INDEPENDENT SCHOOL DISTRICT NO. 14
Fridley, Minnesota

AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2015

bergankDV
CPAS | ADVISORS

INDEPENDENT SCHOOL DISTRICT NO. 14

TABLE OF CONTENTS

INDEPENDENT SCHOOL DISTRICT NO. 14

TABLE OF CONTENTS

INDEPENDENT SCHOOL DISTRICT NO. 14

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

Board of Education	Position	Term Expires
Mary Kay Delvo	Chair	January 1, 2018
Chris Riddle	Vice Chair	January 1, 2016
Marcia Lindblad	Clerk	January 1, 2018
Kim Sampson	Treasurer	January 1, 2016
Fred Bischke	Director	January 1, 2016
Joseph Sturdevant	Director	January 1, 2018
Ex Officio Member		
Peggy Flathmann	Superintendent	

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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 14
Fridley, 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. 14, Fridley, 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. 14, Fridley, Minnesota, as of June 30, 2015, and the respective changes in financial position thereof, and the budgetary comparison for the General 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, and the Schedule of Funding Progress – Other Post Employment Benefits on page 70, Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability GERF Retirement Funds on page 71, Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability TRA Retirement Funds on page 71, Schedule of District Contributions of GERF Retirement Funds on page 72 and Schedule of District Contributions of TRA Retirement Funds on page 72 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 September 21, 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
September 21, 2015

INDEPENDENT SCHOOL DISTRICT NO. 14

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2015

This section of Independent School District No. 14's (the "District") annual financial report presents its Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ending June 30, 2015. Please read it in conjunction with the District's financial statements, which immediately follow this section.

KEY POINTS OF INTEREST

- The District's Governmental Funds Balance Sheet reflects an Unassigned General Fund balance of $ 2,052,828. This is an increase from the prior year of $ 715,700.

- The total General Fund balance of $ 3,484,192 is an increase of $ 1,617,070 from the prior year.

- The government-wide Statement of Activities shows an increase in net position of $ 2,646,858.

- The net position value on the government-wide Statement of Net Position is a deficit of $ 24,749,974. Net position value is similar to the Balance Sheet's Equity for Private Sector businesses.

- Total government wide long term liabilities is $ 43,055,749 and is comprised of $ 35,893,909 in General Obligation (G.O.) Bonds, $ 5,534,243 in capital leases and $ 1,627,597 of severance and compensated absences payable.

- The District's investment in capital assets, net of depreciation, is $ 31,160,562. The decrease from the prior year of $ 1,430,447 is primarily due to depreciation expense exceeding the increase in assets. The G.O. bonds plus the capital leases (the debt related to investment in capital assets) exceeds the investment in capital assets by $ 6,236,812.

- The District implemented GASB Statement Nos. 68 and 71 which prompted a change in accounting principle where a pension liability of $ 24,040,446 was accounted for.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: MD&A (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

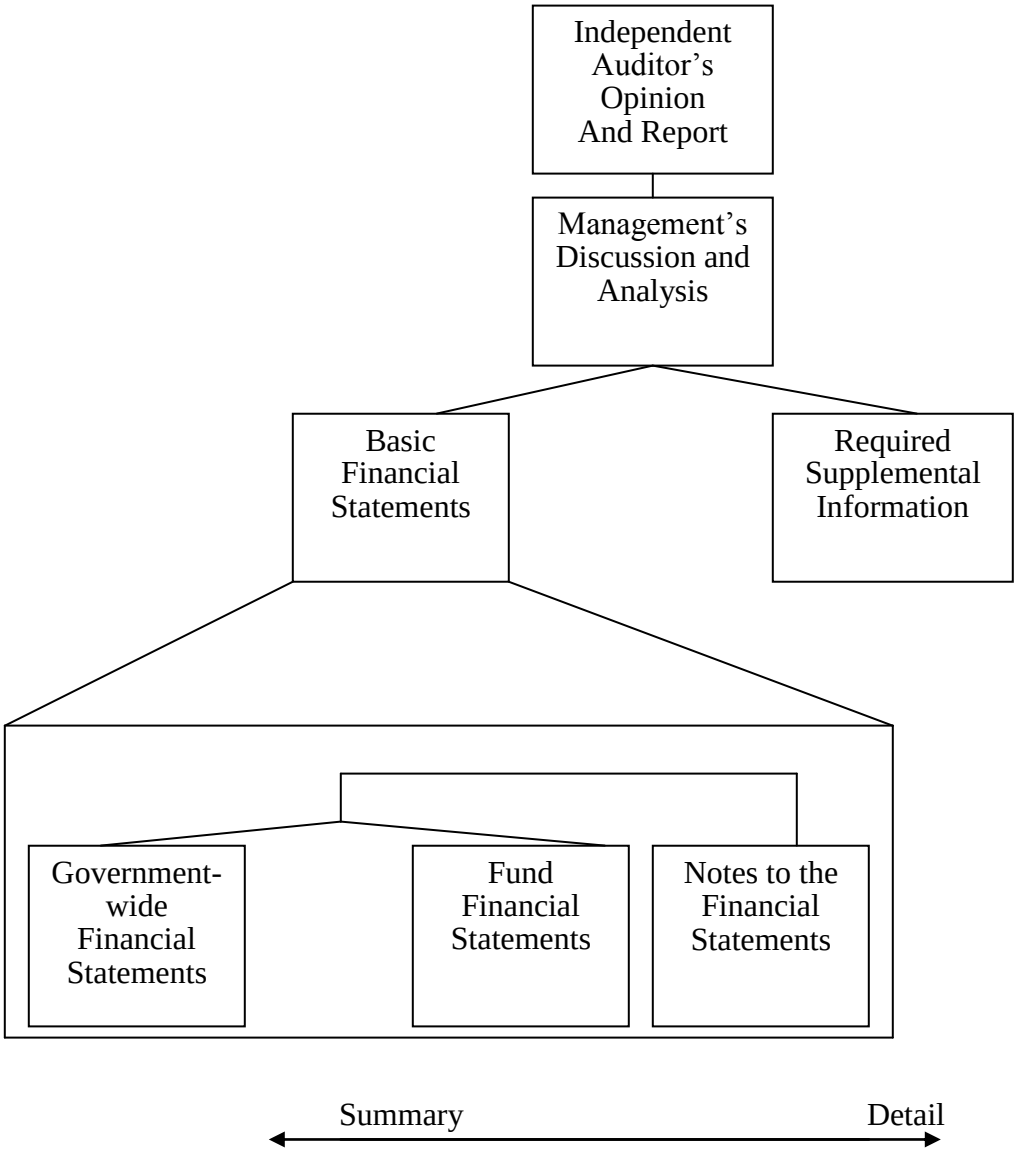
The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the government-wide statements. The governmental fund statements tell how basic services such as regular and special education are financed in the short term as well as what remains for future spending. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 on the next page shows how the various parts of this annual report are arranged and related to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS

Figure A-1
Organization of Independent School District No. 14's Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2
Major Features of the District-Wide and Fund Financial Statements

	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not fiduciary, such as special education and building maintenance	Activities of the District operates similar to private business - • Internal Service Fund
Required Financial Statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances	• Statement Net Position • Statement Revenues, Expenses and Changes in Fund Net Position • Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when good or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Statements

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

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

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

Fund Financial Statements

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

The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets 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 indicates whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs and obligations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The Statement of Net Position identifies current assets and liabilities from noncurrent assets and long-term debt respectively. The ratio of these current assets of $ 21.1 million to current liabilities of $ 5.8 million is 3.6. A "current ratio" greater than 1.0 indicates that sufficient assets are available that can be converted to cash to meet District obligations payable over the next 12-month period.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The Statement of Net Position includes noncurrent assets not reported on the governmental funds balance sheet. These noncurrent assets include the total acquisition cost of the District's capital assets less accumulated depreciation. During the year, the District acquired $ 929,511 of additional capital assets. The majority of this increase is comprised of work in progress related to the remodel of the High School gym restroom and the Hayes playground replacement. The remaining capital asset additions consist of purchases associated with the District's deferred maintenance program funded by the Capital Facility Levy, and other capital investment programs such as Health and Safety. Depreciation expense for the year equaled $ 2,359,358. The current year depreciation expense was more than the increase in new investment in capital equipment resulting in a decrease in the net capital asset total to $ 31,160,562 compared to $ 32,591,009 for the prior year.

Related to the noncurrent assets are the general obligation bonds. In November of 2012 the District issued $ 11,240,000 G.O. School Building Refunding Bonds, Series 2012B, for the current refunding of the $ 16,620,000 G.O. School Building Refunding Bonds, Series 2004A issued in 2004 with a 30 year maturity to fund a building and technology improvement plan. The refunding was undertaken to reduce total future debt services payments. The refunding resulted in a decrease in future debt service payments of $ 1,801,515 and a net present value cash flow savings from the transaction of $ 1,583,194. Other general obligation bonds include alternative facility bond issued in 2007 with a 30-year maturity to fund district ventilation projects, and an OPEB bond issued in 2009 with a 15-year maturity to fund the districts obligation for retiree insurance benefits. The remaining liability on these bonds, net of unamortized premiums, as of June 30, 2015 is $ 35.9 million. The excess of depreciation over capital asset additions and the amortization of the general obligation resulted in a decrease of $ 146,283 in the net investment in capital assets total compared to the prior year.

Additional long-term debt for severance pay (employee separation pay based on unused sick time) is $ 1.2 million. This includes $ 0.6 million owed to employees who have retired prior to June 30 and an estimate of $ 0.6 million for employees who qualify or will qualify for retirement at a future date.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Overall, the District's net position increased $ 2,646,858 during the year from current year operations but total net position fell to a deficit of $ 24.7 million, as a result of implementing a new accounting standard to recognize pension liability.

Figure A-3
Condensed Statement of Net Position (in Thousands of Dollars)

	2015	2014	Percent Change
Current and OPEB Assets	$ 21,058	$ 18,964	11.0%
Capital Assets	31,161	32,591	(4.4%)
Total Assets	52,219	51,555	1.3%
Deferred Outflows of Resources	3,520	99	3,455.6%
Current Liabilities	5,817	5,491	5.9%
Long-term Liabilities	59,495	42,140	41.2%
Total Liabilities	65,312	47,631	37.1%
Deferred Inflows of Resources	15,177	7,380	105.7%
Net Investment in Capital Assets	(6,237)	(6,091)	(2.4%)
Restricted for Cap Projects	724	668	8.4%
Restricted for Other Purposes	611	520	17.5%
Unrestricted Net Position	(19,848)	1,546	(1,383.8%)
Total Net Position, Restated	$ (24,750)	$ (3,357)	(637.3%)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

	2015	2014	Percent Change
REVENUES			
Program Revenues:			
Charges for Services	$ 2,354.8	$ 2,265.4	3.9%
Operating Grants and Contributions	16,746.4	16,158.2	3.6%
Capital Grants and Contributions	588.7	445.4	32.2%
General Revenues:			
Property Taxes	7,606.2	6,170.2	23.3%
State Formula Aid	18,769.2	18,420.3	1.9%
Other	116.0	79.5	45.9%
Total Revenues	46,181.3	43,539.0	6.1%
EXPENSES			
Administration and District Support	3,314.4	3,156.7	5.0%
Instruction, Pupil Support, Student Food and Transportation Services	30,731.2	30,640.2	0.3%
Sites and Buildings	2,748.2	2,969.3	(7.4%)
Community Services	2,697.2	2,630.0	2.6%
Interest and Fiscal Charges on Long-Term Debt	1,602.8	1,615.2	(0.8%)
Fiscal and Other Fixed Cost Programs	168.8	155.1	8.8%
Unallocated Depreciation (Buildings)	2,271.8	2,297.8	(1.1%)
Total Expenses	43,534.4	43,464.3	0.2%
Increase (Decrease) in Net Position	$ 2,646.9	$ 74.7	3,443.4%

The Statement of Activities is government-wide and, like the Statement of Net Position, the first year it was prepared was 2003. Figure A-4 illustrates that an increase in net position of $ 2,646,858 is attributable to activity during the year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The pie chart in Figure A-5 on the following page shows the sources of District revenues. Program revenues include operating grants and contributions which totals 36% of total revenue. Operating grants and contributions consists mostly of state and federal funding of special education and other state and federal categorical spending. Charges for services, comprised of mostly special education tuition billings, food service and kids key club receipts make up 5% of revenue. Capital Grants consisting of state aid for operating capital is 1% of revenue.

General revenues include the state aid formula which accounts for 41% of the District's total funding. Property taxes make up 17% of the total funding and have increased by 2% as a percentage of total revenue due to the effect of the tax shift that is no longer in place.

Revenues for the year increased by $ 2,642,300, or 6.1%. State categorical aids increased compared to the prior year by 1.9%, or $ 348,900. Property tax levy revenues increased 23.3%, or $ 1,436,000. Both of the changes in state aid and tax levy are mainly due to the reduction in the tax shift imposed by the state legislature in 2012. Operating grants and contributions increased by $ 588,200, or 3.6%, and is mainly due to increased special education revenue, nutritional service grants, and an increase in reimbursement of free and reduced priced meals. Capital grants and contributions increased $ 143,300, or 32.2%, due to an increase in state operating capital aid.

Expenses for the year were $ 70,100, or 0.2%, higher than the previous year. Increases in food prices, administration and district support contracts were offset by decreases in interest and debt service costs and building construction costs, allowing costs in total to remain in line with the prior year.

The pie chart illustrated in Figure A-6 on the following page indicates the costs of the District's programs and services. The District's expenses predominantly related to instructing students and pupil support (including food service and student transportation) accounted for 71% of the government-wide expenditures, which is consistent with the percentage of government-wide expenditures in prior years. Sites and buildings were 6%, administration and district support services accounted for 8%, community services expenditures were 6% and less than 1% was spent on fiscal and other fixed programs. Interest expense on the District's outstanding long-term debt was 4% and 5% of expense was attributable to unallocated depreciation (buildings).

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-5
Sources of Revenue for Fiscal Year 2015

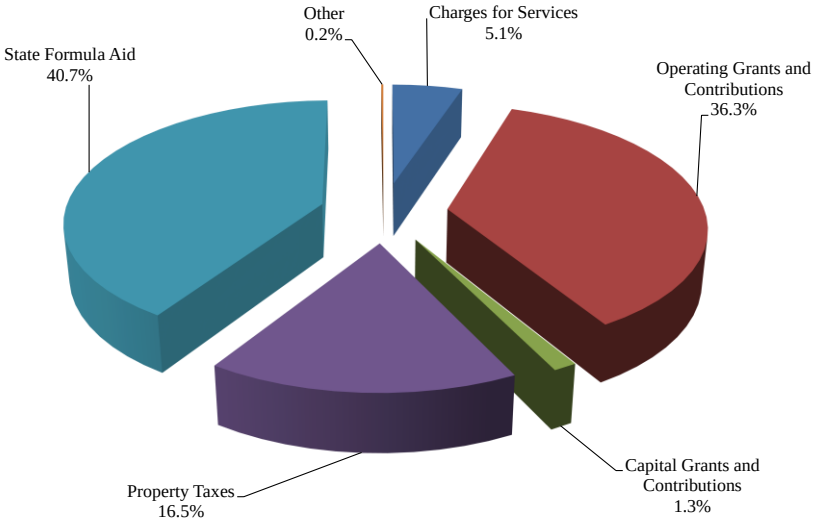
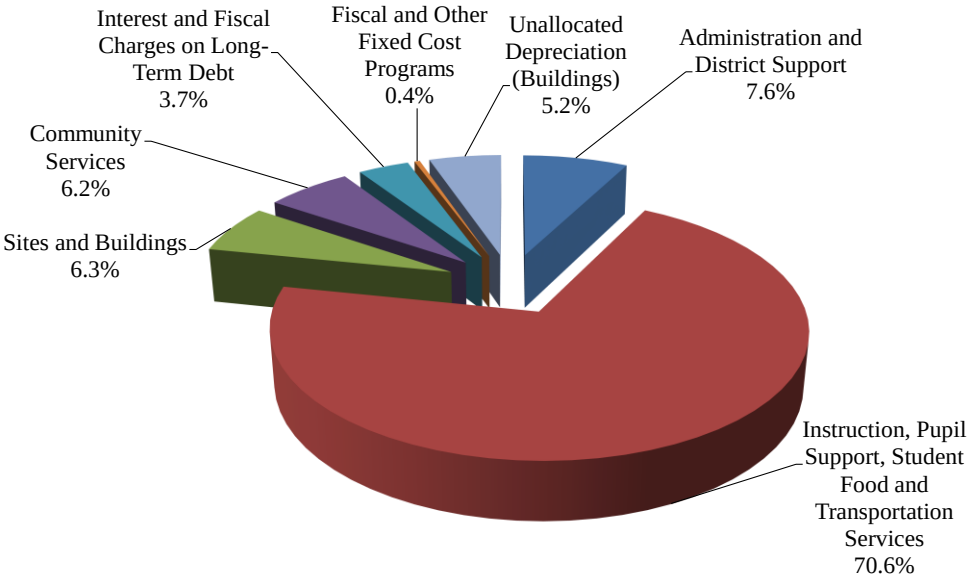


Figure A-6
Expenses for Fiscal Year 2015



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Figure A-7 presents the cost of the major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for the specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7
Net Cost of Activities (in thousands of dollars)

	Total Cost of Services			Net Cost of Services		
	2015	2014	Percent Change	2015	2014	Percent Change
Administration/District Support	$ 3,314	$ 3,157	5.0%	$ 3,306	$ 3,143	5.2%
Regular Instruction	14,617	14,553	0.4%	7,170	7,074	1.4%
Vocational Instruction	190	96	97.9%	145	61	137.7%
Special Instruction	7,626	7,896	(3.4%)	1,975	2,642	(25.2%)
Instructional Support	2,786	2,182	27.7%	1,957	1,463	33.8%
Pupil Support Services	3,782	4,227	(10.5%)	2,996	3,129	(4.3%)
Sites and Buildings	2,748	2,969	(7.4%)	2,067	2,468	(16.2%)
Fiscal and Other Fixed Programs	169	155	9.0%	169	155	9.0%
Food Service	1,730	1,686	2.6%	(156)	20	(880.0%)
Community Services	2,697	2,630	2.5%	340	527	(35.5%)
Unallocated Depreciation	2,272	2,298	(1.1%)	2,272	2,298	(1.1%)
Interest on Long-Term Debt	1,603	1,615	(0.7%)	1,603	1,615	(0.7%)
Total	$ 43,534	$ 43,464	0.2%	$ 23,844	$ 24,595	(3.1%)

- The cost of all District activities this year was $ 43.5 million.
- Users of the District's programs financed some of the costs ($ 2.4 million).
- The federal and state governments subsidized certain programs with operating and capital grants and contributions ($ 17.3 million).
- District and state taxpayers financed most of the District's activity, $ 18.8 million from unrestricted state aid and $ 7.6 million from property taxes.
- Investment and other income for the year was higher than the previous year at $ 116,000.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of $ 4,980,792. This is an increase of $ 1,878,163 from last year.

The General Fund unassigned fund balance at June 30, 2015 has a surplus balance of $ 2,052,828 due to increased state aid and taxes revenues and steady expenditures. A transfer to the Community Service Fund of $ 99,328 and to the Capital Projects Fund of $ 423,253 for property tax levied through the general fund is included in this change. Restricted fund balance decreased $ 89,360 from the prior year due to the spend down of operating capital, deferred maintenance and health and safety funds. General Fund assigned fund balance increased $ 1,032,598 from the prior year with the District setting aside funds for future separation and retirement funds and the start-up of the District's self-funded health insurance.

The Other Nonmajor Governmental Special Revenue Funds (Food Service and Community Service Funds) reported a $ 295,183 increase in fund balances from the previous year. The Food Service fund balance increased $ 159,727 with an ending fund balance of $ 316,698 resulting from increased state and federal aid.

The Community Service Fund ended the year with a deficit fund balance of $ 64,215, an increase of $ 135,456 due to rate increases and increased participation as well as management of variable costs. It is anticipated the community service programs will generate sufficient revenue to offset operating costs in future years and rebuild a healthy fund balance.

General Fund Budgetary Points of Interest

Revenue of $ 38,196,003 was more than budget by $ 636,235. Items impacting the revenue variance were underestimated enrollment and underestimated special education participation, which resulted in more state aid and special education program revenue. The District received less Medical Assistance funding revenue than anticipated, resulting in other local and county revenues ending under budget by $ 207,849.

General Fund expenditures of $ 36,683,540 were on budget, with actual expenditures only varying from budgeted expenditures by $ 26,721. Elementary and secondary regular instruction expenditures were under budget by $ 474,414 with the District anticipating higher severance and workers compensation costs that were never realized. Pupil support services expenditures were also under budget due to decreased transportation costs resulting from routes being managed internally. Instructional support services capital outlay expenditures were over budget $ 624,212 as the District did not budget for the capital lease issuances.

The original budget was amended one time during the course of the year. The original revenue budget of $ 37,339,752 was amended to include additional anticipated revenues of $ 220,016. This adjustment reflected additional state aids based on enrollment as well as additional local revenues received among all sites. The expenditure budget was amended $ 102,642 to a final budget of $ 36,710,261. This adjustment was made to reflect an anticipated decreases in elementary and secondary regular education costs, fiscal charges and transportation costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Figure A-8 illustrates a comparison of capital assets between this year and last year. The 2012-2013 school year was the first year of the District's ten year deferred maintenance program financed by the Capital Facility Levy. This levy was renewed by voters in November 2011.

During the year, the District acquired $ 929,511 of capital assets. The buildings category increased $ 725,764 during the year due to the completion of a roofing project at the Middle School, the gym restroom at the High School and a pavement rehabilitation project at the Fridley Community Center, all of which were projects in progress at the end of the prior fiscal year.

Depreciation expense for the year was $ 2,359,358.

Figure A-8
Capital Assets

	2015	2014	Percent Change
Land	$ 657,500	$ 657,500	- %
Work in Progress	165,798	110,756	49.7%
Improvements	1,989,025	1,928,658	3.1%
Buildings	57,920,788	57,195,024	1.3%
Equipment	4,055,032	4,036,975	0.4%
Total Before Depreciation	64,788,143	63,928,913	1.3%
Accumulated Depreciation	(33,627,581)	(31,337,904)	7.3%
Capital Assets (Net of Accumulated Depreciation)	$ 31,160,562	$ 32,591,009	(4.4%)

CAPITAL ASSET AND DEBT ADMINISTRATION

Long-Term Debt

At year-end, the District had $ 43,055,749 in total long-term debt as shown in Figure A-9. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

Figure A-9
Outstanding Long-Term Debt and Separation and Severance Payable

	2015	2014	Percent Change
General Obligation Bonds, Leases and Notes	$ 41,428,152	$ 43,203,222	(4.1%)
Separation & Severance and Vacation Payable	1,627,597	1,741,799	(6.6%)
Total	$ 43,055,749	$ 44,945,021	(4.2%)

Included in the general obligation bonds are proceeds from a 2007 Alternative Facility Bond in the amount of $ 21,275,000 to fund District ventilation projects. Also included is the remaining balance of the General Obligation School Building Bonds, Series 2012B of $ 9,940,000. The last component is an issue of General Obligation Taxable OPEB Bonds, Series 2009A of $ 3,940,000 to fund the District's Other Post Employment Benefits.

FACTOR'S BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of a number of existing circumstances that could significantly affect its financial health in the future:

- The Minnesota legislature determines education funding for each biennium. For the 2015-2017 biennium the legislature increased the basic state education funding formula by 2% in 2015-2016 and by 2% in 2016-2017. Inflationary costs for the district will consume a majority of the increase. The other highlight from the legislative session was the establishment of a long-term maintenance programs that all districts in the state may access starting in 2016-2017. The program is equalized with state aid to ensure the program is affordable for taxpayers in low-property wealth districts such as Fridley. The equalization factor is indexed to the state average property wealth, which will prevent the affordability from eroding over time. This is the first time a legislature has indexed any equalization factor to ensure long-term stability.

  The District's student enrollment trend has been stable in recent years remaining around 2900 students the last three fiscal years. In FY 2015 the district saw enrollment increase 66 over 2014, which is the largest gain in enrollment since FY 2011. The majority of school district funding has a direct relationship with enrollment. For example, state formula aid will increase or decrease with these changes. The direction of the District's enrollment will be a key factor for the District going forward.

FACTOR'S BEARING ON THE DISTRICT'S FUTURE

- The District has a potential liability of several million dollars in post-retirement benefits (health insurance) to be paid to current and future retirees of the District. Because the District expects new retirements over the course of the next few years, payments for these benefits will continue for several years to come. Funding for these expenses will come from an OPEB trust established in 2010. The unfunded portion of this liability is reported in the District statements beginning with the fiscal year ended June 30, 2009 as required by GASB 43 and 45.

- Annual depreciation of the District's capital assets will continue to exceed the rate of amortization of its general obligation bonds. Essentially, a portion of the District's principal and interest payments on its bonds are financing fully depreciated assets. In 2015 depreciation exceeded principal payments by $ 574,358. This rate will slowly decrease for several years before reversing itself. The consequence is continual downward pressure on total net asset position value until the debt amortization begins to exceed the rate of depreciation.

- At the time of this writing, the District is currently in contract negotiations with all the District's bargaining groups. These agreements are in effect through June 30, 2015.

- Historically, Fridley has had a relatively high number of open-enrolled and non-resident students. While our District is able to receive state aid for these students, it would put the District in a difficult financial position if these students chose not to attend our schools in future years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Manager, Independent School District 14, 6000 West Moore Lake Drive, Fridley, Minnesota 55432.

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BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 14

STATEMENT OF NET POSITION
June 30, 2015

	Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets	
Cash and Investments	$ 10,323,257
Current Property Taxes Receivable	4,818,902
Delinquent Property Taxes Receivable	113,759
Accounts Receivable, net of allowance	30,357
Interest Receivable	43,521
Due from Department of Education	4,168,914
Due from Federal Government through Department of Education	559,631
Due from Other Minnesota School Districts	8,365
Due from Other Governmental Units	127,532
Inventory	12,265
Prepaid Items	120,003
Net Other Post Employment Benefits (OPEB) Asset	731,554
Capital Assets Not Being Depreciated:	
Land	657,500
Construction in Progress	165,798
Capital Assets Net of Accumulated Depreciation:	
Buildings	29,559,814
Land Improvements	318,585
Furniture and Equipment	458,865
Total Assets	52,218,622
Deferred Outflows of Resources	
Deferred Charges on Refunding	90,778
Deferred Outflows of Resources Related to Pensions	3,429,443
Total Deferred Outflows of Resources	3,520,221
Total Assets and Deferred Outflows of Resources	$ 55,738,843
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities	
Accounts and Contracts Payable	$ 624,540
Salaries and Benefits Payable	1,161,765
Interest Payable	672,156
Due to Other Minnesota School Districts	97,704
Due to Other Governmental Units	19,260
Unearned Revenue	21,570
Bond Principal Payable (Net Unamortized Premium):	
Payable Within One Year	1,990,000
Payable After One Year	33,903,909
Capital Lease Payable:	
Payable Within One Year	559,219
Payable After One Year	4,975,024
Vacation Payable:	
Payable Within One Year	470,224
Severance Payable:	
Payable Within One Year	200,000
Payable After One Year	957,373
Net Pension Liability	19,659,272
Total Liabilities	65,312,016
Deferred Inflows of Resources	
Property Taxes Levied for Subsequent Year's Expenditures	8,038,216
Deferred Inflows of Resources Related to Pensions	7,138,585
Total Deferred Inflows of Resources	15,176,801
Net Position	
Net Investment in Capital Assets	(6,236,812)
Restricted for:	
Capital Projects	723,982
Other Purposes	610,648
Unrestricted	(19,847,792)
Total Net Position	(24,749,974)
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 55,738,843

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

INDEPENDENT SCHOOL DISTRICT NO. 14

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities					
Administration	$ 1,621,463	$ -	$ -	$ -	$ (1,621,463)
District Support Services	1,692,945	-	8,179	-	(1,684,766)
Elementary and Secondary Regular Instruction	14,617,338	303,671	7,143,791	-	(7,169,876)
Vocational Education Instruction	189,701	225	44,246	-	(145,230)
Special Education Instruction	7,626,322	-	5,651,002	-	(1,975,320)
Instructional Support Services	2,786,096	-	829,388	-	(1,956,708)
Pupil Support Services	3,782,308	4,293	782,040	-	(2,995,975)
Sites and Buildings	2,748,224	-	92,292	588,710	(2,067,222)
Fiscal and Other Fixed Cost Programs	168,827	-	-	-	(168,827)
Food Service	1,729,473	343,529	1,541,895	-	155,951
Community Education and Services	2,697,152	1,703,093	653,616	-	(340,443)
Unallocated Depreciation	2,271,787	-	-	-	(2,271,787)
Interest and Fiscal Charges on Long-Term Debt	1,602,830	-	-	-	(1,602,830)
Total Governmental Activities	$ 43,534,466	$ 2,354,811	$ 16,746,449	$ 588,710	(23,844,496)

General Revenues	
Taxes:	
Property Taxes, Levied for General Purposes	3,958,706
Property Taxes, Levied for Community Service	315,376
Property Taxes, Levied for Debt Service	3,332,150
State Aid-Formula Grants	18,769,173
Other General Revenues	56,864
Investment Income	59,085
Total General Revenues	26,491,354
Change in Net Position	2,646,858
Net Position - Beginning	(3,356,386)
Change in Accounting Principle (Note 12)	(24,040,446)
Net Position - Beginning, Restated	(27,396,832)
Net Position - Ending	$ (24,749,974)

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

INDEPENDENT SCHOOL DISTRICT NO. 14
Fridley, Minnesota

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 2,757,958	$ 1,362,597	$ 1,506,104	$ 5,626,659
Current Property Taxes Receivable	2,075,697	2,154,476	588,729	4,818,902
Delinquent Property Taxes Receivable	65,348	35,936	12,475	113,759
Accounts Receivable, net of allowance	5,424	-	24,933	30,357
Interest Receivable	237	-	-	237
Due from Department of Education	4,095,971	1,234	71,709	4,168,914
Due from Federal Government through Department of Education	534,712	-	24,919	559,631
Due from Other Minnesota School Districts	8,365	-	-	8,365
Due from Other Governmental Units	94,221	-	33,311	127,532
Inventory	-	-	12,265	12,265
Prepaid Items	116,134	-	3,869	120,003
Total Assets	$ 9,754,067	$ 3,554,243	$ 2,278,314	$ 15,586,624
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities				
Accounts and Contracts Payable	$ 498,944	$ -	$ 125,596	$ 624,540
Salaries and Benefits Payable	1,098,309	-	63,456	1,161,765
Due to Other Minnesota School Districts	87,232	-	10,472	97,704
Due to Other Governmental Units	18,529	-	731	19,260
Unearned Revenue	2,740	-	18,830	21,570
Severance Payable	554,988	-	-	554,988
Total Liabilities	2,260,742	-	219,085	2,479,827
Deferred Inflows of Resources				
Unavailable Revenue - Delinquent Property Taxes	46,122	31,344	10,323	87,789
Property Taxes Levied for Subsequent Year's Expenditures	3,963,011	3,090,476	984,729	8,038,216
Total Deferred Inflows of Resources	4,009,133	3,121,820	995,052	8,126,005
Fund Balances				
Nonspendable	116,134	-	16,134	132,268
Restricted	224,305	432,423	1,178,307	1,835,035
Assigned	1,090,925	-	-	1,090,925
Unassigned	2,052,828	-	(130,264)	1,922,564
Total Fund Balances	3,484,192	432,423	1,064,177	4,980,792
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 9,754,067	$ 3,554,243	$ 2,278,314	$ 15,586,624

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

INDEPENDENT SCHOOL DISTRICT NO. 14

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

Total Fund Balances - Governmental Funds	$ 4,980,792
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	64,788,143
Less Accumulated Depreciation	(33,627,581)
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	(35,155,000)
Capital Lease Payable	(5,534,243)
Compensated Absences Payable	(470,224)
Severance Payable	(602,385)
Net Discounts/Premiums	(738,909)
Deferred Refundings	90,778
Net Pension Liability	(19,659,272)
Deferred Outflows of Resources and Deferred Inflows of Resources are created as a result of differences between actual and expected contributions and earnings on plan investments as well as changes in proportion and are not recognized in the governmental funds.	
Deferred Outflows of Resources Related to Pensions	3,429,443
Deferred Inflows of Resources Related to Pensions	(7,138,585)
The Internal Service Fund is used by management to charge the cost of the retiree benefit plan. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position.	184,238
Delinquent property taxes receivables 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.	87,789
Net OPEB asset created through employer contributions reducing the actuarial accrued liability is not recognized in governmental funds.	731,554
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.	4,555,644
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(672,156)
Total Net Position - Governmental Activities	$ (24,749,974)

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

INDEPENDENT SCHOOL DISTRICT NO. 14
Fridley, Minnesota

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

	General	Debt Service	Other Nonmajor Funds	Total Governmental Funds
REVENUES				
Local Property Taxes	$ 3,977,126	$ 2,746,431	$ 906,378	$ 7,629,935
Other Local and County Revenues	708,036	-	1,867,514	2,575,550
Revenue from State Sources	31,976,499	12,338	647,162	32,635,999
Revenue from Federal Sources	1,464,924	-	1,383,929	2,848,853
Sales and Other Conversion of Assets	69,418	-	343,529	412,947
Total Revenues	38,196,003	2,758,769	5,148,512	46,103,284
EXPENDITURES				
Current				
Administration	1,570,262	-	-	1,570,262
District Support Services	1,643,631	-	-	1,643,631
Elementary and Secondary Regular Instruction	14,708,920	-	-	14,708,920
Vocational Education Instruction	194,012	-	-	194,012
Special Education Instruction	7,755,184	-	-	7,755,184
Instructional Support Services	2,216,016	-	-	2,216,016
Pupil Support Services	3,798,063	-	-	3,798,063
Sites and Buildings	2,527,335	-	-	2,527,335
Fiscal and Other Fixed Cost Programs	161,121	-	-	161,121
Food Service	-	-	1,703,632	1,703,632
Community Education and Services	-	-	2,634,764	2,634,764
Capital Outlay				
District Support Services	34,814	-	-	34,814
Elementary and Secondary Regular Instruction	87,405	-	-	87,405
Special Education Instruction	1,652	-	-	1,652
Instructional Support Services	628,212	-	-	628,212
Sites and Buildings	773,242	-	370,538	1,143,780
Food Service	-	-	22,065	22,065
Community Education and Services	-	-	2,878	2,878
Debt Service				
Principal	447,925	1,445,000	435,050	2,327,975
Interest and Fiscal Charges	135,746	1,286,275	268,567	1,690,588
Total Expenditures	36,683,540	2,731,275	5,437,494	44,852,309
Excess of Revenues Over (Under) Expenditures	1,512,463	27,494	(288,982)	1,250,975
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	2,194	-	-	2,194
Proceeds from Capital Leases	624,994	-	-	624,994
Transfers In	-	-	522,581	522,581
Transfers Out	(522,581)	-	-	(522,581)
Total Other Financing Sources (Uses)	104,607	-	522,581	627,188
Net Change in Fund Balances	1,617,070	27,494	233,599	1,878,163
FUND BALANCES				
Beginning of Year	1,867,122	404,929	830,578	3,102,629
End of Year	$ 3,484,192	$ 432,423	$ 1,064,177	$ 4,980,792

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

INDEPENDENT SCHOOL DISTRICT NO. 14
Fridley, Minnesota

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	$ 1,878,163
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	929,511
Depreciation Expense	(2,359,358)
Loss on Disposal	(600)
Compensated absences and severance are recognized as they are paid in the governmental funds but are recognized as the expense is incurred in the Statement of Activities.	6,912
Net post employment benefit obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities. However, since the District's contribution exceeded its obligation, net position has increased.	(203,551)
Governmental Funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in differences between actual and expected contributions and earnings on plan investments as well as changes in proportion.	
State Aid related to Pension Expense	44,457
Pension Expense	627,575
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	2,327,975
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.	24,113
Governmental funds report the effect of bond discounts, premiums and deferred refundings when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	63,645
Proceeds from the sale of bonds and issuance of capital leases are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	
Capital Lease Payable	(624,994)
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.	(42,733)
The Internal Service Fund is used by management to charge the costs of the retiree health insurance plan. The net gain is reported within the governmental activities in the Statement of Activities.	(554)
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.	(23,703)
Change in Net Position - Governmental Activities	$ 2,646,858

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

INDEPENDENT SCHOOL DISTRICT NO. 14
Fridley, Minnesota

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	$ 4,126,799	$ 4,026,799	$ 3,977,126	$ (49,673)
Other Local and County Revenues	849,590	915,885	708,036	(207,849)
Revenue from State Sources	30,814,299	31,008,276	31,976,499	968,223
Revenue from Federal Sources	1,534,764	1,540,345	1,464,924	(75,421)
Sales and Other Conversion of Assets	14,300	68,463	69,418	955
Total Revenues	37,339,752	37,559,768	38,196,003	636,235
EXPENDITURES				
Current				
Administration	1,595,637	1,584,726	1,570,262	(14,464)
District Support Services	1,519,005	1,646,798	1,643,631	(3,167)
Elementary and Secondary Regular Instruction	15,385,417	15,183,334	14,708,920	(474,414)
Vocational Education Instruction	108,394	193,507	194,012	505
Special Education Instruction	7,620,381	7,847,081	7,755,184	(91,897)
Instructional Support Services	2,203,857	2,233,666	2,216,016	(17,650)
Pupil Support Services	4,340,013	3,951,648	3,798,063	(153,585)
Sites and Buildings	2,684,065	2,573,475	2,527,335	(46,140)
Fiscal and Other Fixed Cost Programs	163,150	163,150	161,121	(2,029)
Capital Outlay				
District Support Services	228,585	196,405	34,814	(161,591)
Elementary and Secondary Regular Instruction	89,383	107,447	87,405	(20,042)
Vocational Education Instruction	2,500	-	-	-
Special Education Instruction	3,800	1,652	1,652	-
Instructional Support Services	4,000	4,000	628,212	624,212
Sites and Buildings	284,384	582,078	773,242	191,164
Fiscal and Other Fixed Cost Programs	276,876	-	-	-
Debt Service				
Principal	196,909	292,655	447,925	155,270
Interest and Fiscal Charges	106,547	148,639	135,746	(12,893)
Total Expenditures	36,812,903	36,710,261	36,683,540	(26,721)
Excess of Revenues Over Expenditures	526,849	849,507	1,512,463	662,956
OTHER FINANCING SOURCES (USES)				
Proceeds from Sale of Capital Assets	1,500	2,000	2,194	194
Proceeds from Capital Leases	-	-	624,994	624,994
Transfers Out	(522,581)	(522,581)	(522,581)	-
Total Other Financing Sources (Uses)	(521,081)	(520,581)	104,607	625,188
Net Change in Fund Balances	$ 5,768	$ 328,926	1,617,070	$ 1,288,144
FUND BALANCE				
Beginning of Year			1,867,122	
End of Year			$ 3,484,192	

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

INDEPENDENT SCHOOL DISTRICT NO. 14

STATEMENT OF NET POSITION - PROPRIETARY FUNDS
June 30, 2015

	Total Internal Service Funds
ASSETS	
Cash and Cash Equivalents	$ 437,969
Investments	4,258,629
Interest Receivable	43,284
Total Assets	$ 4,739,882
NET POSITION	
Unrestricted	$ 4,739,882

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

INDEPENDENT SCHOOL DISTRICT NO. 14

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

	Total Internal Service Funds
OPERATING REVENUES	
Charges for Services	$ 456,338
OPERATING EXPENSE	
Insurance	556,911
Operating Loss	(100,573)
NONOPERATING REVENUES	
Investment Income	57,286
Change in Net Position	(43,287)
NET POSITION	
Beginning of Year	4,783,169
End of Year	$ 4,739,882

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

INDEPENDENT SCHOOL DISTRICT NO. 14

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

	Total Internal Service Funds
CASH FLOWS - OPERATING ACTIVITIES	
Receipts from District Contribution	$ 126,180
Receipts from Employees	330,158
Payments to Vendors	(556,911)
Net Cash Flows - Operating Activities	(100,573)
CASH FLOWS - INVESTING ACTIVITIES	
Net Sale/(Purchase) of Investments	242,893
Interest Received	47,794
Net Cash Flows - Investing Activities	290,687
Net Change in Cash and Cash Equivalents	190,114
CASH AND CASH EQUIVALENTS	
Beginning of Year	247,855
End of Year	$ 437,969
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS - OPERATING ACTIVITIES	
Operating Loss	$ (100,573)

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

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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 six 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 not under the School Board's control; therefore, separate audited financial statements have 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 Statement of Fiduciary Net Position at the fund financial statement level. The District currently has no fiduciary funds.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 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)

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

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 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.

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.

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 are employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting this definition are reposted as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus and Basis of Accounting (Continued)

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed, in the order of 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.

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures.

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.

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.

Building Construction Fund – Capital Projects – This Fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Proprietary Funds:

Retiree Benefits Internal Service Fund – This Fund is used to account for resources set aside to pay for retiree severance payments and retiree health insurance costs.

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

D. Cash and Investments

Cash and investments balances from all funds (except the Post Employment Benefits Revocable Trust Internal Service Fund) that are combined and invested to the extent available in various securities as authorized by state law. *Minnesota Statutes* authorizes 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Cash and Investments (Continued)

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 cash equivalents in the proprietary funds are considered to be the funds' share of the pooled cash and investments in the Retiree Benefits Internal Service Fund. In the Post Employment Benefits Revocable Trust Internal Service Fund, they are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

As of June 30, 2015, the District has formal policies in place to address custodial credit risk for deposits. The District also has policies in place to address credit risk, custodial credit risk, concentration of credit risk and interest rate risk for investments.

Custodial Credit Risk – Deposits: This is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The District's policy states funds may not be invested in an institution that does not agree to provide the required collateral as noted above.

Credit Risk: This is the risk an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits its investments to those allowed by state statutes. Additionally, investment in commercial paper is limited to those rated in the highest classifications by at least two of the four nationally recognized rating services.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states investment maturities shall be scheduled to coincide with projected District cash flow needs.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District will limit investments to avoid over concentration in securities from a specific issuer or business sector.

Custodial Credit Risk – Investments: This is the risk 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 requires all investments be held in third party safekeeping by an institution designated as a custodial agent and all investments shall be fully collateralized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 represent 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 the fiscal year 2015. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

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.

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 an expenditure at the time of consumption.

I. Property Taxes

The District is located in Anoka 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING

J. Capital Assets (Continued)

Capital assets are defined by the District as assets with an initial individual cost of more than $ 5,000. 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 50 years for land improvements and buildings and 5 to 15 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.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred charge on refunding and a deferred outflow relating to pension activity, both reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. A deferred outflow relating to pension activity results from the net effect of the change in proportionate share and employer contributions.

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 relating to pension activity is a result of the net difference between projected and actual earnings on plan investments and changes in proportionate share.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

L. 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 or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. Compensated Absences

1. Vacation

Teachers are eligible for vacation of two days per year which can be accumulated to seven days. Other employees qualify for vacation ranging from 5 to 45 days per year which are generally accumulated at year-end and payable during the ensuing year. Vacation is accrued for these employees in the Statement of Net Position since it is deemed to be payable at year-end.

2. Sick Leave

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

N. Severance Payable

The District maintains severance payment plans for certain employee groups. Each employee group plan contains requirements for lump sum payments based on employment date, years of service and/or minimum age requirements. Benefits are calculated based on various formulas converting accrued sick leave into a lump sum payment. No employee can receive payments exceeding one year's salary. For employees retiring on or before June 30, 2015, who are entitled to receive payments, an accrual is made in the governmental fund incurring the liability.

The amount of severance payment that is based on convertible sick leave is recorded as a liability in the government-wide financial statements as it is earned and when it becomes probable that it will vest at some point in the future.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 ended June 30, 2015.

Q. Fund Equity

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

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

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

- Assigned Fund Balances – The School Board by majority vote may assign fund balances to be used for specific purposes. The board also delegated power to assign fund balances to the Superintendent and Director of Finance.

- Minimum Fund Balance Policy – The School Board shall strive to maintain a fund balance of between 5% and 8% of total unreserved operating expenditures. The fund balance shall be defined as the sum of the undesignated/unreserved fund balance. It shall not include funds reserved for operating capital, health and safety, basic skills, or any other new reserve created by the School Board, state or federal guidelines.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 all governmental funds.

4. Budgets for the governmental 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.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

B. Excess of Expenditures Over Appropriations

Budgetary control for governmental funds is established by each fund's total appropriations. Expenditures exceeded appropriations in the following Fund for the year ended June 30, 2015.

	Appropriations	Expenditures
Proprietary Fund:		
OPEB Revocable Trust Internal Service Fund	$ 175,250	$ 226,199

C. Deficit Fund Balances

The Community Service Fund had a negative fund balance of $ 64,215 at June 30, 2015.

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 balance was not exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

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

Deposits	$ (111,962)

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments

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

Investment	Maturities	Fair Value	Percent of Total
Pooled:			
MNTrust	06/30/15	$ 3,286,276	56.81%
MN Trust Term Series	7/28/15	1,500,000	25.93%
Bank of China Certificate of Deposit	1/26/16	249,700	4.32%
Affiliated Bank Certificate of Deposit	1/26/16	249,700	4.32%
Patriot Bank - OK Certificate of Deposit	1/26/16	249,600	4.32%
Banco Popular North America Certificate of Deposit	1/26/16	84,000	1.45%
Banco Popular North America Certificate of Deposit	1/26/16	82,000	1.42%
Banco Popular North America Certificate of Deposit	1/26/16	83,000	1.43%
		5,784,276	
OPEB Revocable Trust Fund Non-Pooled:			
MN TRUST	6/30/15	$ 391,915	8.43%
Sallie Mae Bank Certificate of Deposit	8/31/15	248,342	5.34%
Discover Bank Certificate of Deposit	9/8/15	248,384	5.34%
Bank Leumi USA Certificate of Deposit	10/1/15	242,900	5.22%
State Bank Of India NY Certificate of Deposit	10/13/15	248,630	5.35%
Ally Bank Certificate of Deposit	12/7/15	249,867	5.37%
Onewest Bank, NA Certificate of Deposit	12/9/15	248,500	5.34%
BMW Bank Of North America Certificate of Deposit	9/30/16	249,639	5.37%
Stearns Bank NA (N) Certificate of Deposit	12/9/16	245,600	5.28%
First Commons Bank Certificate of Deposit	12/12/16	100,000	2.15%
Fairmont Minn Indpt Sch Dist #2752	2/1/17	293,773	6.32%
GE Capital Retail Bank / GE Money Bank Certificate of Deposit	8/31/17	249,873	5.37%
American Express Bank, Fsb Certificate of Deposit	10/16/17	150,273	3.23%
Capital One Bank (usa), NA Certificate of Deposit	10/16/17	165,485	3.56%
Sonabank Certificate of Deposit	12/11/17	240,600	5.17%
American Express Centurion Bank Certificate of Deposit	12/18/17	249,004	5.35%
Enerbank USA Certificate of Deposit	2/5/18	183,500	3.95%
Goldman Sachs Bank USA Certificate of Deposit	2/12/18	248,702	5.35%
Oakwood OH City School District	12/9/19	395,556	8.51%
Total OPEB Revocable Trust Fund Non-Pooled Investments		4,650,543	100.00%
Total Investments		$ 10,434,819	

MNTrust is an external investment pool not registered with the SEC and invests according to *Minnesota Statutes*. The fair value position in the pool is the same as the value of the pooled shares.

NOTE 3 – DEPOSITS AND INVESTMENTS

B. Investments (Continued)

Credit Risk: As of June 30, 2015, the District's investments in MNTrust money market and MNTrust Term Series was rated AAAm by Standard & Poor's (S&P). The Fairmont, Minnesota Independent School District Bonds were rated Aa2 Enhanced and the Oakwood OH City School District bonds were rated Aa2 by Moody's. The certificates of deposit were unrated.

Concentration of Credit Risk: As of June 30, 2015, the District was exposed to concentration of credit risk as more than 5% of its total investments were invested in individual investments as indicated by the table on the previous page.

C. Deposits and Investments

Deposits and investments at June 30, 2015 are presented as follows:

Petty Cash	$ 400
Deposits (Note 3.A.)	(111,962)
Investments (Note 3.B.)	10,434,819
Total Deposits and Investments	$ 10,323,257

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

Statement of Net Position:	
Cash and Investments	$ 10,323,257

NOTE 4 – INTERFUND ACTIVITY

A. Transfers

	Transfers In
	Other Nonmajor Funds
Transfers Out:	
General Fund	$ 522,581

These transfers were performed to distribute levy dollars dedicated to specific funds.

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	$ 657,500	$ -	$ -	$ 657,500
Work in Progress	110,756	789,877	734,835	165,798
Total Capital Assets not being Depreciated	768,256	789,877	734,835	823,298
Capital Assets being Depreciated:				
Buildings	57,195,024	725,764	-	57,920,788
Land Improvements	1,928,658	60,367	-	1,989,025
Furniture and Equipment	4,036,975	88,338	70,281	4,055,032
Total Capital Assets being being Depreciated	63,160,657	874,469	70,281	63,964,845
Less Accumulated Depreciation for:				
Buildings	26,150,716	2,210,258	-	28,360,974
Land Improvements	1,612,344	58,096	-	1,670,440
Furniture and Equipment	3,574,844	91,004	69,681	3,596,167
Total Accumulated Depreciation	31,337,904	2,359,358	69,681	33,627,581
Total Capital Assets being Depreciated, Net	31,822,753	(1,484,889)	600	30,337,264
Governmental Activities, Capital Assets, Net	$ 32,591,009	$ (695,012)	$ 735,435	$ 31,160,562

Depreciation expense of $ 2,359,358 for the year ended June 30, 2015 was charged to the following governmental functions:

District Support Services	$ 2,596
Regular Instruction	8,133
Special Education Instruction	4,756
Instructional Support Services	358
Pupil Support Services	602
Food Service	7,706
Community Education and Services	63,420
Unallocated	2,271,787
Total Depreciation Expense	$ 2,359,358

NOTE 6 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

Long-term liabilities as of June 30, 2015 consisted of the following:

	Interest Rate	Maturity Date	Original Issue	Balance	Due Within One Year
G.O. Alternative Facilities Bonds	4.00%-4.375%	02/01/28	$ 23,525,000	$ 21,275,000	$ 910,000
G.O. School Building Refunding Bonds	2.00%-3.00%	02/01/26	11,240,000	9,940,000	725,000
G.O. Taxable OPEB Bonds Series 2009A	5.00%-5.75%	02/01/24	5,485,000	3,940,000	355,000
Unamortized Bond Discounts and Premiums, net				738,909	-
Total G.O. Bonds (Net of Unamortized Premium)				35,893,909	1,990,000
Energy Loan Capital Lease	4.15%	07/31/22	3,142,381	2,056,013	219,734
Elementary Additions Capital Lease	2.75%	02/01/28	3,400,000	3,009,108	195,460
Phone/Network LPA Lease	2.34%	10/29/18	178,396	141,890	34,285
Phone/Network LPA Lease	2.58%	10/29/19	117,140	93,391	21,826
Phone/Network LPA Lease	3.27%	09/30/17	230,033	158,832	65,937
Phone/Network LPA Lease	3.21%	10/31/18	99,425	75,009	21,977
Vacation Payable				470,224	470,224
Severance Payable				1,157,373	200,000
Total all Long-Term Liabilities				$ 43,055,749	$ 3,219,443

The long-term bond and lease liabilities listed above were issued to finance the acquisition and construction or improvements of capital facilities or to refinance (refund) previous bond issues. Other liabilities are typically liquidated through the General Fund.

NOTE 6 – LONG-TERM DEBT

B. Minimum Debt Payments for Bonds

Year Ending, June 30,	G.O. Bonds Principal	G.O. Bonds Interest	G.O. Bonds Total
2016	$ 1,990,000	$ 1,441,703	$ 3,431,703
2017	2,160,000	1,356,703	3,516,703
2018	2,330,000	1,263,803	3,593,803
2019	2,520,000	1,174,553	3,694,553
2020	2,725,000	1,069,653	3,794,653
2021-2025	14,850,000	3,565,731	18,415,731
2026-2028	8,580,000	733,469	9,313,469
Total	$ 35,155,000	$ 10,605,615	$ 45,760,615

C. Changes in Long-Term Liabilities

	Beginning Balance, Restated	Additions	Reductions	Ending Balance
Long-Term Liabilities:				
G.O. Bonds	$ 36,940,000	$ -	$ 1,785,000	$ 35,155,000
Unamortized Discount and Premium, net	810,998	-	72,089	738,909
Capital Lease	5,452,224	624,994	542,975	5,534,243
Vacation Payable	432,881	458,780	421,437	470,224
Severance Benefits Payable	1,308,918	27,079	178,624	1,157,373
Total Long-Term Liabilities	$ 44,945,021	$ 1,110,853	$ 3,000,125	$ 43,055,749

NOTE 6 – LONG-TERM DEBT

D. Capital Lease Obligations

On May 31, 2007, the District entered into a lease purchase agreement for energy capital improvements. The capital lease obligation totaled $ 3,142,381. The capital lease agreement includes monthly interest payments of $ 10,775 from June 30, 2007, through January 31, 2008, and semiannual principal and interest payments ranging from $ 72,833 to $ 197,993 for the remaining years of the agreement.

On March 19, 2013, the District entered into a lease purchase agreement for additions at the Elementary Schools. The capital lease obligation totaled $ 3,400,000. The capital lease agreement includes semiannual principal and interest payments ranging from $ 138,288 to $ 138,586.

On April 14, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $ 178,396. The capital lease agreement includes annual principal and interest payments of $ 37,511.

On April 14, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $ 117,140. The capital lease agreement includes annual principal and interest payments ranging from $ 24,251 to $ 2,697.

On July 28, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $ 230,033. The capital lease agreement includes annual principal and interest payments ranging from $ 71,201 to $ 25,664.

On July 28, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $ 99,425. The capital lease agreement includes annual principal and interest payments ranging from $ 24,416 to $ 6,929.

The future minimum lease obligations and the net present value of these minimum lease payments are listed below.

Year Ending June 30,	
2016	$ 737,135
2017	752,277
2018	722,642
2019	696,187
2020	647,723
2021-2025	2,114,598
2026-2028	830,629
Total Minimum Lease Payments	6,501,191
Less Amount Representing Interest	(966,948)
Present Value of Net Minimum Lease Payments	$ 5,534,243

NOTE 6 – LONG-TERM DEBT

D. Capital Lease Obligations (Continued)

The assets purchased with the 2007 lease are classified as buildings and totaled $ 3,291,290. The associated accumulated depreciations for these assets is $ 2,879,879 for a net value of $ 411,411. The asset added through the lease dated May 31, 2007 exceeds the lease amount since the asset was also financed with other revenue sources.

The assets purchased with the 2013 lease are classified as buildings and totaled $ 3,211,356. The associated accumulated depreciation for these assets is $ 128,454 for a net value of $ 3,082,902. The assets added through the lease dated March 19, 2013 are less than the lease amount due to expenditures that did not meet the criteria for capitalization.

The assets purchased through the 2015 leases did not meet the threshold for capitalization and are not included in fixed assets, therefor there is no depreciation or net value to report.

NOTE 7 – FUND BALANCES

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

NOTE 7 – FUND BALANCES

Fund Equity

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

A. Restricted Fund Balance

	General Fund	Debt Service	Other Nonmajor Funds	Total
Nonspendable:				
Inventories	$ -	$ -	$ 12,265	$ 12,265
Prepaid Items	116,134	-	3,869	120,003
Total Nonspendable	116,134	-	16,134	132,268
Restricted/Reserved For:				
Deferred Maintenance	55,742	-	-	55,742
Health and Safety	11,174	-	-	11,174
Safe Schools - Crime Levy	45,413	-	-	45,413
Operating Capital	111,976	-	-	111,976
ECFE	-	-	10,966	10,966
School Readiness	-	-	18,906	18,906
Capital Projects	-	-	723,982	723,982
Debt Service	-	432,423	87,712	520,135
Food Service	-	-	300,599	300,599
Community Service	-	-	36,142	36,142
Total Restricted/Reserved	224,305	432,423	1,178,307	1,835,035
Assigned:				
Students	53,992	-	-	53,992
Separation/Retirement Benefits	587,255	-	-	587,255
Self-Funding Health Insurance Startup	449,678	-	-	449,678
Total Assigned	1,090,925	-	-	1,090,925
Unassigned	2,052,828	-	(130,264)	1,922,564
Total Fund Balance	$ 3,484,192	$ 432,423	$ 1,064,177	$ 4,980,792

Nonspendable Inventories – A portion of the fund balance has been spent on inventory and is not available for other uses.

Nonspendable Prepaid Items – A portion of the fund balance has been spent on prepaid expenses and is not available for other uses.

Restricted/Reserved for Deferred Maintenance – Districts that qualified for deferred maintenance revenue (aid and levy) but have not spent the proceeds must restrict the balance in this code. An independent or special school district that does not qualify to participate in the alternative facilities bonding and levy program under *Minnesota Statutes* 123B.59, subd. 1. para (a) is eligible to receive deferred maintenance revenue per *Minnesota Statutes* 123B.591.

NOTE 7 – FUND BALANCES

Fund Equity (Continued)

A. Restricted Fund Balance (Continued)

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.

Restricted/Reserved for Safe Schools – Crime Levy – The unspent resources available from the levy must be reserved in this account for future use.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

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. At June 30, 2015 the balance in this account was ($ 130,264) which is presented as unassigned fund balance to comply with generally accepted accounting principles.

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. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

Restricted/Reserved for Capital Projects – This amount represents available resources for capital projects.

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

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

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund not set aside in other restrictions.

Assigned for Students – This balance represents resources set aside for each building based on fundraising done by students and donations for various programs.

Assigned for Separation/Retirement Benefits – This balance represents resources set aside for future separation and retirement obligations.

Assigned for Self-Funding Health Insurance Startup – This balance represents resources set aside for the District self-funding health insurance and the costs associated with this.

B. Net Position

Net position restricted for other purposes is comprised of the positive General Fund and total Special Revenue Funds restricted balances.

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.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are up to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

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

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.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

C. Contribution Rate

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

	Ending June 30, 2014		Ending June 30, 2015	
	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
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 $ 14,487,326 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 0.3144% at the end of the measurement period and 0.3394% for the beginning of the year.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

F. Net Position 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	$ 14,487,326
State's proportionate share of the net pension liability associated with the district	1,019,111

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 $ 526,800. It also recognized $ 44,457 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	$ 1,236,161	$ -
Net Difference Between Projected and Actual Earnings on Plan Investments	-	4,554,669
Changes in Proportion	-	1,186,461
District's Contributions Subsequent to Measurement Date	1,156,840	-
Total	$ 2,393,001	$ 5,741,130

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

$ 1,156,840 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.

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

2016	$ (1,128,291)
2017	(1,128,291)
2018	(1,128,291)
2019	(1,128,291)
2020	8,197

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%)
$ 23,942,588	$ 14,487,326	$ 6,604,906

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 $ 424,048. 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 $ 5,171,946 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 0.1101%.

For the year ended June 30, 2015, the District recognized pension expense of $ 383,941 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	$ 79,373	$ -
Changes in Actuarial Assumptions	533,021	-
Difference Between Projected and Actual Investments Earnings	-	1,397,455
District's Contributions to GERF Subsequent to the Measurement Due	424,048	-
	$ 1,036,442	$ 1,397,455

$ 424,048 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	$ (145,232)
2017	(145,232)
2018	(145,232)
2019	(349,365)

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

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 Memberpayroll Growth	3.90	Per Year
Investment Rate of Return	7.90	

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

Actuarial assumptions used in the June 30, 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.

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term
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%	

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 Proprionate share of the GERF net pension liability	$ 8,337,386	$ 5,171,946	$ 2,567,534

NOTE 8 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees. 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 post employment retirement benefits to pay health and life insurance premiums for certain retired District personnel. Benefits are paid on behalf of retired administrative personnel to Medicare eligibility and other qualified staff to Medicare eligibility at which time benefits cease.

B. Funding Policy

Retirees 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 year 2015, the District contributed $ 350,129 to the plan. As of June 30, 2015, there were approximately 26 retirees receiving health benefits from the District's health plan.

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 following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

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

ARC	$ 530,764
Interest on Net OPEB Obligation	(28,053)
Adjustment to ARC	50,969
Annual OPEB Cost (Expense)	553,680
Contributions Made	(350,129)
Increase in Net OPEB Obligation	203,551
Net OPEB Obligation - Beginning of Year	(935,105)
Net OPEB Obligation - End of Year	$ (731,554)

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

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
06/30/13	$ 500,632	$ 461,272	92%	$ (1,006,381)
06/30/14	509,058	437,782	86%	(935,105)
06/30/15	553,680	350,129	63%	(731,554)

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 $ 3,965,795 and the actuarial value of assets was $ 0, resulting in an unfunded actuarial accrued liability (UAAL) of $ 3,965,795. The covered payroll (annual payroll of active employees covered by the plan) was $ 20,248,125, and the ratio of the UAAL to the covered payroll was 19.6%.

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.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

D. Funded Status and Funding Progress (Continued)

On July 2, 2009, the District issued $ 5,485,000 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 OPEB Internal Service Fund. As of June 30, 2015, the ending market value of these assets was $ 4,512,360.

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.

At the July 1, 2014, the actuarial valuation date, the projected unit credit with 30 year amortization of the market value of assets method was used. The actuarial assumptions included a 3.0% discount rate. 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 10 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2015 was 30 years.

NOTE 10 – COMMITMENTS

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

Project	Contractor	Original Contract Amount	Remaining Commitment
Education Center Remodel	RAK Construction Inc.	$ 65,247	$ 65,247
Locker Replacements	The Locker Guys	62,780	62,780
Tuckpointing and Window Replacement	Derau Construction	729,620	701,215

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 $ 24,040,446 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.

NOTE 13 – SUBSEQUENT EVENTS

On July 15, 2015, the District signed lease purchase agreement in the amount of $ 30,165 with Hewlett-Packard Financial Services for technology equipment. Four payments will be made on an annual basis for $ 7,503, with a fifth payment of $ 1,940 with an interest rate of 3.74%.

On July 15, 2015, the District signed lease purchase agreement in the amount of $ 30,975 with Hewlett-Packard Financial Services for technology equipment. Three annual payments will be made in the amount of $ 9,511, with a fourth payment of $ 3,920 with an interest rate of 3.88%.

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 14

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)
07/01/08	$ -	$ 5,378,025	$ 5,378,025	0.0%	$ 15,753,694	34.1%
07/01/10	-	4,387,147	4,387,147	0.0%	16,920,884	25.9%
07/01/12	-	4,123,951	4,123,951	0.0%	17,298,049	23.8%
07/01/14	-	3,965,795	3,965,795	0.0%	20,248,125	19.6%

* This Schedule was implemented in 2009 and updated in 2011, 2013 and 2015, therefore, contains only four years of actual data.

INDEPENDENT SCHOOL DISTRICT NO. 14

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
2015	0.1101%	$ 5,171,946	$ 5,778,869	89.5%	78.7%

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
2015	0.3144%	$ 14,487,326	$ 1,019,111	$ 15,506,437	$ 14,351,612	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. 14

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
2015	$ 418,968	$ 418,968	$ -	$ 5,778,869	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
2015	$ 1,004,613	$ 1,004,613	$ -	$ 14,351,612	7.00%

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

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 14
Fridley, Minnesota

COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2015

	Special Revenue		
	Food Service	Community Service	Total
ASSETS			
Cash and Investments	$ 294,790	$ 97,337	$ 392,127
Current Property Taxes Receivable	-	194,422	194,422
Delinquent Property Taxes Receivable	-	4,959	4,959
Accounts Receivable, net of allowance	420	24,513	24,933
Due from Department of Education	16,056	55,653	71,709
Due from Federal Government through Department of Education	24,919	-	24,919
Due from Other Governmental Units	-	33,311	33,311
Inventory	12,265	-	12,265
Prepaid Items	3,834	35	3,869
Total Assets	$ 352,284	$ 410,230	$ 762,514
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities			
Accounts Payable	$ 5,532	$ 32,992	$ 38,524
Contracts Payable	-	-	-
Salaries and Benefits Payable	11,224	52,232	63,456
Due to Other Minnesota Districts	-	10,472	10,472
Due to Other Governmental Units	-	731	731
Unearned Revenue	18,830	-	18,830
Total Liabilities	35,586	96,427	132,013
Deferred Outflows of Resources			
Unavailable Revenue - Delinquent Property Taxes	-	3,596	3,596
Property Taxes Levied for Subsequent Year's Expenditures	-	374,422	374,422
Total Deferred Inflows of Resources	-	378,018	378,018
Fund Balances			
Nonspendable	16,099	35	16,134
Restricted	300,599	66,014	366,613
Unassigned	-	(130,264)	(130,264)
Total Fund Balances	316,698	(64,215)	252,483
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 352,284	$ 410,230	$ 762,514

Debt Service		
Post Employment Benefits Debt Service	Capital Projects	Total Nonmajor Funds
$ 302,923	$ 811,054	$ 1,506,104
394,307	-	588,729
7,516	-	12,475
-	-	24,933
-	-	71,709
-	-	24,919
-	-	33,311
-	-	12,265
-	-	3,869
$ 704,746	$ 811,054	$ 2,278,314
$ -	$ 10,677	$ 49,201
-	76,395	76,395
-	-	63,456
-	-	10,472
-	-	731
-	-	18,830
-	87,072	219,085
6,727	-	10,323
610,307	-	984,729
617,034	-	995,052
-	-	16,134
87,712	723,982	1,178,307
-	-	(130,264)
87,712	723,982	1,064,177
$ 704,746	$ 811,054	$ 2,278,314

INDEPENDENT SCHOOL DISTRICT NO. 14

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

	Special Revenue		
	Food Service	Community Service	Total
REVENUES			
Local Property Taxes	$ -	$ 317,061	$ 317,061
Other Local and County Revenues	32,846	1,834,667	1,867,513
Revenue from State Sources	125,120	522,042	647,162
Revenue from Federal Sources	1,383,929	-	1,383,929
Sales and Other Conversion of Assets	343,529	-	343,529
Total Revenues	1,885,424	2,673,770	4,559,194
EXPENDITURES			
Current			
Food Service	1,703,632	-	1,703,632
Community Education and Services	-	2,634,764	2,634,764
Capital Outlay			
Sites and Buildings	-	-	-
Food Service	22,065	-	22,065
Community Education and Services	-	2,878	2,878
Debt Service			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	1,725,697	2,637,642	4,363,339
Excess of Revenues Over (Under) Expenditures	159,727	36,128	195,855
OTHER FINANCING SOURCES			
Transfers In	-	99,328	99,328
Net Change in Fund Balances	159,727	135,456	295,183
FUND BALANCES			
Beginning of Year	156,971	(199,671)	(42,700)
End of Year	$ 316,698	$ (64,215)	$ 252,483

Debt Service		
Post Employment Benefits Debt Service	Capital Projects	Total Nonmajor Funds
$ 589,317	$ -	$ 906,378
-	1	1,867,514
-	-	647,162
-	-	1,383,929
-	-	343,529
589,317	1	5,148,512
-	-	1,703,632
-	-	2,634,764
-	370,538	370,538
-	-	22,065
-	-	2,878
340,000	95,050	435,050
224,577	43,990	268,567
564,577	509,578	5,437,494
24,740	(509,577)	(288,982)
-	423,253	522,581
24,740	(86,324)	233,599
62,972	810,306	830,578
$ 87,712	$ 723,982	$ 1,064,177

INDEPENDENT SCHOOL DISTRICT NO. 14

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

	Retiree Benefits	OPEB Revocable Trust	Total Internal Service Funds
ASSETS			
Cash and Cash Equivalents	$ 184,238	$ 253,731	$ 437,969
Investments	-	4,258,629	4,258,629
Interest Receivable	-	43,284	43,284
Total Assets	$ 184,238	$ 4,555,644	$ 4,739,882
NET POSITION			
Unrestricted	$ 184,238	$ 4,555,644	$ 4,739,882

INDEPENDENT SCHOOL DISTRICT NO. 14

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

	Retiree Benefits	OPEB Revocable Trust	Total Internal Service Funds
OPERATING REVENUES			
Charges for Services	$ 330,158	$ 126,180	$ 456,338
OPERATING EXPENSE			
Insurance	330,712	226,199	556,911
Operating Income (Loss)	(554)	(100,019)	(100,573)
NONOPERATING REVENUES			
Investment Income	-	57,286	57,286
Change in Net Position	(554)	(42,733)	(43,287)
NET POSITION			
Beginning of Year	184,792	4,598,377	4,783,169
End of Year	$ 184,238	$ 4,555,644	$ 4,739,882

INDEPENDENT SCHOOL DISTRICT NO. 14

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

	Retiree Benefits	OPEB Revocable Trust	Total Internal Service Funds
CASH FLOWS - OPERATING ACTIVITIES			
Receipts from District Contribution	$ -	$ 126,180	$ 126,180
Receipts from Employees	330,158	-	330,158
Payments to Vendors	(330,712)	(226,199)	(556,911)
Net Cash Flows - Operating Activities	(554)	(100,019)	(100,573)
CASH FLOWS - INVESTING ACTIVITIES			
Net Sale/(Purchase) of Investments	-	242,893	242,893
Interest Received	-	47,794	47,794
Net Cash Flows - Investing Activities	-	290,687	290,687
Net Change in Cash and Cash Equivalents	(554)	190,668	190,114
CASH AND CASH EQUIVALENTS			
Beginning of Year	184,792	63,063	247,855
End of Year	$ 184,238	$ 253,731	$ 437,969
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS - OPERATING ACTIVITIES			
Operating Income (Loss)	$ (554)	$ (100,019)	$ (100,573)

INDEPENDENT SCHOOL DISTRICT NO. 14

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

	Audit	UFARS	Audit-UFARS
01 GENERAL FUND			
Total Revenue	$ 38,196,003	$ 38,196,007	$ (4)
Total Expenditures	36,683,540	36,683,543	(3)
Nonspendable:			
460 Nonspendable Fund Balance	116,134	116,134	-
Restricted/Reserved:			
403 Staff Development	-	-	-
405 Deferred Maintenance	55,742	55,742	-
406 Health and Safety	11,174	11,174	-
407 Capital Projects Levy	-	-	-
408 Cooperative Programs	-	-	-
409 Alternative Facility Program	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	111,976	111,976	-
426 $ 25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	1	(1)
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	-	-	-
438 Gifted and Talented	-	1	(1)
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration Revenue	-	1	(1)
449 Safe School Crime	45,413	45,413	-
450 Transition to Pre-Kindergarten	-	-	-
451 QZAB and QSCB Payments	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Committed:			
418 Committed for Separation	-	-	-
461 Committed	-	-	-
Assigned:			
462 Assigned Fund Balance	1,090,925	1,090,925	-
Unassigned:			
422 Unassigned Fund Balance (Net Position)	2,052,828	2,052,825	3
02 FOOD SERVICES FUND			
Total Revenue	$ 1,885,424	$ 1,885,421	$ 3
Total Expenditures	1,725,697	1,725,694	3
Nonspendable:			
460 Nonspendable Fund Balance	16,099	16,100	(1)
Restricted/Reserved:			
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	300,599	300,599	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE FUND			
Total Revenue	$ 2,673,770	$ 2,673,771	$ (1)
Total Expenditures	2,637,642	2,637,644	(2)
Nonspendable:			
460 Nonspendable Fund Balance	35	35	-
Restricted/Reserved:			
426 $ 25 Taconite	-	-	-
431 Community Education	(130,264)	(130,264)	-
432 ECFE	10,966	10,966	-
444 School Readiness	18,906	18,906	-
447 Adult Basic Education	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	36,142	36,142	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 BUILDING CONSTRUCTION FUND			
Total Revenue	$ 1	$ 1	$ -
Total Expenditures	509,578	509,580	(2)
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted/Reserved:			
407 Capital Projects Levy	723,982	723,983	(1)
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	0	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE FUND			
Total Revenue	$ 2,758,769	$ 2,758,769	$ -
Total Expenditures	2,731,275	2,731,275	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted/Reserved:			
425 Bond Refunding	-	-	-
451 QZAB and QSCB Payments	-	-	-
Restricted:			
464 Restricted Fund Balance	432,423	432,423	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
08 TRUST FUND			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unassigned:			
422 Unassigned Fund Balance (Net Position)	-	-	-
20 INTERNAL SERVICE FUND			
Total Revenue	$ 330,158	$ 330,158	$ -
Total Expenditures	330,712	330,713	(1)
Unassigned:			
422 Unassigned Fund Balance (Net Position)	184,238	184,238	-
25 OPEB REVOCABLE TRUST			
Total Revenue	$ 183,466	$ 183,465	$ 1
Total Expenditures	226,199	226,199	-
Unassigned:			
422 Unassigned Fund Balance (Net Position)	4,555,644	4,555,643	1
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Unassigned:			
422 Unassigned Fund Balance (Net Position)	-	-	-
47 OPEB DEBT SERVICE			
Total Revenue	$ 589,317	$ 589,317	$ -
Total Expenditures	564,577	564,579	(2)
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted:			
425 Bond Refundings	-	-	-
464 Restricted Fund Balance	87,712	87,712	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

INDEPENDENT SCHOOL DISTRICT NO. 14
Fridley, Minnesota

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

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education:		
Child Nutrition Cluster:		
Commodities Programs	10.555	$ 97,907
School Breakfast	10.553	369,397
National School Lunch	10.555	851,694
Summer Food Service	10.559	31,339
Total Child Nutrition Cluster		1,350,337
Fresh Fruit and Vegetables	10.582	33,592
Total U.S. Department of Agriculture		1,383,929
U.S. Department of Education		
Through Minnesota Department of Education:		
Title I, Part A	84.010	394,644
Title II, Part A - Improving Teacher Quality	84.367	71,620
Title III, Part A - English Language Acquisition	84.365	57,801
Special Education Cluster:		
Special Education	84.027	612,902
Discretionary Continuous Development	84.027	5,000
Special Education Family Engagement Training	84.027A	639
Special Education - Preschool Grant	84.173	12,622
Total Special Education Cluster		631,163
Infants and Toddlers	84.181	12,473
Carl Perkins	84.048A	8,365
Direct from U.S. Department of Education:		
Carol M White Physical Education Program	84.215F	237,242
Indian Elementary and Secondary School Assistance	84.060	47,573
Total U.S. Department of Education		1,460,881
U.S. Department of the Interior		
Direct from U.S. Department of the Interior:		
Johnson O'Malley	15.130	4,047
Total Federal Expenditures		$ 2,848,857

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

INDEPENDENT SCHOOL DISTRICT NO. 14

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 financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – 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. 14
Fridley, 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. 14, Fridley, 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 September 21, 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 the 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. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with OMB *Circular A-133* that we consider to be significant deficiencies in internal control, described as Audit Finding 02-01.

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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
September 21, 2015

bergankdv

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

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INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 14
Fridley, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 14, Fridley, Minnesota, compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplemen*t that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 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 Cost, 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 Non-Profit Organizations*. Those Standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 14 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
September 21, 2015

INDEPENDENT SCHOOL DISTRICT NO. 14

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 501(a) of OMB *Circular A-133*?	No

Identification of Major Programs

CFDA No.:	10.555, 10.553, 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
CFDA No.:	84.215F
Name of Federal Program or Cluster:	Carol M White Physical Education Program
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. 14

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 lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all inclusive list:

- The Accounts Payable Clerk enters invoices into the system and prepares the checks.
- The Accounting Supervisor has access to all areas of the accounting system.

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. 14

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 (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

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

2. Actions Planned in Response to Finding
   a. As a mitigating control, the Accounting Supervisor will receive a system report of checks prior to the preparation of checks for review. In addition, the Accounting Supervisor will review the edit to the check register to verify that the edit was not changed after review.
   b. The Accounting Supervisor has access to all areas of the accounting system. Segregation will be reviewed to determine whether access can feasibly be limited.

3. Official Responsible for Ensuring CAP
   Matt Hammer, 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 are no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There are no prior year federal award findings or questioned costs.

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REPORT ON LEGAL COMPLIANCE

INDEPENDENT AUDITOR'S REPORT

To the School Board
Independent School District No. 14
Fridley, 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. 14, Fridley, 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 September 21, 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 Subdivision*s. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance and the result 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
September 21, 2015

INDEPENDENT SCHOOL DISTRICT NO. 14

SCHEDULE OF FINDING AND CORRECTIVE ACTION PLAN
ON LEGAL COMPLIANCE
June 30, 2015

PRIOR YEAR LEGAL COMPLIANCE FINDING:

FOLLOW PROPER BIDDING PROCEDURES

During our 2014 audit, we selected a sample of bids to test for compliance with *Minnesota Statutes.* There were a number of statutes that were not followed.

Per *Minnesota Statutes* 471.425 subd. 4a, each contract between the government entity and a prime contractor must require the prime contractor to pay subcontractors within 10 days of receipt of payment from the government entity or pay interest at the rate of 1.5% per month. During 2014 the District entered into contracts for its construction project; however, contracts did not contain the payment verbiage as required in *Minnesota Statutes* 471.425 subd. 4a.

*Minnesota Statute*s 574.26 requires that contractors doing public work pledge a performance and payment bond in an amount not less than the contract price if the contract is in excess of $ 100,000. During our audit as of June 30, 2014, the District failed to obtain a performance and payment bond for the voice systems and data network switches that exceeded $ 100,000.

*Minnesota Statute*s 123B.52 subd. 1 requires that contracts must not be made by the school board without first advertising for bids or proposals by two weeks' published notice in the official newspaper. During our audit, the District was unable to produce the affidavit of publication for a roofing project.

CORRECTIVE ACTION TAKEN:

During our 2015 audit, the District followed proper bidding procedures for the contracts tested.