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Liabilities		
Accounts Payable	$ 284,364	$ -
Salaries and Benefits Payable	229,558	-
Due to Other Minnesota School Districts	200,829	-
Unearned Revenue	-	-
Total Liabilities	714,751	-
Deferred Inflows of Resources		
Unavailable Revenue - Delinquent Property Taxes	45,897	18,713
Property Taxes Levied for Subsequent Year's Expenditures	6,571,386	2,419,691
Total Deferred Inflows of Resources	6,617,283	2,438,404
Fund Balances		
Nonspendable	106,729	-
Restricted	-	596,041
Committed	342,449	-
Assigned	593,722	-
Unassigned	2,304,728	-
Total Fund Balances	3,347,628	596,041
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 10,679,662	$ 3,034,445

The Notes to the Financial Statements are an integral part of this statement.

Community Service	Building Construction	Nonmajor Funds	Total Governmental Funds
$ 1,117,906	$ 235,979	$ 601,893	$ 7,711,057
239,001	-	274,256	5,608,926
7,109	-	9,603	149,844
53,287	-	-	100,681
-	-	-	4,288
8,201	-	1,765	2,082,615
-	-	-	291,869
-	-	-	50,000
-	-	-	157,098
-	-	12,913	47,787
700	-	1,340	73,895
$ 1,426,204	$ 235,979	$ 901,770	$ 16,278,060
$ 47,232	$ 232,796	$ 5,542	$ 569,934
54,514	-	7,615	291,687
-	-	-	200,829
240,938	-	45,125	286,063
342,684	232,796	58,282	1,348,513
3,367	-	5,502	73,479
480,608	-	551,503	10,023,188
483,975	-	557,005	10,096,667
700	-	14,253	121,682
598,845	3,183	272,230	1,470,299
-	-	-	342,449
-	-	-	593,722
-	-	-	2,304,728
599,545	3,183	286,483	4,832,880
$ 1,426,204	$ 235,979	$ 901,770	$ 16,278,060

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INDEPENDENT SCHOOL DISTRICT NO. 277

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS June 30, 2015

Total Fund Balances - Governmental Funds	$ 4,832,880
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of Capital Assets	57,870,523
Less Accumulated Depreciation	(20,673,637)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond Principal Payable	(27,720,000)
Capital Lease Payable	(9,095)
Compensated Absences Payable	(59,734)
Net Pension Liability	(15,104,549)
Net OPEB Obligation	(597,352)
Bond premiums are reported as a liability within the Statement of Net Position and are reported as an other financing source in the year the debt is issued in governmental funds.	(474,214)
Deferred Outflows of Resources and Deferred Inflows of Resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred Outflows of Resources Related to Pensions	2,579,046
Deferred Inflows of Resources Related to Pensions	(4,726,713)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	73,479
The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	4,193,942
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(275,542)
Total Net Position - Governmental Activities	$ (90,966)

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	General	Debt Service	Community Service
REVENUES			
Local Property Taxes	$ 6,903,559	$ 2,539,493	$ 505,038
Other Local and County Revenues	986,568	2,995	1,929,308
Revenue from State Sources	17,121,022	428	158,071
Revenue from Federal Sources	774,017	-	-
Sales and Other Conversion of Assets	149,049	-	1,017
Total Revenues	25,934,215	2,542,916	2,593,434
EXPENDITURES			
Current			
Administration	1,024,485	-	-
District Support Services	1,031,224	-	-
Elementary and Secondary Regular Instruction	12,200,101	-	-
Vocational Education Instruction	170,615	-	-
Special Education Instruction	4,480,744	-	-
Instructional Support Services	1,453,831	-	-
Pupil Support Services	2,134,263	-	-
Sites and Buildings	2,538,223	-	-
Fiscal and Other Fixed Cost Programs	88,554	-	-
Food Service	-	-	-
Community Education and Services	-	-	2,534,531
Capital Outlay			
Administration	2,792	-	-
District Support Services	113,620	-	-
Elementary and Secondary Regular Instruction	298,280	-	-
Special Education Instruction	61,498	-	-
Instructional Support Services	599	-	-
Sites and Buildings	458,967	-	-
Food Service	-	-	-
Community Education and Services	-	-	68,690
Debt Service			
Principal	-	1,870,000	-
Interest and Fiscal Charges	-	629,994	-
Total Expenditures	26,057,796	2,499,994	2,603,221
Excess of Revenues Over (Under) Expenditures	(123,581)	42,922	(9,787)
OTHER FINANCING SOURCES			
Proceeds from Sale of Capital Assets	-	-	-
Net Change in Fund Balances	(123,581)	42,922	(9,787)
FUND BALANCES			
Beginning of Year	3,471,209	553,119	609,332
End of Year	$ 3,347,628	$ 596,041	$ 599,545

The Notes to the Financial Statements are an integral part of this statement.

Building Construction	Nonmajor Funds	Total Governmental Funds
$ -	$ 548,377	$ 10,496,467
4,241	14,850	2,937,962
-	51,821	17,331,342
-	367,648	1,141,665
-	779,413	929,479
4,241	1,762,109	32,836,915
-	-	1,024,485
-	-	1,031,224
-	-	12,200,101
-	-	170,615
-	-	4,480,744
-	-	1,453,831
-	-	2,134,263
-	-	2,538,223
-	-	88,554
-	1,205,286	1,205,286
-	-	2,534,531
	-	2,792
-	-	113,620
-	-	298,280
-	-	61,498
-	-	599
9,492,081	-	9,951,048
-	1,268	1,268
-	-	68,690
-	450,000	2,320,000
-	100,768	730,762
9,492,081	1,757,322	42,410,414
(9,487,840)	4,787	(9,573,499)
-	3,086	3,086
(9,487,840)	7,873	(9,570,413)
9,491,023	278,610	14,403,293
$ 3,183	$ 286,483	$ 4,832,880

INDEPENDENT SCHOOL DISTRICT NO. 277

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Net Change in Fund Balances - Total Governmental Funds	$ (9,570,413)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital Outlays	9,727,348
Depreciation Expense	(387,465)
Loss on Disposal	(3,707)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(15,260)
OPEB obligations are recognized as paid in the governmental funds, but the change in the unfunded OPEB obligation is recognized in the Statement of Activities.	(289,420)
Governmental Funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	
State Aid related to Pension Expense	35,261
Pension Expense	282,951
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no impact on net position in the Statement of Activities.	2,372,467
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	22,062
Governmental funds report bond premiums as an other financing source at the time of issuance. Premiums are reported as a liability in the government-wide financial statements and amortized over the life of the bond.	39,518
The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents the change in assets available to fund the liabilities	84,746
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(4,086)
Change in Net Position - Governmental Activities	$ 2,294,002

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
REVENUES				
Local Property Taxes	$ 6,809,578	$ 6,809,478	$ 6,903,559	$ 94,081
Other Local and County Revenues	946,554	1,092,398	986,568	(105,830)
Revenue from State Sources	17,058,645	16,940,794	17,121,022	180,228
Revenue from Federal Sources	719,834	825,531	774,017	(51,514)
Sales and Other Conversion of Assets	86,944	107,644	149,049	41,405
Total Revenues	25,621,555	25,775,845	25,934,215	158,370
EXPENDITURES				
Current				
Administration	991,772	1,049,892	1,024,485	(25,407)
District Support Services	1,025,431	1,057,860	1,031,224	(26,636)
Elementary and Secondary Regular Instruction	11,969,658	12,012,415	12,200,101	187,686
Vocational Education Instruction	187,524	176,946	170,615	(6,331)
Special Education Instruction	4,305,511	4,440,516	4,480,744	40,228
Instructional Support Services	1,414,955	1,476,410	1,453,831	(22,579)
Pupil Support Services	2,158,772	2,149,750	2,134,263	(15,487)
Sites and Buildings	2,329,574	2,299,707	2,538,223	238,516
Fiscal and Other Fixed Cost Programs	96,347	109,329	88,554	(20,775)
Capital Outlay				
Administration	-	-	2,792	2,792
District Support Services	29,425	29,425	113,620	84,195
Elementary and Secondary Regular Instruction	368,718	385,624	298,280	(87,344)
Vocational Education Instruction	1,180	-	-	-
Special Education Instruction	104,750	106,278	61,498	(44,780)
Instructional Support Services	3,000	550	599	49
Sites and Buildings	803,451	428,828	458,967	30,139
Total Expenditures	25,790,068	25,723,530	26,057,796	334,266
Excess of Revenues Over (Under) Expenditures	$ (168,513)	$ 52,315	(123,581)	$ (175,896)
FUND BALANCE				
Beginning of Year			3,471,209	
End of Year			$ 3,347,628	

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - COMMUNITY SERVICE FUND
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual	Variance with Final Budget-
	Original	Final	Amounts	Over (Under)
REVENUES				
Local Property Taxes	$ 517,563	$ 517,563	$ 505,038	$ (12,525)
Other Local and County Revenues	1,642,494	1,700,651	1,929,308	228,657
Revenue from State Sources	187,189	187,189	158,071	(29,118)
Sales and Other Conversion of Assets	-	-	1,017	1,017
Total Revenues	2,347,246	2,405,403	2,593,434	188,031
EXPENDITURES				
Current				
Community Education and Services	2,356,642	2,356,892	2,534,531	177,639
Capital Outlay				
Community Education and Services	18,150	60,425	68,690	8,265
Total Expenditures	2,374,792	2,417,317	2,603,221	185,904
Excess of Revenues Over (Under) Expenditures	$ (27,546)	$ (11,914)	(9,787)	$ 2,127
FUND BALANCE				
Beginning of Year			609,332	
End of Year			$ 599,545	

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2015

	Governmental Activities - Internal Service Funds
ASSETS	
Cash and Cash Equivalents	$ 298,309
Investments	4,002,012
Interest Receivable	53,147
Total Assets	$ 4,353,468
LIABILITIES AND NET POSITION	
Liabilities	
Accounts Payable	$ 2,428
Due to Other Funds	157,098
Total Liabilities	159,526
Net Position	
Unrestricted	4,193,942
Total Liabilities and Net Position	$ 4,353,468

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Governmental Activities - Internal Service Funds
OPERATING REVENUE	
Charges for Services	$ 290,519
OPERATING EXPENSES	
Employee Benefits	304,759
Professional Services	250
Total Operating Expenses	305,009
Operating Income	(14,490)
NONOPERATING REVENUE	
Investment Income	99,236
Change in Net Position	84,746
NET POSITION	
Beginning of Year	4,109,196
End of Year	$ 4,193,942

The Notes to the Financial Statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2015

	Governmental Activities - Internal Service Funds
CASH FLOWS - OPERATING ACTIVITIES	
Receipts from Employee Contributions	$ 290,519
Payments to Employees	(145,233)
Payments to Vendors	(250)
Net Cash Flows - Operating Activities	145,036
CASH FLOWS - INVESTMENT ACTIVITIES	
Investment Purchases	(106,496)
Interest Received	132,111
Net Cash Flows - Investment Activities	25,615
Net Change in Cash and Cash Equivalents	127,879
CASH AND CASH EQUIVALENTS	
Beginning of Year	170,430
End of Year	$ 298,309
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS - OPERATING ACTIVITIES	
Operating Income	$ (14,490)
Adjustments to Reconcile Operating Income to Net Cash Flows - Operating Activities:	
Accounts Payable	2,428
Interfund Receivable	157,098
Net Adjustments	159,526
Net Cash Flows - Operating Activities	$ 145,036
NON-CASH ACTIVITIES	
Change in Fair Value of Investments	$ (31,518)

INDEPENDENT SCHOOL DISTRICT NO. 277

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2015

	Private Purpose Trust Fund
ASSETS	
Cash and Investments (Including Cash Equivalents)	$ 206,271
Interest Receivable	305
Total Assets	$ 206,576
NET POSITION	
Held in Trust for Scholarships	$ 206,576

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2015

	Private Purpose Trust Fund
ADDITIONS	
Contributions	$ 15,644
Interest Revenue	624
Total Additions	16,268
DEDUCTIONS	
Scholarships	27,848
Change in Net Position	(11,580)
NET POSITION	
Beginning of Year	218,156
End of Year	$ 206,576

The Notes to the Financial Statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

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

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under the School Board's control and are included within the General Fund activity. Separate audited financial statements have not been issued.

B. Basic Financial Statement Information

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

B. Basic Financial Statement Information (Continued)

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated deprecation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these Statements.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Private Purpose Trust Fund is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, this Fund is not incorporated into the government-wide statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund is employee and District contributions. Operating expenses for proprietary funds include claims paid. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary and proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned and unassigned.

Description of Funds:

Major Funds:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This Fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond and state loan principal, interest and related costs.

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education or other similar services. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

Building Construction Fund – Capital Projects – This Fund is used to account for financial resources used for the maintenance projects authorized with the School Building Bonds.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures. Local, state and federal revenues are received in this Fund to specifically support the food service program.

Post Employment Benefits Debt Service Fund – This Fund is used to account for levy proceeds and the payment of G.O. Taxable OPEB Bonds principal, interest and related costs.

Fiduciary Fund:

Private Purpose Trust Fund – This Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Proprietary Fund:

Post Employment Benefits Revocable Trust Internal Service Fund – This Fund is used to account for the accumulation of resources to fund post employment benefits.

Dental Internal Service Fund – This Fund is used to account for the activity of the self insured employee dental plan.

D. Deposits and Investments

All governmental funds, fiduciary funds and the Dental Internal Service fund of the District participate in a government-wide investment pool. Cash and investment balances from these funds are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Deposits and investments in the OPEB Internal Service Fund and the Building Construction Capital Projects Fund are not pooled with the rest of the District's deposits and investments.

Short-term, highly liquid debt instruments (including commercial paper, banker's acceptances and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Cash and investments at June 30, 2015 were comprised of deposits, brokered certificates of deposits, government securities, a brokered savings deposit account and brokered money market accounts.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy which requires deposits in excess of federal deposit coverage to be collateralized as required by *Minnesota Statutes* 118A.03.

Minnesota Statutes require all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy states the District's investments shall be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account cash flow requirements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Deposits and Investments (Continued)

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to those in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those referred to in *Minnesota Statutes* 118A.04 and 118A.05. With respect to assets of an OPEB (Other Postemployment Benefits) trust, investments provided in *Minnesota Statutes* 118A.04 and 118A.05 and investments described in *Minnesota Statute* 356A.06, subdivision 7 are permitted.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy states investments should be diversified to avoid incurring unreasonable risks inherent to over investing in specific instruments, individual financial institutions or maturities.

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

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2014, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2015. The remaining portion of the levy will be recognized when measurable and available.

G. Inventory

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

H. Prepaid Items

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

I. Property Taxes

The District is located in Hennepin County.

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The County generally remits taxes to the District at periodic intervals as they are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $ 2,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 40 years for land improvements and buildings and 5 to 20 years for equipment.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

K. Deferred Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. Deferred outflows related to pension activity reported in the government-wide statement of net position. A deferred outflow relating to pension activity results from the difference between actual and expected economic experience, changes in actuarial assumptions and employer contributions subsequent to the measurement date.

In addition to liabilities, the statement of financial position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item is deferred inflows related to pension activity as a result of the net difference between projected and actual earnings on plan investments and changes in proportionate share.

L. Unearned Revenue

Unearned revenue represents monies received prior to June, 30 2015, but earned subsequent to year end.

M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

N. Compensated Absences

The District compensates administration, clerical and custodial employees upon termination of employment for unused vacation. Vacation accrual may be carried over up to five days for school service employees while ten days may be carried over for other employees.

Employees are not compensated for unused sick leave upon termination of employment. Sick leave pay is shown as an expenditure in the year paid.

O. Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. Additional information can be found in TRA Note 8.F.

P. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2015.

Q. Fund Equity

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in these funds can be spent.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.

- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Q. Fund Equity (Continued)

- Committed Fund Balances – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.

- Assigned Fund Balances – The School Board delegates the Superintendent and Director of Finance the power to assign balances for specific purposes.

- Unassigned Fund Balances – These are amounts that have not been restricted, committed or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted and committed fund balances exceed the total net resources of that fund.

- Minimum Fund Balance Policy – The District’s annual budget will be developed to maintain a minimum unassigned General Fund balance of 8% of the prior year’s expenditures and a maximum of 15% of the prior year’s expenditures.

R. Net Position

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

S. Use of Estimates

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information (Continued)

2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.

3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, Capital Projects and Trust Funds.

4. Budgets for the General, Special Revenue, Debt Service and Trust Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

B. Excess of Expenditures Over Appropriations

Budgetary controls for governmental funds are established by each fund's total appropriations. Expenditures exceeded appropriations in the following Funds for the year ending June 30, 2015.

	Appropriations	Expenditures
Major Funds:		
General	$ 25,723,530	$ 26,057,796
Debt Service	2,493,619	2,499,994
Building Construction	9,189,512	9,492,081
Community Service	2,417,317	2,603,221
Food Service	1,174,654	1,206,554
Post-Employment Debt Service	550,318	550,768

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: As of June 30, 2015, the District's bank balances were not exposed to custodial credit risk as they were insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

NOTE 3 – DEPOSITS AND INVESTMENTS

A. Deposits (Continued)

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

Checking and Savings Accounts	$ 682,549
Certificates of Deposit	1,977,996
	$ 2,660,545

B. Investments

As of June 30, 2015, the District had the following investments:

Investment	Weighted Average Maturities In Years	Fair Value
Brokered Money Markets	N/A	$ 5,537,608
Brokered Money Markets - OPEB	N/A	267,633
Brokered Money Markets - Building Bonds	N/A	9,257
Negotiable Certificates of Deposit	0.33	248,196
Negotiable Certificates of Deposit - OPEB	2.57	1,053,616
Municipal Securities - OPEB	5.92	2,440,369
Total		$ 9,556,679

Credit Risk: The District's investments in municipal securities were either rated AA+ by Standard and Poor's (S&P) or Aa2 by Moody's. The remaining investment types are unrated and, therefore, not subject to credit risk.

Concentration of Credit Risk: The District's investment in Brainerd MN ISD #181 (10.88%) was above 5% of total investments and was, therefore, exposed to concentration of credit risk.

Following is a summary of deposits and investments at June 30, 2015:

Deposits (Note 3.A)	2,660,545
Petty Cash	425
Investments	9,556,679
Total Deposits and Investments	$ 12,217,649

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Deposits and investments are presented in the June 30, 2015 basic financial statements as follows:

Statement of Net Position:	
Cash and Investments	$ 12,011,378
Statement of Fiduciary Net Position:	
Private Purpose Trust Fund - Cash and Investments	206,271
Total Deposits and Investments	$ 12,217,649

NOTE 4 – INTERFUND ACTIVITY

A. Due To/Due From Other Funds

As of June 30, 2015, the following amounts were due to/due from other funds:

	Payable Fund
Receivable Fund	Internal Service Fund
General Fund	$ 157,098

The amount due to the General from the Internal Service Fund is to reimburse the General Fund for OPEB expenditures initially paid for by the General Fund.

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets not being Depreciated:				
Land	$ 1,645,835	$ -	$ -	$ 1,645,835
Construction in Progress	20,510,325	-	(20,510,325)	-
Total Capital Assets not being Depreciated	22,156,160	-	(20,510,325)	1,645,835
Capital Assets being Depreciated:				
Land Improvements	2,321,252	1,826,423	-	4,147,675
Buildings	16,021,667	27,643,935	-	43,665,602
Equipment	7,700,284	767,315	(164,601)	8,302,998
Vehicles	108,413	-	-	108,413
Total Capital Assets being Depreciated	26,151,616	30,237,673	(164,601)	56,224,688
Less Accumulated Depreciation:				
Land Improvements	1,290,929	77,603	-	1,368,532
Buildings	12,676,432	158,114	-	12,834,546
Equipment	6,408,821	147,501	(160,894)	6,395,428
Vehicles	70,884	4,247	-	75,131
Total Accumulated Depreciation	20,447,066	387,465	(160,894)	20,673,637
Total Capital Assets being Depreciated, Net	5,704,550	29,850,208	(3,707)	35,551,051
Governmental Activities, Capital Assets, Net	$ 27,860,710	$ 29,850,208	$ (20,514,032)	$ 37,196,886

NOTE 5 – CAPITAL ASSETS

Depreciation expense of $ 387,465 for the year ended June 30, 2015 was charged to the following governmental functions:

Administration	$ 608
District Support Services	11,599
Elementary and Secondary Regular Instruction	95,991
Vocational Education Instruction	59
Special Education Instruction	1,647
Instructional Support Services	8,581
Pupil Support Services	3,663
Sites and Buildings	246,945
Food Service	13,563
Community Education and Services	4,809
Total Depreciation Expense	$ 387,465

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-Term Liabilities:						
G.O. Bonds Including Refunding Bonds:						
2009A Taxable OPEB Bonds	04/21/09	2.25%-4.55%	$ 4,095,000	02/01/19	$ 1,980,000	$ 465,000
G.O. School Building Bonds, Series 2012A	03/01/12	1.00%-3.00%	29,925,000	02/01/27	25,740,000	1,910,000
Total G.O. Bonds					27,720,000	2,375,000
Unamortized Bond Premium					474,214	-
Capital Leases					9,095	9,095
Compensated Absences Payable					59,734	47,788
Total all Long-Term Liabilities					$ 28,263,043	$ 56,883

The long-term bond and lease liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues and to finance OPEB obligations. Other long-term liabilities such as compensated absences payable are typically liquidated through the General Fund.

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire G.O. bonds are as follows:

Year Ending June 30,	G.O. Bonds Principal	Interest	Total
2016	$ 2,375,000	$ 669,437	$ 3,044,437
2017	2,435,000	613,101	3,048,101
2018	2,495,000	553,975	3,048,975
2019	2,550,000	492,207	3,042,207
2020	2,065,000	427,819	2,492,819
2021-2025	11,015,000	1,487,375	12,502,375
2026-2027	4,785,000	216,450	5,001,450
Total	$ 27,720,000	$ 4,460,364	$ 32,180,364

C. Capital Lease Obligations

On August 5, 2010, the District entered into a lease purchase agreement for the acquisition of copier equipment. The capital lease obligation and corresponding equipment totaled $ 232,792. The capital lease agreement includes annual principal and interest payments of $ 55,032.

NOTE 6 – LONG-TERM DEBT

C. Capital Lease Obligations (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,	
2016	$ 9,172
Total Minimum Lease Payments	9,172
Less Amount Representing Interest	(77)
Present Value of Minimum Lease Payments	$ 9,095

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-Term Liabilities:				
G.O. Bonds	$ 30,040,000	$ -	$ 2,320,000	$ 27,720,000
Unamortized Bond Premium	513,732	-	39,518	474,214
Capital Leases	61,562	-	52,467	9,095
Compensated Absences Payable	44,474	107,294	92,034	59,734
Total Long-Term Liabilities	$ 30,659,768	$ 107,294	$ 2,504,019	$ 28,263,043

NOTE 7 – FUND BALANCES/NET POSITION

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

A. Fund Balances

Fund balances are classified as listed on the following page to reflect the limitations and restrictions of the respective funds.

NOTE 7 – FUND BALANCES/NET POSITION

A. Fund Balances (Continued)

	General Fund	Debt Service	Community Service	Building Construction	Nonmajor Funds	Total
Nonspendable:						
Inventory	$ 34,874	$ -	$ -	$ -	$ 12,913	$ 47,787
Prepaid Items	71,855	-	700	-	1,340	73,895
Total Nonspendable	106,729	-	700	-	14,253	121,682
Restricted/Reserved for:						
Community Education	-	-	554,556	-	-	554,556
Early Childhood and Family Education	-	-	20,192	-	-	20,192
School Readiness	-	-	23,144	-	-	23,144
Community Service	-	-	953	-	-	953
Food Service	-	-	-	-	154,728	154,728
Debt Service	-	596,041	-	-	117,502	713,543
Building Projects	-	-	-	3,183	-	3,183
Total Restricted/Reserved	-	596,041	598,845	3,183	272,230	1,470,299
Committed for:						
Separation/Retirement Benefits	133,133	-	-	-	-	133,133
Gillespie Foundation Project	209,316	-	-	-	-	209,316
Total Committed	342,449	-	-	-	-	342,449
Assigned for:						
Special Education	200,000	-	-	-	-	200,000
Class Size Reduction	100,000	-	-	-	-	100,000
Technology Repairs	10,842	-	-	-	-	10,842
Student Activities	282,880	-	-	-	-	282,880
Total Assigned	593,722	-	-	-	-	593,722
Unassigned	2,304,728	-	-	-	-	2,304,728
Total Fund Balance	$ 3,347,628	$ 596,041	$ 599,545	$ 3,183	$ 286,483	$ 4,832,880

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the District on expenses for the next fiscal year.

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan. This account has a UFARS balance of ($ 737,393), which is included in unassigned fund balance as generally accepted accounting principles do not permit negative restrictions.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs

NOTE 7 – FUND BALANCES/NET POSITION

A. Fund Balances (Continued)

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Restricted/Reserved for Community Service – This balance represents the remaining balance of the Community Service Fund and is available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the debt service funds.

Restricted/Reserved for Building Projects – This balance represents available resources from the issuance of the 2012A school building bonds.

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Committed for Gillespie Foundation Projects – This balance represents an amount set aside by the School Board related to a donation received by the Gillespie Foundation.

Assigned – This balance represents estimated amounts that are set aside for special education, technology repairs, class size reduction, as well as the balance of the student activity accounts that are under board control.

B. Net Position

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service and Debt Service Funds and the effects of the conversion to the government-wide statements.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association

A. Plan Description

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

Teachers employed in Minnesota's public elementary and secondary school, charter schools and certain educational institutions maintained by the state (except those teachers employed by the 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.

B. Benefits Provided

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

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

Tier 1 Benefits

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

With these provisions:

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

Tier II Benefits

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

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

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

C. Contribution Rate

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

	Ending June 30, 2014		Ending June 30, 2014	
	Employee	Employer	Employee	Employer
Basic	10.5%	11.0%	11.0%	11.5%
Coordinated	7.0%	7.0%	7.5%	7.5%

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

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Measurement Date	June 30, 2014
Valuation Date	July 1, 2014
Experience Study	October 30, 2009
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions	
Investment Rate of Return	8.25%
Wage Inflation	3.00%
Projected Salary Increase	3.5-12%, based on years of service
Cost of Living Adjustment	2.0% until year 2034, 2.5% thereafter
Mortality Assumption	
Pre-retirement	RP 2000 non-annuitant generational mortality, white collar adjustment, male rates set back five years and female rates set back seven years
Post-retirement	RP 2000 annuitant generational mortality, white collar adjustment, male rates set back two years and female rates set back three years
Post-disability	RP 2000 disabled retiree mortality, without adjustment

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

E. Discount Rate

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

F. Net Pension Liability

On June 30, 2015, the District reported a liability of $ 11,492,172 for its proportionate share of the net pension liability. The net pension liability was measure as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.2494% at the end of the measurement period and 0.2523% for the beginning of the year.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

District's proportionate share of net pension liability	$ 11,492,172
State's proportionate share of the net pension liability associated with the district	808,323

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

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 increase from 2.0% annually to 2.5% annually once the legally specified criteria are met. This is estimated to occur July 1, 2034.

For the year ended June 30, 2015, the district recognized pension expense of $ 585,640. It also recognized $ 35,261 as an increase to pension expense for the support provided by direct aid.

On June 30, 2015, the District had deferred resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 980,593	$ -
Net difference between projected and actual earnings on plan investments		3,613,023
Changes in proportion		137,629
District contributions to TRA subsequent to the measurement date	862,323	-
Total	$ 1,842,916	$ 3,750,652

$ 862,323 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 relation of the net pension liability in the year ended June 30, 2016.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

2016	$ (727,272)
2017	(727,272)
2018	(727,272)
2019	(727,272)
2020	139,029

G. Pension Liability Sensitivity

The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 8.25% as well as the liability measured using 1% lower and 1% higher.

District proportionate share of NPL		
1% decrease (7.25%)	Current (8.25%)	1% increase (9.25%)
$ 18,992,626	$ 11,492,172	$ 5,239,388

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

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association

A. Plan Description

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

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 District other than teachers are covered by the GERF. GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature. PERA benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

GERF Benefits

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

C. Contributions

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

GERF Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.25%, respectively, of their annual covered salary in calendar year 2014. Coordinated Plan members contributed 6.5% of pay in 2015. In calendar year 2014, the District was required to contribute 11.78% of pay for Basic Plan members and 7.25% for Coordinated Plan members. In 2015, employer rates increased to 7.5% in the Coordinated Plan. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2015, were $ 308,400. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

GERF Pension Costs

At June 30, 2015, the District reported a liability of $ 3,612,377 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2013, through June 30, 2014, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2014, the District's proportion was 0.0769%.

For the year ended June 30, 2015, the District recognized pension expense of $ 268,166 for its proportionate share of GERF's pension expense.

At June 30, 2015, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the sources on the following page.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 55,439	$ -
Changes in Actuarial Assumptions	372,291	-
Difference Between Projected and Actual Investments Earnings	-	976,061
District's Contributions to GERF Subsequent to the Measurement Date	308,400	-
Total	$ 736,130	$ 976,061

$ 308,400 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2016	$ (101,438)
2017	(101,438)
2018	(101,439)
2019	(244,016)
2020	-

E. Actuarial Assumptions

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

GERF

Assumptions	GERF
Inflation	2.75 % Per Year
Active Member Payroll Growth	3.50 Per Year
Investment Rate of Return	7.90

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

The following changes in actuarial assumptions for GERF occurred in 2014: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2014, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2031.

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

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

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

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

F. Discount Rates

The discount rate used to measure the total pension liability was 7.9% for GERF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the 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.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF Discount Rate	6.9%	7.9%	8.9%
District's Proportionate share of the GERF Net Pension Liability	$ 5,823,297	$ 3,612,377	$ 1,793,310

Pension Plan Fiduciary Net Position

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

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

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

The District provides retiree health insurance for substantially all teachers and other selected bargaining groups as well as certain employees under individual contracts for a specific period of time under contract provisions. The District recognized expenditures on a pay-as-you-go basis.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description (Continued)

School service employees hired before July 1, 2000, have completed 15 years of service and are at least 55 years old are eligible for severance. They shall receive an amount equal to 50% of 75 days of pay based on the employee's daily rate of pay at retirement paid into a health savings account (HSA).

All teachers who have concluded their fifteenth year of teaching prior to January 1, 1994, are eligible to participate in the Deferred Compensation Matching Program or the "old severance" provision as outlined in the Union Contract. Teachers who elect to participate in the Deferred Compensation Matching Program may receive a total maximum matching contribution of $ 18,500 or $ 26,000 from the District based on where they fall in the provisions as outlined in the Union Contract. Teachers who have not reached the maximum will receive the remainder of the $ 18,500 or $ 26,000 in a lump sum payment based on where they fall in the provisions as outlined in the Union Contract. These payments are paid into an HSA.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with HealthPartners. The required contributions are based on projected pay-as-you-go financing requirements. For 2015, the District contributed $ 186,286 to the plan.

As of June 30, 2015, there were approximately 9 retirees and spouses receiving health benefits from the District's health plan. The plan has a total of 205 active participants. Of that total, 147 are not yet eligible to receive benefits.

C. Annual OPEB Cost and Net OPEB Obligation

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

ARC	$	480,580
Interest on Net OPEB Obligation		12,317
Adjustment to ARC		(17,191)
Annual OPEB Cost (Expense)		475,706
Employer Contributions		(186,286)
Increase in Net OPEB Obligation		289,420
Net OPEB Obligation - Beginning of Year		307,932
Net OPEB Obligation - End of Year	$	597,352

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015, 2014 and 2013 was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
06/30/15	$ 475,706	$ 186,286	39%	$ 597,352
06/30/14	424,870	199,870	47%	307,932
06/30/13	426,690	301,977	71%	82,932

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was $ 3,725,792 and the actuarial value of assets was $ 0, resulting in an unfunded actuarial accrued liability (UAAL) of $ 3,725,792. The covered payroll (annual payroll of active employees covered by the plan) was $ 13,612,029, and the ratio of the UAAL to the covered payroll was 27.4%.

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

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

On April 21, 2009, the District issued $ 4,095,000 G.O. Taxable OPEB Bonds, Series 2009A to fund part of the OPEB liability. Since these proceeds were placed in a revocable trust, the funding of the obligation does not qualify as funding the liability under GASB Statement No. 45. The activity related to the OPEB revocable trust can be noted in the Post Employment Benefits Revocable Trust Internal Service Fund. As of June 30, 2015, the ending market value of these assets was $ 4,155,018.

E. Actuarial Methods and Assumptions

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

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

E. Actuarial Methods and Assumptions (Continued)

At the July 1, 2012 actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.0% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5% after ten years. Both rates included a 2.5% inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2015 was 23 years.

NOTE 10 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2015.

On July 1, 2013, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of $ 2,000 for each dental care claim. The General, Food Service and Community Service Funds of the District participate in the program and make payments to the dental insurance plan recorded in the General Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2015, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions and GASB* Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* This resulted in an adjustment to the beginning net position on the Statement of Activities of $ 17,570,428 to add the beginning net pension liability.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 277

SCHEDULE OF FUNDING PROGRESS - OTHER POST EMPLOYMENT BENEFITS
June 30, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/10	$ -	$ 3,533,073	$ 3,533,073	0.0%	$ 12,649,005	27.9%
07/01/12	-	3,359,715	3,359,715	0.0%	13,007,901	25.8%
07/01/14	-	3,725,792	3,725,792	0.0%	13,612,029	27.4%

INDEPENDENT SCHOOL DISTRICT NO. 277

SCHEDULE OF DISTRICT'S AND NON-EMPLOYER PROPORTIONATE SHARE OF NET PENSION LIABILITY LAST TEN YEARS GERF RETIREMENT FUNDS

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0769%	$ 3,612,377	$ 4,035,806	89.51%	78.70%

Note: Schedule is intended to show 10 year trend. Additional years will be reported as they become available.

SCHEDULE OF DISTRICT'S AND NON-EMPLOYER PROPORTIONATE SHARE OF NET PENSION LIABILITY LAST TEN YEARS TRA RETIREMENT FUNDS

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered-Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.2494%	$ 11,492,172	$ 808,323	$ 12,300,495	$ 11,385,303	100.9%	81.5%

Note: Schedule is intended to show 10 year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 277

SCHEDULE OF DISTRICT CONTRIBUTIONS
GERF RETIREMENT FUNDS
LAST TEN YEARS

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 292,596	$ 292,596	$ -	$ 4,035,806	7.25%

Note: Schedule is intended to show 10 year trend. Additional years will be reported as they become available.

SCHEDULE OF DISTRICT CONTRIBUTIONS
TRA RETIREMENT FUNDS
LAST TEN YEARS

Fiscal Year Ending June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	$ 796,971	$ 796,971	$ -	$ 11,385,303	7.0%

Note: Schedule is intended to show 10 year trend. Additional years will be reported as they become available.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 277

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

	Special Revenue Fund	Debt Service Fund	
	Food Service	Post Employment Benefits Debt Service	Total Nonmajor Funds
ASSETS			
Cash and Investments	$ 211,293	$ 390,600	$ 601,893
Current Property Taxes Receivable	-	274,256	274,256
Delinquent Property Taxes Receivable	-	9,603	9,603
Due from Department of Education	1,717	48	1,765
Inventory	12,913	-	12,913
Prepaid Items	1,340	-	1,340
Total Assets	$ 227,263	$ 674,507	$ 901,770
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	$ 5,542	$ -	$ 5,542
Salaries and Benefits Payable	7,615	-	7,615
Unearned Revenue	45,125	-	45,125
Total Liabilities	58,282	-	58,282
Deferred Inflows of Resources			
Unavailable Revenue - Delinquent Property Taxes	-	5,502	5,502
Property Taxes Levied for Subsequent Year's Expenditures	-	551,503	551,503
Total Deferred Inflows of Resources	-	557,005	557,005
Fund Balances			
Nonspendable	14,253	-	14,253
Restricted	154,728	117,502	272,230
Total Fund Balances	168,981	117,502	286,483
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 227,263	$ 674,507	$ 901,770

INDEPENDENT SCHOOL DISTRICT NO. 277

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

	Special Revenue Fund	Debt Service Fund	
	Food Service	Post Employment Benefits Debt Service	Total Nonmajor Funds
REVENUES			
Local Property Taxes	$ -	$ 548,377	$ 548,377
Other Local and County Revenues	14,850	-	14,850
Revenue from State Sources	51,689	132	51,821
Revenue from Federal Sources	367,648	-	367,648
Sales and Other Conversion of Assets	779,413	-	779,413
Total Revenues	1,213,600	548,509	1,762,109
EXPENDITURES			
Current			
Food Service	1,205,286	-	1,205,286
Capital Outlay			
Food Service	1,268	-	1,268
Debt Service			
Principal	-	450,000	450,000
Interest and Fiscal Charges	-	100,768	100,768
Total Expenditures	1,206,554	550,768	1,757,322
Excess of Revenues Over (Under) Expenditures	7,046	(2,259)	4,787
OTHER FINANCING SOURCES			
Proceeds from Sale of Capital Assets	3,086	-	3,086
Net Change in Fund Balances	10,132	(2,259)	7,873
FUND BALANCES			
Beginning of Year	158,849	119,761	278,610
End of Year	$ 168,981	$ 117,502	$ 286,483

INDEPENDENT SCHOOL DISTRICT NO. 277

COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS
June 30, 2015

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Dental	Total
ASSETS			
Cash and Cash Equivalents	$ 153,006	$ 145,303	$ 298,309
Investments	4,002,012	-	4,002,012
Interest Receivable	53,147	-	53,147
Total Assets	$ 4,208,165	$ 145,303	$ 4,353,468
LIABILITIES AND NET POSITION			
Liabilities			
Accounts Payable	$ -	$ 2,428	$ 2,428
Due to Other Funds	157,098	-	157,098
Total Liabilities	157,098	2,428	159,526
Net Position			
Unrestricted	4,051,067	142,875	4,193,942
Total Liabilities and Net Position	$ 4,208,165	$ 145,303	$ 4,353,468

INDEPENDENT SCHOOL DISTRICT NO. 277

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2015

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Dental	Total
OPERATING REVENUES			
Charges for Services	$ -	$ 290,519	$ 290,519
OPERATING EXPENSES			
Employee Benefits	157,098	147,661	304,759
Professional Services	250	-	250
Total Operating Expenses	157,348	147,661	305,009
Operating Income (Loss)	(157,348)	142,858	(14,490)
NONOPERATING REVENUES			
Investment Income	99,219	17	99,236
Change in Net Position	(58,129)	142,875	84,746
NET POSITION			
Beginning of Year	4,109,196	-	4,109,196
End of Year	$ 4,051,067	$ 142,875	$ 4,193,942

INDEPENDENT SCHOOL DISTRICT NO. 277

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
For the Year Ended June 30, 2015

	Internal Service Funds		
	Post Employment Benefits Revocable Trust Fund	Dental	Total
CASH FLOWS - OPERATING ACTIVITIES			
Receipts from Employee Contributions	$ -	$ 290,519	$ 290,519
Payments to Employees	-	(145,233)	(145,233)
Payments to Vendors	(250)	-	(250)
Net Cash Flows - Operating Activities	(250)	145,286	145,036
CASH FLOWS - NON-CAPITAL FINANCING ACTIVITIES			
Payment of Due to Other Funds	(42,772)	-	(42,772)
CASH FLOWS - INVESTMENT ACTIVITIES			
(Purchase)/Sale of Investments	(106,496)	-	(106,496)
Interest Received	132,094	17	132,111
Net Cash Flows - Investment Activities	25,598	17	25,615
Net Change in Cash and Cash Equivalents	(17,424)	145,303	127,879
CASH AND CASH EQUIVALENTS			
Beginning of Year	170,430	-	170,430
End of Year	$ 153,006	$ 145,303	$ 298,309
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES:			
Operating Income (Loss)	$ (157,348)	$ 142,858	$ (14,490)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows - Operating Activities:			
Accounts Payable	-	2,428	2,428
Due to Other Funds	157,098	-	157,098
Net Adjustments	157,098	2,428	159,526
Net Cash Flows - Operating Activities	$ (250)	$ 145,286	$ 145,036
NON-CASH ACTIVITY			
Changes in Fair Value of Investments	$ (31,518)	$ -	$ (31,518)

INDEPENDENT SCHOOL DISTRICT NO. 277

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
For the Year Ended June 30, 2015

	Audit	UFARS	Audit-UFARS
01 GENERAL FUND			
Total Revenue	$ 25,934,215	$ 25,934,215	$ -
Total Expenditures	26,057,796	26,057,797	(1)
Nonspendable:			
460 Nonspendable Fund Balance	106,729	106,729	-
Restricted/Reserved:			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	(737,393)	(737,393)	-
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	-	-	-
426 $ 25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluation	-	-	-
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration	-	-	-
449 Safe School Crime	-	-	-
450 Transition for Pre-Kindergarten	-	-	-
451 QZAB and QSCB Payments	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Committed:			
418 Committed for Separation/ Retirement Benefits	133,133	133,133	-
461 Committed	209,316	209,316	-
Assigned:			
462 Assigned Fund Balance	593,722	593,722	-
Unassigned:			
422 Unassigned Fund Balance	3,042,121	3,042,122	(1)
02 FOOD SERVICE FUND			
Total Revenue	$ 1,213,600	$ 1,213,599	$ 1
Total Expenditures	1,206,554	1,206,555	(1)
Nonspendable:			
460 Nonspendable Fund Balance	14,253	14,253	-
Restricted/Reserved:			
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	154,728	154,727	1
Unassigned:			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE FUND			
Total Revenue	$ 2,593,434	$ 2,593,434	$ -
Total Expenditures	2,603,221	2,603,221	-
Nonspendable:			
460 Nonspendable Fund Balance	700	700	-
Restricted/Reserved:			
426 $ 25 Taconite	-	-	-
431 Community Education	554,556	554,556	-
432 ECFE	20,192	20,192	-
444 School Readiness	23,144	23,144	-
447 Adult Basic Education	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	953	953	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 BUILDING CONSTRUCTION FUND			
Total Revenue	$ 4,241	$ 4,241	$ -
Total Expenditures	9,492,081	9,492,081	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted/Reserved:			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
Restricted:			
464 Restricted Fund Balance	3,183	3,182	1
Unassigned:			
463 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE FUND			
Total Revenue	$ 2,542,916	$ 2,542,916	$ -
Total Expenditures	2,499,994	2,499,994	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted/Reserved:			
425 Bond Refunding	-	-	-
451 QZAB and QSCB Payments	-	-	-
Restricted:			
464 Restricted Fund Balance	596,041	596,041	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
08 TRUST FUND			
Total Revenue	$ 16,268	$ 16,269	$ (1)
Total Expenditures	27,848	27,849	(1)
Unassigned:			
422 Unassigned Fund Balance (Net Position)	206,576	206,576	-
20 INTERNAL SERVICE FUND			
Total Revenue	$ 290,536	$ 290,536	$ -
Total Expenditures	147,661	147,662	(1)
Unassigned:			
422 Unassigned Fund Balance (Net Position)	142,875	142,875	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ 99,219	$ 99,218	$ 1
Total Expenditures	157,348	157,348	-
Unassigned:			
422 Unassigned Fund Balance (Net Position)	4,051,067	4,051,066	1
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unassigned:			
422 Unassigned Fund Balance (Net Position)	-	-	-
47 OPEB DEBT SERVICE			
Total Revenue	$ 548,509	$ 548,509	$ -
Total Expenditures	550,768	550,768	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted:			
464 Restricted Fund Balance	117,502	117,501	1
Unassigned:			
463 Unassigned Fund Balance	-	-	-

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INDEPENDENT SCHOOL DISTRICT NO. 277

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2015

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
Through Minnesota Department of Education			
USDOA	10.555	Commodities Programs (Cluster)	$ 41,733
USDOA	10.553	School Breakfast Program (Cluster)	29,724
USDOA	10.555	Child Nutrition Type A Lunch (Cluster)	244,972
USDOA	10.556	Special Milk Program (Cluster)	674
USDOA	10.559	Summer Food Service Program (Cluster)	50,545
Total Child Nutrition Cluster			367,648
USDOED	84.010	Title I, Part A	182,482
USDOED	84.027	Special Education (Cluster)	459,684
USDOED	84.173	Special Education Early Childhood (Cluster)	14,329
USDOED	84.027	IDEAS Part B Discretionary Continuous Improvement Monitoring Process (Cluster)	5,000
Total Federal Special Education Cluster			479,013
USDOED	84.367	Title II, Part A - Improving Teacher Quality	96,010
Through Independent School District No. 284			
USDOED	84.181	Infants and Toddlers	10,810
Through Intermediate District No. 287			
USDOED	84.048A	Carl Perkins	10,042
Total Federal Expenditures			$ 1,146,005

The Notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2015

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of OMB *Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

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

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ending June 30, 2015, and the related Notes to the Financial Statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 7, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified . Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* as Audit Finding 02-01, to be a significant deficiency.

Compliance and Other Matters

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

District's Response to the Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133*. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

BerganKDV Ltd.

BerganKDV, Ltd.
Minneapolis, Minnesota
October 7, 2015

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB *CIRCULAR A-133*

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 277
Minnetrista, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 277, Minnetrista, Minnesota, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in accordance with OMB *Circular A-133*.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB *Circular A-133, Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the compliance of Independent School District No. 277.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 277 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

BerganKDV Ltd.

BerganKDV, Ltd.
Minneapolis, Minnesota
October 7, 2015

INDEPENDENT SCHOOL DISTRICT NO. 277

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	Yes, Audit Finding 02-01
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Section 510(a)of OMB *Circular A-133*?	No

Identification of Major Programs

CFDA No.:	84.027 and 84.173
Name of Federal Program or Cluster:	Special Education Cluster
CFDA No.:	10.553, 10.555, 10.556, and 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	$ 300,000
Auditee qualified as low risk auditee?	No

INDEPENDENT SCHOOL DISTRICT NO. 277

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 02-01

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

Condition:
During the year ended June 30, 2015, the District had a lack of segregation of accounting duties due to a limited number of office employees. This condition increases the risk that errors could occur which would not be prevented or detected and corrected in a timely manner. This lack of segregation can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Finance has access to all areas of the accounting system.
- Deposits are made through the Activities Office without proper review or approval.
- The District Accountant inputs employees' hours, generates direct deposit checks and sends the transfer amount to the bank.
- The Director of Finance records and maintains all capital asset records.
- The District Accountant records the deposits and prepares the bank reconciliation.
- The Director of Finance records and maintains state, federal, and tax revenues and receivables.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the number of staff needed to properly segregate all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Because of this reason, management has determined a complete segregation of accounting duties is impractical to correct.

Questioned Costs:
None

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

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

Cause:
There are a limited number of office employees.

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

INDEPENDENT SCHOOL DISTRICT NO. 277

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
IN ACCORDANCE WITH OMB *CIRCULAR A-133*
June 30, 2015

SECTION II – FINANCIAL STATEMENT FINDINGS

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

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

2. Actions Planned in Response to Finding
   The District will take the necessary corrective action to address the lack of segregation of duties identified as an audit finding. The District will also evaluate other key accounting processes and procedures to ensure adequate segregation of duties is achieved.

3. Official Responsible for Ensuring CAP
   Kathy Miller, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2016.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned costs.

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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

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To the School Board
Independent School District No. 277
Minnetrista, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 277, Minnetrista, Minnesota, as of and for the year ended June 30, 2015, and the related Notes to the Financial Statements, and have issued our report thereon dated October 7, 2015.

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

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

The purpose of this report is 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.

BerganKDV Ltd.

BerganKDV, Ltd.
Minneapolis, Minnesota
October 7, 2015